

THE ECONOMIC RELATIONS BETWEEN THE USA- AZERBAIJAN AND BAKU-TBILISI-CEYHAN PROJECT

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ABSTRACT

Having a major share in petroleum agreements in Caspian region, the USA has been in a search of a proper transport method for presenting these resources to world market. The most significant plan of the USA in this search is to pass the petroleum pipelines outside the impact area of Russia.

At the beginning, ethnical conflicts in South and North Caucasus have caused doubts about where to pass the geographic path of this project. Because of Chechen-Russian War in North, the pipeline project which was planned to be passed through the south of Azerbaijan and preceded to Persian Gulf has been postponed due to cold relations between the USA and Iran. Another path which offered the pipeline to transfer to Turkey through Armenia was not accepted by Azerbaijan. Against this alternative, Azerbaijan and Turkey offered the corporations in the consortium the Baku-Tbilisi-Ceyhan (BTC) project which proposed the Caspian petroleum to arrive to Turkish ports through Georgia with the support of the USA.

Reacting against this project, Russia has declared that the project was not required and offered to transfer the petroleum through Baku-Novorossisk line alternatively. This offer by Russia was not accepted Turkey, Azerbaijan and especially the USA. Because the BTC line is long and costly, some corporations have supported Russia about the project.

Total price of BTC line is 4,8 billion dollars and total length of the line is 1733 kilometers. 1037 kilometers of the line is passing through Turkey, 468 through Azerbaijan and about 225 through Georgia. First offer of the project was in 1992 and it is planned to transfer not only Azerbaijan petroleum, but also Kazakhstan petroleum in the future. Starting point of the line is Sangachal terminal of Baku and the lines which arrive in Turkey through Georgia-Tbilisi is passed through Erzurum and end up in Ceyhan port.

With this research, it is intended to present and evaluate the significance of Baku-Tbilisi-Ceyhan project in economic relations between the United States of America and Azerbaijan.

Key Words: International Relations, Economic Geography, Caspian Sea, BTC Pipeline.

Introduction

The process of Azerbaijan's economic transformation was not affected only by the war with Armenia, but also by the international relations shaped under the influence of that war. The Azerbaijani government, which turned its face towards the West after the independence in order to regulate its economy, has made efforts to establish economic relations with the USA. These efforts largely failed in the initial years due to the Nagorno-Karabakh War, domestic disturbances and serious efforts of the Armenian lobby in the United States. Until the signing of the "Contract of the Century" in 1994, three agreements had been signed with the aim of establishing economic relations between the two countries. The first one was related to "Overseas Private Investment Cooperation" signed in September 1992 in order to support investments. The second agreement, which was aimed at improving commercial relations, was signed in April 12, 1993. The third agreement was signed in September 28, 1993 between the governments of Azerbaijan and the USA on the issue of supporting investments. Through these agreements, the legal framework was laid down for US firms' investments in Azerbaijan and it was aimed to encourage such firms (Karaca, 2002: 27). Also influential in the advance of the economic relations between the two countries was the enactment of the law that concerned the "Liberalization of Foreign Trade in Azerbaijan" by the Azerbaijani Government in April 5, 1994 (Kalitski, 1999: 61-64).

As part of the efforts to improve mutual economic ties, the then President Heydar Aliyev welcomed the US Deputy Secretary of Energy C. Charles in June 5, 1996. It was agreed during the meeting that it is necessary to improve the mutual economic relations and it was underlined that the role of the US in Azerbaijan would thus be consolidated. Improvement of the mutual economic relations would contribute on the one hand to the Azerbaijani economy, and on the other hand, it would increase the number and influence of friends of Azerbaijan and thus help eliminate the

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negative perception of Azerbaijan in the US. The same opinions were expressed again when Aliyev hosted Z. Brzezinski in June 10, 1996. Brzezinski stated that he is a friend of Azerbaijan and improving the mutual economic relations was of great importance for the policies of the US in/for the region (ACA, 2013: 1).

The US Government opened a Chamber of Commerce in Baku in December 18, 1996 with the aim of improving economic relations with Azerbaijan. In the ceremony held with the presence of J. Kalitski, who was responsible for economic relations with countries of the Commonwealth of Independent States (CIS); Kalitski stated that the Clinton administration attaches importance to commercial cooperation with Azerbaijan. The economic relations between the USA and Azerbaijan have developed until today with a significant emphasis on oil. J. Kalitski, in his speech following his Baku visit, stated that the Azerbaijan-United States relations should include not only incentives for investments in energy industry but also in other fields of Azerbaijani economy. Kalitski also touched upon the economic reforms in Azerbaijan, stating that these reforms are suitable for U.S. interests (Kalitski, 1999: 68).

Importance of Caspian Oil in Azerbaijan-US Relations

An important subject in the relations between the two countries is oil resources. Azerbaijan's known oil reserves is estimated at 3,3 billion barrels. It is known that 1,2 billion barrels of this amount is on land, whereas the remaining 2,1 billion barrels is close to shores (Çelik & Kalaycı, 1999: 63). Lacking the required financial power and technology to be able to produce petroleum, Azerbaijan opted for cooperating with Western companies to exploit its natural resources more. Western oil companies started to have interest in Azerbaijan following the visit of the chair of "Ramco" (UK), S. Rimp, in 1989. The first US firm that showed interest in Azerbaijani oil was Amoco, which won the tender on an oil field in January 1991. The Azerbaijani government, in July 1991, decided to form a consortium under the leadership of "Amoco" for the operation of the field, and Unocal (USA), "BP/Statoil", "Mcdermott" and "Ramco" joined in the consortium (Bagirov, 1996: 1-15).

Heydar Aliyev administration declared in June 23, 1993 that it temporarily suspended the operations and bank accounts of foreign companies in Azerbaijan. Heydar Aliyev started the negotiations only after the relative and consistent stability is secured in the country. After long negotiations, in September 20, 1994, the first contract about the processing of Azerbaijani oil, the "Contract of the Century", was signed. After this project, which is also known as the "Megaproject", 21 additional contracts have also been signed on onshore and offshore oil fields. Among these contracts, the one signed with the American firm "BMB Oil" has later been cancelled. The total volume of the agreed investments exceeds 60 billion dollars. Oil reserves, on the other hand, are around 4 billion tons. After 1994, a total of 3,2 billion dollars have been invested in the oil industry. Azerbaijan's oil contracts are mostly concentrated on offshore fields.

After the signing of the "Contract of the Century", in January 1995; the Azerbaijan International Operating Company (AIOC) was founded in order to process deep resources in the fields of Azeri, Chirag and Guneshli. The USA, through this consortium, aimed to construct the infrastructure of the Azerbaijani oil industry according to Western standards. The project initially targeted to extract the "early oil" in Chirag and to increase the daily oil production up to 13,7 thousand tons by 1999 (Aliyev, 2003: 233-235).



Figure 1. Caspian Oil and Natural Gas Pipeline Project (Resource: www.btc.com.tr).

Contribution of the US to the realization of the Baku-Tbilisi-Ceyhan Project

With its significant shares in the contracts on the Caspian region, the US needed a transport route that is suitable for its interests in order to export the oil to global markets. This route had to have little connection with, if not free from, the influence of Russia, a neighbour of Azerbaijan. However, the ethnic conflict in the Southern and Northern Caucasus made it difficult to determine the route. The pipeline project, which was planned to go through the south due to the Chechen-Russian War in the north and eventually reach the Persian Gulf, was postponed due to the cold relations between the US and Iran. Another route, transporting oil to Turkey through Armenia, was not approved by Azerbaijan. Therefore, Azerbaijan and Turkey, with the support of the US, proposed to the consortium a pipeline route called Baku-Tbilisi-Ceyhan that would transport the oil through Georgia to Turkish harbours (Veliyev, 2003: s. 15). The first harsh response to this project came from Russia, which argued that there was no need for such a project as the Azerbaijani oil should be transported using the Baku-Novorossiysk line. This proposition was welcomed by various firms in the consortium since the BTC line would be long and expensive. The total cost of the line is 4,8 billion dollars. The length of the line is 1768 kilometres (1037 in Turkey, 468 in Azerbaijan and 2256 in Georgia). This line has the capacity to transport not only the Azerbaijani oil but also the Kazakh oil in the future. The pipeline starts at the Sangachal Terminal near Baku, crosses Georgia and terminates at the Ceyhan Marine Terminal. It was not easy to construct the pipeline, because the BTC line would not be the only project that brings Caspian resources to world markets. New projects emerged after this pipeline, and the Baku-Tbilisi-Erzurum natural gas pipeline project has been brought into being. All these developments exacerbate the rivalry between Russia and Turkey that emerged in the Caucasus and Central Asia following the demise of the Soviet Union (Ozey, 2011: 110-113). Russia tries to prevent the exportation of natural resources of the region to the global markets through Turkey, receiving the biggest support from the EU countries. The real reason of this support is that the EU countries fear from Turkey's future control over the energy resources that they will need in the future. Turkey, on the other hand, backed by the US, made efforts to have BTC and other pipelines pass within its borders. By doing so, firstly, Turkey would be able to meet its own energy need. Secondly, Turkey would become a significant energy corridor in the Middle East, Europe and the Caucasus (Hüseynov, 2001: 7).

In October 19, 2000, the BTC pipeline final agreement was signed in Turkey. The project, which was planned to come into operation in 2004, cost 2,4 billion dollars except for financial expenses and the crude oil that would fill the pipeline. Those who did not want this project to be approved were not only Russia and Iran, but also Armenia and the Armenian lobby in the US. The Armenian lobby went even further and increased its pressure on the US Government in order to make the pipeline Armenia instead of Georgia, and disseminated fabricated news on various media. In an article published in *The New York Times* in October 11, 1998, it was reported that the US Government abandoned the BTC pipeline project and the oil would be transported using the Baku-Supsa pipeline. Then, special advisor of the President Bill Clinton for the Caspian Basin energy policies, Richard Morningstar, denied this report and stated that there was no alternative pipeline to BTC (Hüseynov, 2001: 8).

After a contract was signed on the operation of the Shah Deniz field in the Caspian Sea, it was found out that the field largely contains natural gas. The facts that such a natural gas field was found for the first time in Azerbaijan and that there was no pipeline to export it to the global markets created a need for a new pipeline project (Aliriza, 2004: 21).

For initial evaluations, the Shah Deniz field contained 700 billion cubic metres of natural gas. Seeing this natural gas potential of its neighbour, Turkey suspended some of its natural gas contracts with other countries and cut a deal with Azerbaijan to purchase Azerbaijani gas, which would cost much cheaper. According to this deal, the gas found in Shah Deniz would be transported to Turkey via the Baku-Tbilisi-Erzurum pipeline. It was also decided that the amount that exceeds Turkey's need would be exported to Greece. The biggest support to this project came from the US and Georgia. In March 2001, during Heydar Aliyev's visit to Turkey, an agreement was signed between Turkey and Azerbaijan in Ankara concerning the exportation of natural gas. It was planned in the agreement to bring a total of 23,2 billion cubic metres of natural gas into Turkey within five years (2 billion in 2004, 3 billion in 2005, 5 billion in 2006 and 6,6 billion in 2007-2008). The cost of the BTC pipeline is 4 billion dollars. The first oil was loaded in the pipeline in May 25, 2005, which arrived at the Ceyhan Harbour in May 28, 2006. Since then, more than 13 million tons of oil has been transported.

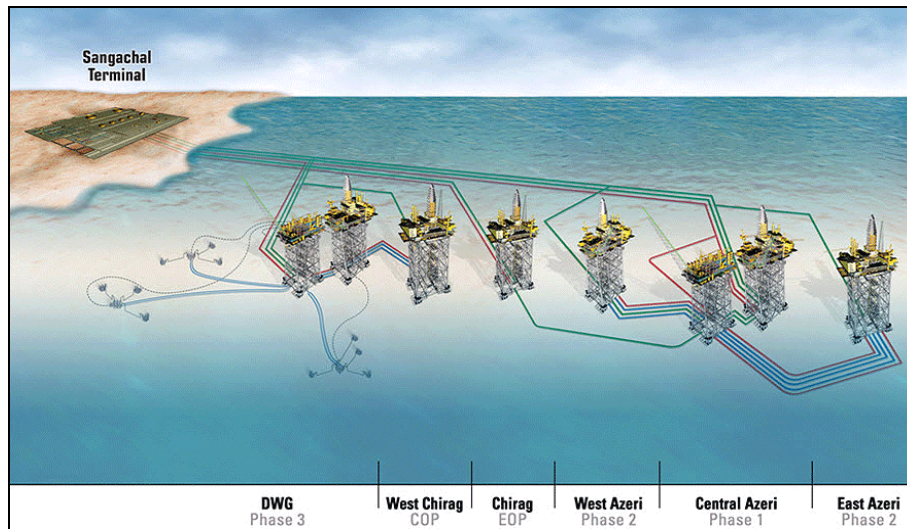


Figure 2. Sangachal Terminal (Resource: www.btc.com.tr).



the involving countries from going under the influences of Russia in the Black Sea and of Iran in the Persian Gulf. The US supported the BTC pipeline project mainly for strategic reasons rather than for economic purposes. Washington sees the subject of pipelines mainly in terms of its rivalry with Moscow in the Caucasus and attaches secondary importance to the economic aspect.

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