

Startup of the Baku-Tbilisi-Ceyhan Pipeline:

Turkey's Energy Role

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Brief Analysis

On May 25, the presidents of Azerbaijan, Kazakhstan, Georgia, and Turkey inaugurated the Baku-Tbilisi-Ceyhan pipeline (BTC), a major artery linking oil fields in the Caspian Sea region to the Mediterranean Sea and Western markets beyond. It will take several months for oil pumped from Baku, Azerbaijan, to pass through Tbilisi, Georgia, and reach the Turkish coast at Ceyhan. Eventually, BTC will carry up to 1 million barrels per day (bbl/d) of crude oil to the Mediterranean. With growing concern over Western dependence on Middle Eastern oil and rising global oil prices, Turkey is emerging as a key country in providing Caspian oil to the Western world.

Background: A Pipeline Born of U.S.-Turkish Cooperation

According to British Petroleum's Statistical Review of World Energy, proven oil reserves in the Caspian Basin total 16.5 billion barrels, comparable to the reserves of Canada, Mexico, or the OPEC member state Qatar.

President Bill Clinton and Turkish President Suleyman Demirel settled heated debate in the mid-1990s over how best to bring Caspian oil to world markets by throwing their weight behind the BTC. Washington and Ankara saw the BTC as a key east-west corridor that would ensure the independence and economic viability of the newly independent states in the Caspian Basin. The BTC also made strategic sense to the United States and Turkey because it would bypass politically unstable places like Iran, the northern Caucasus (including Chechnya), and Armenian-occupied parts of Azerbaijan.

Further, the BTC was seen as useful to easing the burdens on the Turkish Straits of the Bosphorus and the Dardanelles. Today, more than 5,000 tankers cross the Turkish Straits each year, carrying Caspian oil from the Black Sea to the Mediterranean. The sea traffic through the narrow, zigzagging straits carries grave risks, especially since any accident could cause an environmental catastrophe in downtown Istanbul, which sits along the Bosphorus.

When others questioned the project's feasibility, Clinton appointed a special envoy for Caspian energy affairs and Demirel visited Georgia and Azerbaijan to push for the project. The unprecedented level of U.S.-Turkish cooperation, as well as successful coordination by both countries' diplomats, made the seemingly impossible pipeline possible.

Building the BTC

In 1997, Western oil companies started to explore the commercial viability of the BTC project. An international consortium of eleven partners -- Britain's BP; Azerbaijan's SOCAR; Norway's Statoil; U.S. based Unocal, Amerada Hess, and ConocoPhillips; Turkey's TPAO; Italy's Eni; Japan's INPEX and Itochu; and France's TotalFinaElf -- began construction of the pipeline in May 2003. With a 30 percent share in the project, BP is the largest stakeholder, and served as acting leader for the project's design and construction phases.

The BTC, which cost an estimated \$3.7 billion for construction, financing, and line-fill, has received limited public funding. The European Bank of Reconstruction and Development and the International Finance Corporation, the World Bank's private-sector arm, pledged \$250 million in loans. Although a small amount compared to the project's total funding, World Bank participation acted as a catalyst to bring foreign direct investors to the project.

Because it traverses 176 widely varied and sensitive terrains while crossing the politically unstable Caucasus region, the BTC was bedeviled by worries about its security and environmental risks. Accordingly, the U.S. military's Special Forces trained 1,500-2,000 Georgian soldiers in anti-terrorism techniques under a \$64 million program aimed at protecting the pipeline against saboteurs. In addition, a BP-led consortium granted an additional \$25 million to local non-governmental organizations to manage environmental programs.

The entire length of the 1,094-mile BTC, the longest oil-export pipeline in the world, is buried. Once the pipeline becomes fully operational, Azerbaijan will be the main beneficiary of the sale of its oil in international markets, collecting (at current prices) about \$29 billion per year in oil revenues, while Georgia and Turkey will respectively collect transit fees of \$600 million and \$1.5 billion per year.

Ceyhan Becomes a Nexus of Global Energy Lines

With BTC, Ceyhan will emerge as a major energy supplier to the world. Ceyhan's port, Yumurtalik, is already the terminus of Kirkuk-Ceyhan pipeline, which has the capacity to bring about 1.5 million bbl/d oil to the Mediterranean from northern Iraq (though it is presently closed due to continuing attacks by Iraqi insurgents). Another pipeline is now under consideration to bring Caspian gas from Baku, via Tbilisi, to Erzurum in eastern Turkey from where it would be transported to Ceyhan. There are other new projects designed to make Ceyhan into an even bigger hub of energy supply:

- Samsun-Ceyhan gas/ oil lines and terminal. Turkey intends to enlarge its natural-gas transmission by extending the

Blue Stream pipeline, which connects Russia with Ankara through the Black Sea, through an Ankara-to-Ceyhan extension. After a liquid-natural-gas export terminal is built in Ceyhan, this plan would enable Turkey to re-export Russian gas. Turkey also wants to build a cross-Anatolian oil line, from Samsun on the Black Sea to Ceyhan on the Mediterranean, to further decrease traffic through the Turkish Straits.

- Kazakhstan Extension. In March 2005, Kazakhstan and Azerbaijan agreed to build the Aktau-Baku pipeline, connecting the Kashagan offshore oil fields near Aktau in Kazakhstan to the BTC in Baku via a sub-Caspian in 2008. The Kashagan field is expected to produce 1.2 million bbl/d by 2016, when 600,000 bbl/d of its production is to be shipped across the Caspian Sea to be fed into the BTC line.

- Ceyhan-Haifa Pipeline. This project, first discussed during Turkish Prime Minister Recep Tayyip Erdogan's May 2005 visit to Israel, aims to bring BTC oil to Israel via a sub-Mediterranean pipeline through Cyprus. There are also plans for parallel pipelines to carry water, gas, and electricity, and perhaps fiber-optic lines, to Israel, as well as to Northern Cyprus, Jordan, and the Palestinian territories, bringing the latter closer to Turkey and Israel economically and politically.

Implications of Turkey's Emergence as an Energy Entrepot

Turkey's new position as a way-station for energy distribution could be a useful asset in its relations with both the European Union and the United States. Turkish membership would give the EU a direct route to Caspian energy resources that does not cross Russia; as a major energy producer; Russia has not been very helpful getting Caspian energy to outside markets.

In the post-Iraq War period, the energy issue should also strengthen U.S.-Turkish relations. Turkey's strategic value sometimes comes under doubt. But Turkey is an important route for the export of oil from northern Iraq. By binding the Caucasus region with the West through the BTC, Turkey is now a key country in accessing the energy sources of the landlocked Caspian Basin. And the BTC has significantly limited the share of Caspian oil that must be transported through Iran. Tehran currently transports a mere 35,000 bbl/d Caspian oil, which it buys from Turkmenistan and Kazakhstan through a swapping agreement. The BTC and other projects involving Turkey should remind Americans and Turks alike that as members of the Western world, they have shared interests that can be promoted through cooperation.

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