

Scramble for the Caspian

Big Oil Looks to Divvy Up Caspian Sea Oil Riches

by Pratap Chatterjee

“Happiness is Multiple Pipelines” reads the yellow bumper sticker on the car of Elizabeth Jones, the United States ambassador to Kazakhstan. Free copies of the sticker are available to visitors to the U.S. embassy in Almaty, the Kazakh capital.

Kazakhstan is the most important of the three key producers of oil in the Caspian Sea region. Kazakhstan, plus the other two main oil producers, Azerbaijan and Turkmenistan, are estimated to possess 150 billion barrels of oil and 14 trillion cubic meters worth of gas under the Kara Kum Desert and other sites. At average price levels for the 1990s, the value of the oil alone is more than \$2 trillion.

A century ago, this region was the closest equivalent to modern Saudi Arabia or Kuwait, as the largest oil producer in the world. Robert Nobel (of the Nobel Prize fame) made his first oil investment there in 1873. By 1900, there were 1,710 wells and Azerbaijan capital Baku produced more than half the world's oil.

Major investors included the Standard Oil Corporation of John Rockefeller and the Anglo-Persian Oil Company. But with Western corporate technology and finance excluded during the Soviet era, interest in the region dwindled. The Soviets chose to tap the oilfields of Siberia rather than those of the Caspian region.

Remnants of the half-hearted Soviet exploitation litter the desert around Baku, on the opposite side of the Caspian Sea

from Kazakhstan. There rest hundreds of rusting and technologically obsolete Soviet oil derricks, the vast number of which stand in pools of oil that lie on the stony ground. Similar derricks dot the horizon of the Caspian just offshore.

All this has changed with the end of the Cold War. Today Chevron, Exxon and Mobil — the offspring of Standard Oil — together with British Petroleum, the new name of Anglo Persian, and Unocal have returned to take up residence in the graceful mansions of Baku (built by their predecessors in the nineteenth century oil bonanza) to implement the ambassador's bumper sticker missive.

The big deals include the \$8 billion “Contract of the Century” of September 1994, which awarded oil drilling rights in Azerbaijan to a consortium led by British Petroleum and Amoco. Unocal, the new Azeri state oil company SOCAR and Russia's Lukoil each took slightly smaller stakes.

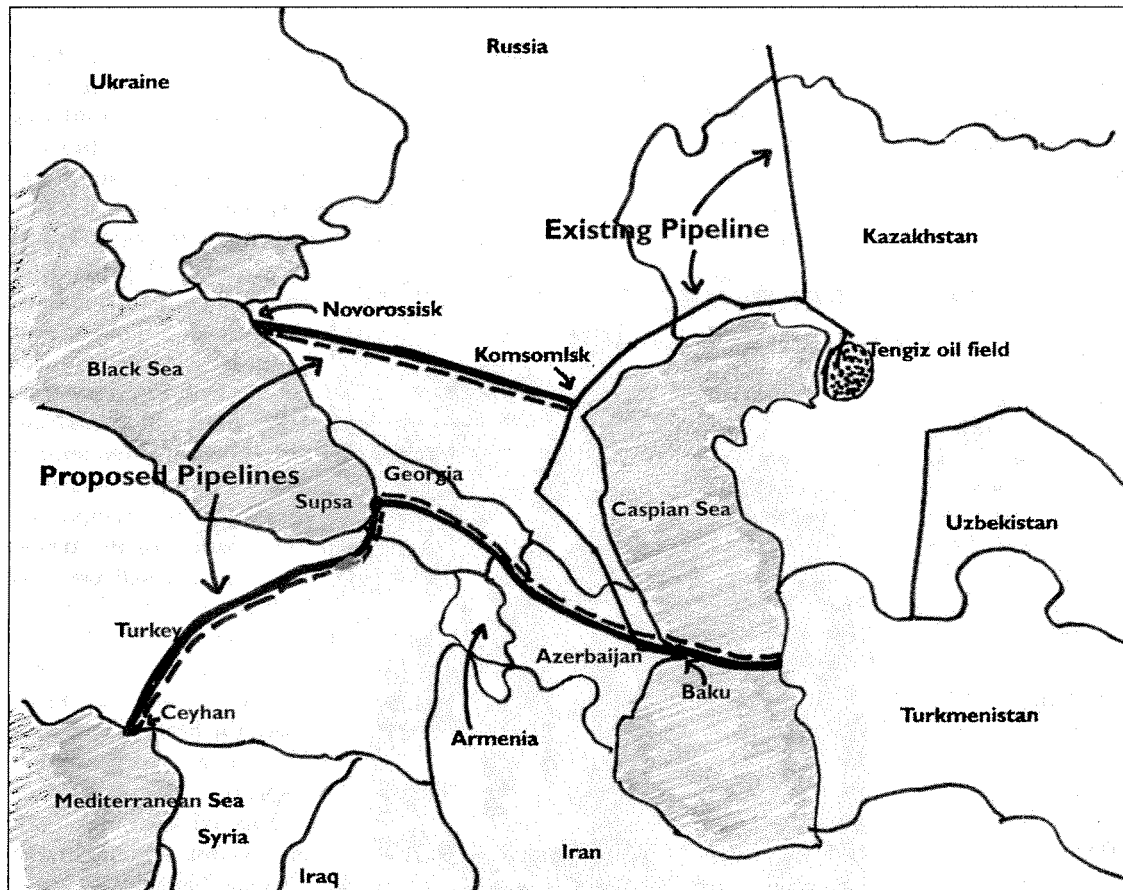
In Kazakhstan, Chevron has just completed five years of operations at the Tengiz offshore oil fields. Mobil and Exxon have led the new charge into Turkmenistan.

Still undetermined is the exact route by which the oil companies will export out of the landlocked region to the wealthy, energy-hungry consumers in Europe and the United States. In a geopolitical plot rife with more than enough intrigue to fill a Le Carré novel, the United States is maneuvering to direct pipelines to travel overland through its regional allies, including Georgia and Turkey, who would gain money and political power in the deal, and away from its adversaries, including Iran and Russia.

Whether the U.S. government can impose its will on the oil companies and the region is very much uncertain, especially because some U.S.-preferred pipeline routes would be billions of dollars more costly than the alternatives.

Further complicating the matter is oil company jockeying

Pratap Chatterjee works with Project Underground in Berkeley, California, and is a Multinational Monitor contributing writer.



The Caspian region: existing and proposed oil pipelines.

to influence the U.S. government — through massive campaign contributions, high-level lobbyists and other standard tactics — to favor some particular pipeline routes over others.

But while the geopolitical drama unfolds, the people of the region remain starkly poor and under the rule of authoritarian governments of varying degrees of repressiveness. Whether billions in oil earnings flowing into government coffers will improve this dire situation — or perhaps worsen it by spurring a destabilizing and dangerous regional arms race, or through environmental degradation — remains unclear.

COLD WAR PAYS OFF

A curious cabal of former Cold Warriors from either side of the former Iron Curtain has assumed the leading roles on the regional stage.

On the eastern side are Azerbaijan President Heydar Aliyev, former Communist Party Secretary and KGB chief in Baku; Turkmenistan President Saparmurat Niyazov, the former chair of the Supreme Soviet in Ashkhabad; Kazakhstan President Nursultan Nazarbayev, a former member of the Soviet Politburo; as well as Georgian President Eduard Shevardnadze, former Soviet foreign minister and Politburo member.

Cutting deals with them, on behalf of the oil companies, are a formidable array of former top western Cold Warriors,

drawn principally from the cabinet of George Bush. The dealmakers include James Baker, Brent Scowcroft, Dick Cheney and John Sununu; the secretary of state, national security adviser, secretary of defense and chief of staff respectively for Bush.

Baker now runs his own law practice in Houston doing business for the oil companies and tapping his ties to Shevardnadze, with whom he became close as the Soviet Union disintegrated.

Brent Scowcroft, who earns \$130,000 annually for advising Pennzoil and the multinational Azerbaijan consortium, waxes enthusiastic about his new paymasters. "I'm a big booster of Azerbaijan because the United States has big interests out there. That's a huge pool of oil. It's time we woke up."

Sununu's management consulting firm, JHS Associates, is well entrenched in Azerbaijan.

Cheney is now chief executive of Halliburton of Houston, the world's largest oilfield services company.

Also playing important parts are Lloyd Bentsen, former treasury secretary under President Clinton, Zbigniew Brzezinski, former national security adviser under President Carter, Tim Eggar, former British energy minister, and Malcolm Rifkind, former British foreign minister.

Bentsen is a shareholder in Frontera Resources, an oil services company working in Azerbaijan. Brzezinski, who established his presence in the region while delivering a diplomatic note for the Clinton White House, giving him the aura of a man who remains close to top government decision-making circles, is today a consultant to Amoco. Eggar, who as British energy minister led a delegation to Baku in 1994, is now chief executive of the British Monument Oil. Rifkind sits on the board of another U.K.-based company, Ramco.

The western ex-Cold Warriors are able to conjure up red carpet treatment for their new eastern friends. When Aliyev visited Britain this past July, even though he was not on a state visit, he got a treat reserved for very few, a meeting with

the Queen. Niyazov was able to meet with both Clinton in the Oval Office as well as Central Intelligence Agency Director George Tenet in April of this year.

Not surprisingly, western governments have promised major financial support to the pipeline projects from agencies like the International Finance Corporation, the private sector loan arm of the World Bank, the European Bank for Reconstruction and Development and the U.S. Export-Import Bank and Overseas Private Investment Corporation.

The United States is particularly keen to kickstart a multi-billion dollar project which will transport oil from Baku through to the port of Ceyhan in Turkey on the Mediterranean.

This decision has been extremely controversial for a number of reasons. The Russians, for example, would prefer that the oil be pumped through an existing Russian pipeline to a new Black Sea port that would be built at the resort village of Yuzhno-Ozereiovka, just southwest of Novorossiysk, Russia.

Chevron backs the Russian route from Kazakhstan to Novorossiysk because it has a major concession in Kazakhstan's Tengiz oil fields which would not be served well by the U.S. government plan.

By and large, however, oil companies would prefer to take the oil out through Iran, the shortest and cheapest route, but the U.S. government is prepared to block this plan, fearing it would give too much control and influence to long-time U.S. enemy Iran.

The oil companies would also like to run a comparatively short pipeline from Baku to the Georgian port of Supsa on the Black Sea, but this would keep Turkey from getting in on the action — a state of affairs opposed by Turkey and its backers in the U.S. State Department.

Meanwhile, Turkmenistan is considering a \$10 billion pipeline to China from its gas-rich eastern provinces with the help of Exxon, Mitsubishi of Japan and the Chinese National Oil and Gas Exploration and Development Corporation.

Rival pipelines through their own countries are also being pushed by Afghanistan, Armenia, Greece, Pakistan, Romania and Ukraine.

BOOM OR BUST?

The potential financial bonanza has filled the streets of Alma-Ata, Baku and Ashkhabad, the three Caspian capitals, with foreign and local oil executives who drive Cadillacs and Mercedes as they check into and patronize the five-star international hotels, luxury apartment towers, casinos and nightclubs that have cropped up virtually overnight.

But for the majority of the local peoples, the proliferation of planned oil production and pipelines threatens to be more of a curse than a blessing: it offers the prospect of increased instability and conflict as newly rich governments import billions of dollars worth of arms into the region, an exacerbation of the divide between rich and poor, as well as threats to the fragile ecosystems.

"It's a crime against mankind," says Mels Eleusizov, the head of the Kazakh ecological organization Tabigat, "We are not against oil companies, we are against drilling in the Caspian," he adds.

Eleusizov has good reason to be worried if past experiences of oil drilling in the region are any measure of the future. Sumgait, a Caspian coastal city north of Baku, for example, has been dubbed "the Dead Zone." The United Nations Development Program Report of 1997 comments: "Currently, most women working in Sum-

gait's industry have anemic toxicosis during pregnancy, vascular and nephritic diseases and spontaneous abortions." The report notes that the city's petrochemical industry used to emit over 1,200 tons of toxic substances per square kilometer.

David Gordon, of the Pacific Environment and Resources Center (PERC), a San Francisco Bay area-based environmental group, says that an initial review of the pipeline financing plans indicate a host of potentially devastating impacts for the region. The Caspian Basin supports rich aquatic, avian and terrestrial biodiversity, including more than 120 species of fish, among them the Caspian sturgeon.

"Some 40 of these fish are of commercial value such as the sturgeon, which is the world's major source of black caviar. Also threatened is the Caspian seal, which is listed by the International Union for the Conservation of Nature

ПРОЕКТ РЕКЛАМНОГО ОБЪЯВЛЕНИЯ - КАСПИЙ

"Юнокал": Новое открытие
Шелкового

пути в
21-ый
век

Веками регион
Центральной Азии
был перевалочным
пунктом для
перевозок и торговли.
Выступая с регионом,
устremlенным в 21-
ый век, компания
"Юнокал" также
обращена в будущее.
Обладая более чем
100-летним опытом,
компания "Юнокал"
способна связать
ценные запасы
нефти и газа в
Центральной Азии с
расширяющимися
энергетическими
рынками во всем
мире. Это -
президеице. Это -
"Юнокал".



UNOCAL: REOPENING THE SILK ROAD FOR THE 21ST CENTURY

For centuries, the Central Asia region has been a hub of transportation and commerce. As the region positions itself for the 21st century, Unocal also is looking to the future. With more than 100 years of experience, Unocal stands ready to link Central Asia's valuable oil and gas reserves with expanding energy markets around the world. That's foresight. That's Unocal.

UNOCAL

Unocal dreams of oil pipelines to replace silk roads through Kazakhstan.

(IUCN) as a vulnerable species," Gordon says.

PERC also points out that the plans do not contain emergency measures to deal with oil spills in a region known for its seismic unpredictability. The Armenian and Turkish part of the proposed pipeline runs through one of the most earthquake-prone regions of the world. This past June, more than 60 people died and hundreds were critically injured when a quake struck Ceyhan, which would be the main shipping center on the Mediterranean in the pipeline route favored by the United States. This route also passes very close to the scene of one of the worst disasters of the century. In 1988, over 25,000 people were killed and 503,000 left homeless when an earthquake hit the region surrounding the towns of Leninakan and Spitak in Armenia.

Another worry is the rise and fall of the level of the Caspian Sea. In the last two decades, a 2.5 meter rise in the level of the sea has caused massive flooding of coastal developments, submerging and destroying at least 150 port buildings, electrical structures, oil wells, oil pumping stations, buffer reservoirs, sewage plants, oil piers, communication lines and oil, gas and water pipelines at an estimated cost of \$4 billion. In the last seven years alone, 14 active oil wells have been submerged by the rise, causing major oil pollution for the Sea.

Environmentalists' concerns are echoed by a number of regional governments, including the regimes in Turkey and Iran, which warn about the ecological fragility of the region.

Iran points out that the jellyfish that have destroyed sturgeon stocks in the Black Sea are making their appearance in the Caspian, courtesy of the increased traffic between the two water bodies.

Turkey has threatened to ban an increase in tanker traffic from the Black Sea through the Bosphorus straits out to the Mediterranean for fear of a massive increase in oil spills. Increased shipping would "not go hand in hand with environmental efforts" says Turkish environment minister Imren Aykut. "Turkey cannot stay silent ... with the risk of accidents." The Turkish threat to block tankers through the Bosphorous Straits would interfere with oil company-pre-

ferred plans for a Baku-Supsa pipeline.

The Russian alternative has also been condemned by the communities that would potentially be affected. They fear a repeat of an oil spill that imperiled a local children's resort area of Anapa in the summer of 1997.

"To the west and to Moscow, it is just a pipeline and a chance to get a percentage of an oil deal," says Valery Timoshchenko, the director of Aquatoria, a Novorossiysk envi-

ronmental group. "But to us, it is risking our economy and history. The Black Sea coast has always been Russia's premier tourist area, and coastal tourism and oil simply cannot share the same region."

DISTORTED DEVELOPMENT

The Central Asian politicians argue that the new oil investment will support their poor nations.

"This is our chance to strengthen our independence. Oil is policy. It's energy, and energy plays a very strategic role," says Vafa Gulizade, the chief foreign policy adviser to Aliyev in Azerbaijan.

But the new investment has brought only a distorted sort of development. Azerbaijani doctors and physicists have given up their regular jobs in order to get even the most menial jobs as office-cleaners in the multinational companies because these are the only decent paying jobs available to local people.

Some others are able to skim money off weekendend roughnecks from Texas, who pay up to \$20 for a shot of Scotch and eat Tex-Mex cuisine at the Ragin' Cajun in Baku. New shops are opening in Baku: supermarkets and casinos, a Pierre Cardin salon, an Yves Rocher boutique, while new Volvos and BMWs, freshly arrived from Dubai, are prominently on sale.

But, by and large, petro-dollar revenues have not trickled down for use to repair basic infrastructure nor to support the poor or the sick. Around half the population in the Central Asian countries lives below officially recognized poverty levels.

"The streets are more potholes than pavement. Old men and women stand on street corners selling pathetic handfuls of lemons or nuts. Doctors and teachers make about \$10 or \$20 a month, officially, and survive by extorting bribes from patients and pupils," writes Richard Longworth, in the May

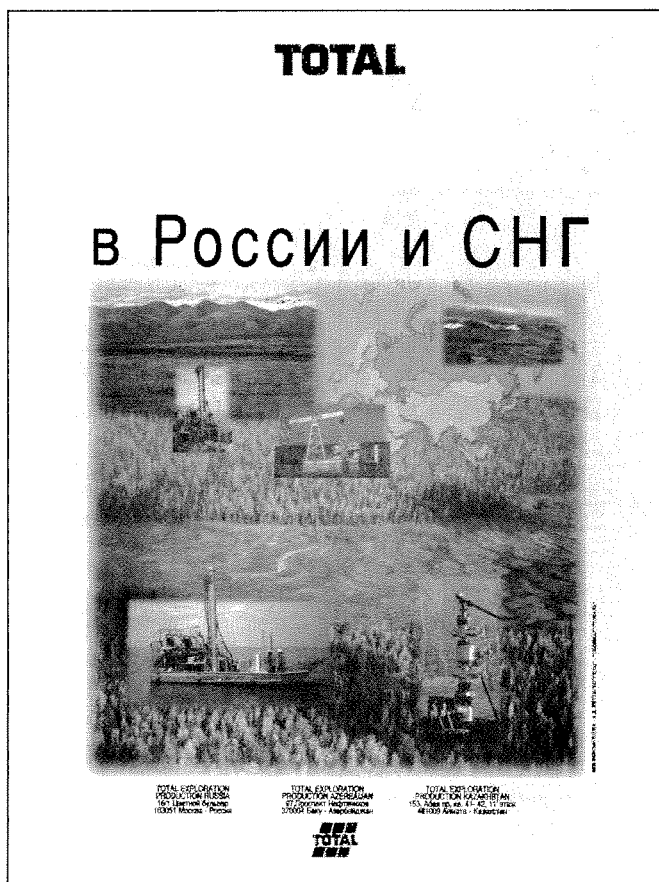


Allies: Kazakhstan and Mobil

Bulletin of the Atomic Scientists, after visiting Baku.

"In the countryside, poverty is virtually total. Markets sell rotting cabbages and fatty lamb, and hospitals are seldom more than a room, a table, two chairs and a screen for undressing," adds Longworth.

The oil money appears instead to be going into the pockets of the men who run Azerbaijan, Kazakhstan and Turkmenistan, the old *nomenklatura* of the Soviet Union, who have never been known for their respect for either human rights or democracy.



Total looks to immerse itself totally in Kazakhstan.

Aliyev, the ex-KGB strongman in the region, came to power following the overthrow of Azerbaijan's elected government. He rules the country with an iron fist, stifling all opposition in his country, and persecuting or jailing his opponents.

"Heydar Aliyev cannot shake his KGB general habits. He thinks more of how to cling to power than of the people," says former President Abulfaz Elchibey, who is now chair of the Democratic Congress Party.

In September, police and riot troops beat protesters with clubs when they tried to assemble for an unsanctioned protest sponsored by candidates and parties against the undemocratic nature of the presidential election scheduled for October 11. Opposition groups say as many as 100 protesters were hurt.

In Turkmenistan, Niyazov has renamed himself "Turk-

menbashi" or Chieftain of the Turkmen. His picture appears on the facade of almost every building, on thousands of banners strung along the streets and as an almost permanent fixture in the upper right-hand corner of local television screens on the government-operated (and only) Turkmen-language television station.

When recently asked in Washington D.C. why he didn't permit freedom for opposition, Niyazov replied, "I was asked the same question in New York and frankly still do not understand the question. There are no opposition parties in Turkmenistan. That is why I cannot give them freedom. There are none."

Every cent of the oil and gas revenues goes into a state fund controlled by Niyazov and his advisers. "As the president has pointed out, at the present time it's most important that all the earnings from the industry should be concentrated in one place," the government said recently. In 1996, the latest year for which figures are available, the average monthly wage in Turkmenistan was approximately US\$13.

In Kazakhstan, Nazarbayev has also been accused of a shift toward authoritarianism, although the allegations are not as strong as those leveled against Aliyev and Niyazov.

Meanwhile, civil unrest is exploding across the region as strong-arm governments spend billions of petro-dollars to import surface-to-air missiles and anti-tank weapons, grenade-launchers, anti-personnel mines and Kalashnikov machine guns, in their desire to corner the most lucrative oil producing areas and possible pipeline routes.

The map of regional wars and insurgencies includes Abkhazia on the Russian-Georgian border, the bloody battle in Chechnya, which has gained some autonomy from Russia, and similar uprisings in the Russian republics of Dagestan and North Ossetia.

It also includes the Kurdish uprising in eastern Turkey and the Kurdish civil war in Iraq; the endless factional struggle in Afghanistan, raging within a few miles of Turkmenistan's natural gas fields; and the 10-year-old conflict between Azerbaijan and Armenia over the mountainous Azerbaijan province of Nagorno-Karabakh, which has created a vast problem of internal refugees, a million in Azerbaijan alone, accounting for a fifth of the country's total population.

NORWAY OR NIGERIA?

Government officials in these countries say that they will overcome the political strife and poverty to beat the pessimistic predictions of political scientists. "We're determined to follow the example of Norway rather than Nigeria," says Ali Jarafla, a top executive at the state oil company in Azerbaijan.

But Keith Griffin, an economics professor at the University of California, is skeptical. "We cannot expect to refloat society on a pool of oil," he told a recent conference in Kazakhstan's financial center in July.

At the same conference, Jane Falkingham, of the department of social policy at the London School of Economics, agreed: "Poverty has increased with independence and is continuing to increase and to deepen." ■