



COVALENCE ANALYST PAPERS

The BTC Pipeline: a beacon of Hope or Suffering for the people?

[Lea Schaefer](#), University of Lille (France) and Muenster (Germany), intern analyst, Covalence SA, Geneva, 27.09.2006

Introduction

The Caspian Sea is one of the largest oil and gas fields in the world but its potential was not been exploited under the Soviet Union. Not only did the end of the USSR with the subsequent independence of the countries around the Caspian Sea lead to its exploitation, but also modern technology and investments from the West. Discussions about a new pipeline started in the late 1990s. The construction of the BTC pipeline that crosses Azerbaijan (Baku), Georgia (Tbilisi) and Turkey (Ceyhan) began in 2002. The pipeline was officially opened in May 2005 in the presence of the three Presidents among other dignitaries that included the United States Secretary of Energy Samuel Bodman. Oil flow through the pipeline commenced in May 2006.

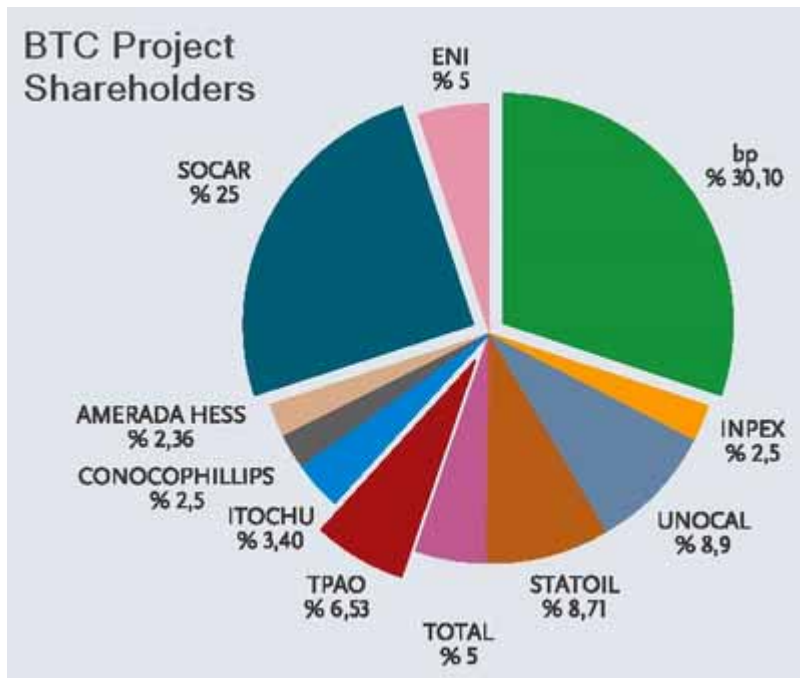
The BTC pipeline is one of the biggest oil projects in the world although its planning has been controversially discussed. On the one hand, this oil project stands for economic growth and development in the poor Caucasus region while on the other hand, it has a lot of adversaries that stem out of its problematic aspects of environment, human rights and the political situation in this region.

In this paper, I intend to describe both, positive and negative effects of the pipeline, the problems that the construction created and try to measure if the pipeline constitutes good or evil for the region through which it travels. Is the economic impact of the pipeline in the region so important that its negative effects have become secondary? Or is the pipeline a real risk for the region and only being supported by companies from West who need a new oil source? Is the BTC pipeline a project to challenge?

Some facts about the pipeline

Before concentrating on the contributions and the bad effects of the pipeline, I would commence by providing some facts about the BTC pipeline. The pipeline that crosses Azerbaijan, Georgia and Turkey is the second largest pipeline in the world with a length of 1.760 km. Oil takes six months to traverse its full length overcoming several obstacles such as mountain ranges of up to 2830 m. It has traversed 3000 roads and railways as well as 1500 watercourses. In case of the Ceyhan River, even a watercourse of up to 500m wide. The pipeline will transport 1 million barrels of oil per day when working at normal capacity.

British multinational oil enterprise BP is the operator of the pipeline and has a 30 Per cent stake in it. Other members of the consortium that commissioned the pipeline are: State oil Company of Azerbaijan (SOCAR) with a 25 Per cent stake, the American company Unocal 8.9Per cent, Norwegian Statoil 8.7Per cent, Türkiye Petrolleri Anonim Ortaklığı 6.53Per cent, Italian Eni/Agip 5Per cent, French Total 5Per cent, Japanese Itochu 3.4Per cent, Japanese Inpex 2.5Per cent, American ConocoPhillips 2.5Per cent and American Amerada Hess 2.36Per cent.



The World Bank's International Finance Corporation and the European Bank for Reconstruction and Development are funding for the pipeline.

Where to construct the pipeline?

Even before starting the construction work for the pipeline, the consortium ran into a technical problem: Where to construct the pipeline? Through which countries could this pipeline pass?



The geographical situation of the region is difficult because the Caspian Sea is totally landlocked. In addition, the geopolitical situation is complicated. A straight route through Iran would have provided the shortest route but Iran was seen as an undesirable partner because of its theocratic regime, its nuclear program and the United States' sanctions on the regime that restricted investments from the West.

Another possible route could have crossed Russia, but Russia was an undesirable partner as well because of its economy that was considered to be unreliable.

So, two possibilities remained: a route from Azerbaijan to Turkey through either Georgia or Armenia. Finally, a route through Georgia was preferred because Armenia was considered to be politically inconvenient. Besides Armenia has an unresolved military conflict with Azerbaijan over a certain region that either party considers to be part of her territory. Turkey which is ethnically close to Azerbaijan closed its borders with Armenia over the conflict. Moreover, there is also a conflict between Turkey and Armenia because of the Armenian genocide that the former still does not want to be held responsible.

The BTC pipeline project bears all the hallmarks of a politically motivated project. It is a fact that the pipeline was only constructed through a few selected countries while avoiding others in order to meet a set of fixed conditions. Furthermore the pipeline only traversed territories of states that had warm relations with the west. Moreover, the pipeline construction bypassed at all the conflict-torn countries in the region. Therefore, the Azerbaijan-Georgia-Turkey route was the only politically possible solution even if it was longer and more expensive than the other options.

Regional Economic Impact of BTC Pipeline

The BTC pipeline is a project that was forced and accelerated by the head of the states of Turkey, Azerbaijan and Georgia. Former Georgian President Eduard Shevardnadze for instance, one of the initiators and architects of the project, lobbied for the pipeline to go through Georgian territory. He remained of the conviction that the pipeline would guarantee the country economic, political security and stability.

Generally it can be noticed that the pipeline is expected to make a major contribution to the development of world energy supply with its production capacity of 50 million tons of oil per year. The project benefits in this sense all the oil consumers because these three countries represent an alternative oil source. A lot of gas pipelines are dependent on Russia and the Middle East which makes western countries too reliant on them. One can argue that the pipeline represents a new oil source for Western countries – an opportunity to resolve their highly vulnerable energy policies that are too dependent on Russia and the Middle East.

Moreover by taking the oil from the Caspian Sea to the Mediterranean through the pipeline, one avoids using tanker transports that have to pass the Black Sea and the congested Bosphorus and Dardanelles. Due to the pipeline, the region will obviate 350 tanker cargos per year.

Furthermore, the construction of the pipeline generated jobs through employment of 15,000 people with a long-term estimate of about 1,000 permanent positions.

In addition to these general contributions, there are country-specific gains that will be explained hereafter.

The economy of Azerbaijan is largely based on two industries: textile and petroleum. The oil plays an important role in its economy and is largely contributing to the dynamic of Azerbaijan's economy. As a result of the pipeline, Azerbaijan expects its own economy to grow by 18 Per cent and analysts have predicted that it is likely to become the richest country in the Caucasus due to income from the pipeline.

Azerbaijan gained a direct connection to international energy markets through this pipeline. Moreover, it will contribute to the political and economic independence of the country; it will become more independent of its powerful neighbours Russia and Iran.

The pipeline will also benefit Georgia's future prospects, both economically and politically. Through transit fees obtained from the pipeline, Georgia is expected to make a contribution of around 1,5 per cent of Gross National Income. The pipeline not only contributes to the economy but also supports Georgia's independence from Russian influence.

Turkey will also derive benefits from the pipeline. Turkey expects to collect between US\$200-300 million per year in transit fees. This will enable the country to gain a direct connection to the international energy market and become an important part of the East-West energy corridor. Thus, Turkey's geopolitical importance will be increased. The reduction of tanker traffic already mentioned earlier is especially profitable for Turkey because it reduces unnecessary road congestions and traffic jams at the Bosphorus which contributes to the security of Istanbul.

Controversial aspects of the pipeline

After analysing the positive aspects of the pipeline, I will now concentrate on the controversy surrounding the project in the next section. The pipeline has a lot of adversaries that point out problematic aspects, especially in three fields of human rights, environment and the political situation in the affected countries. I will delve in detail into each one of those aspects above.

Human Rights violations:

Human rights activists have criticized the Western governments for their unwavering support for the pipeline plans although there have been a lot of reports about human and civic rights violations.

To begin with President Aliyev's regime in Azerbaijan has been accused of seriously contravening human rights in appropriating land for the pipeline's route. In Azerbaijan a third of the population lives on agriculture and a lot of farmers were forcefully displaced from their land without adequate compensation.

The Aliyev regime has also been accused of arresting people critical of its unjustifiable land eviction orders. Human rights activists have incessantly appealed to western countries not to cooperate with governments that violate human rights.

One of the operators of the pipeline, BP, has also been accused of violations in appropriating land and of inadequate compensations for peasants. Criticism has emerged that BP only offered compensation to farmers for only a thin strip of farm land measuring 12.5m wide. However, compensation for other far reaching damages to the environment such as soil erosion, blocked springs and diverted streams that rendered land infertile have been ignored.

Some farmers haven't got the compensation yet and they fear that they will never receive it. Experiences show that this fear is not unfounded.

BP is also running a pipeline in Colombia and peasants there have never seen any compensation from BP for their land on which the pipeline was built. And later on, in August 2001 "BP's Colombian oil pipeline companies are refusing to pay compensation claims of \$850,000 to three hundred peasants. The peasants, from the region of Zaragoza in northern Antioquia, claim that two oil pipelines passing through their farms have caused extensive environmental damage, forcing them off their land. Meanwhile, BP sells the oil on the U.S. market for \$10 million a day." (Colombia Journal online)

Environment:

The second point often criticized with regard to the BTC pipeline is the obvious environmental risk of the pipeline; several ecological issues have been raised. The pipeline crosses rivers and lakes of the Borjomi national park in Georgia, a park that is known as being an area of natural beauty. Environmental activists fear that it could be destroyed by the pipeline. Furthermore the park is an area of mineral water springs that represent a major export commodity for the inhabitants of this region. The pipeline holds the risk that oil spills pollute the mineral water and thereby destroy the local water bottling industry. This could signify the loss of jobs and possibly an income source for people in the Borjomi region.

Finally, critics of the pipeline have pointed out that the region through which the pipeline travels suffers from frequent earthquakes. The route of the pipeline goes through three active faults in Azerbaijan, four in Georgia and seven in Turkey. This high number of active faults represents a high risk for the people and the environment. Being aware of this risk, engineers have equipped the pipeline with a number of technical solutions to reduce its vulnerability but a certain risk still remains.

Political situation:

The South Caucasus has been seen as Russia's backyard for a long time. Through the pipeline, the Caucasus has become a region of significance for the western world and other great powers i.e. the USA or the European Union. Western countries have become more and more involved in the affairs of this region. But the very increasing degree of involvement has been criticized by certain people because they fear overdependence on undemocratic leaders.

Azerbaijan, Georgia and Turkey in contrast are happy about this involvement and try to use it as a counterbalance to Russian and Iranian dominance in the region.

Concerns have also been addressed concerning the security of the pipeline because of the

political situation in the region. The pipeline bypasses the border of Armenia that is in conflict with Azerbaijan, it crosses Georgia which has two unresolved separatist conflicts and finally it goes through some parts of Turkey next to Kurdish regions that have also seen separatist conflicts.

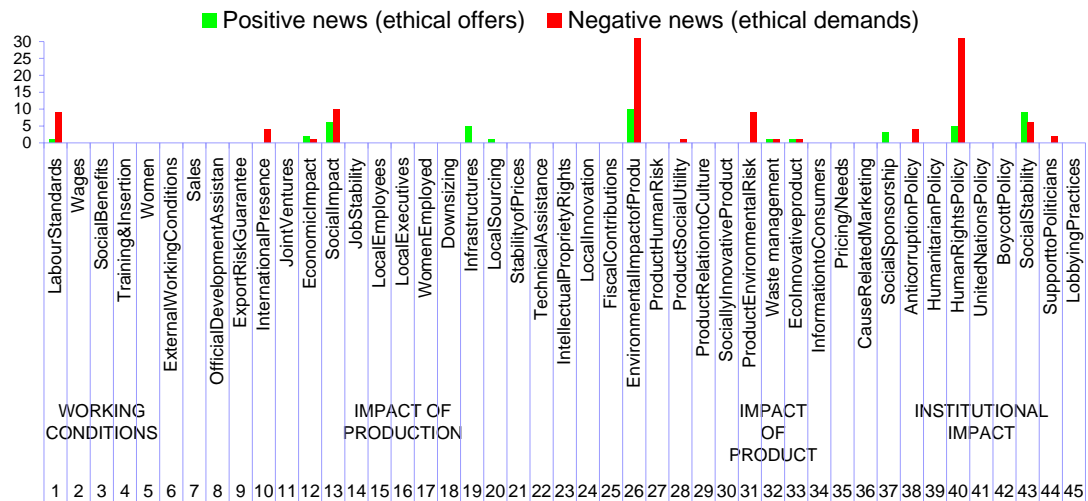
Information of the data system of Covalence concerning the BTC pipeline

To get an impression of how press reports about the BTC pipeline and how the public thinks about it, and its challenge, it could be useful to have a look at some information recorded in the data system of Covalence.

This data system contains a total of 186 news about the BTC pipeline of which 142 are demands (negative news) and 44 are offers (positive news). In general, the BTC project has been seen with skepticism as this gap between the amounts of positive and negative news shows clearly.

Most of the negative news registered concern the two criteria “environmental impact” of the pipeline and “product environmental risk”. These are followed by negative news about the human rights, the social impact, labour standards and social stability. These data reflect the negative aspects of the pipeline described in the previous paragraph.

But the criteria environmental impact of production, social stability and social impact also have most of the positive news because environmental projects have been sponsored and the pipeline could contribute to social stability for example Azerbaijan becomes the richest country in the Caucasus. These criteria are followed by infrastructures, social sponsorship and economic impact that also register some positive news.



If we take a closer look at how these news are distributed among different companies, we can see that most of the news registered concern BP as it is the operator of the pipeline. The data system registered 18 positive news for BP and 51 negative news especially due to reports about violations in appropriating land. Statoil registered 15 news, 11 negative and 4 positive ones. The 8 companies that have registered most of the news, all have more negative news than positive ones. There are some companies, BHP Billiton, Royal Bank of Scotland and Chevron that only have negative news (8, 8, 5 respectively) and no positive news at all.

Conclusion:

In conclusion it can be retained that the BTC pipeline has a major impact on the economies of Azerbaijan, Georgia and Turkey. The economies of these countries will grow while they become more independent of dominant regional powers-brokers, and gain a greater role on the international market. For the western countries, the pipeline represents an alternative oil source that will enable them to be less dependent of Russia and the Middle East.

But the negative effects of the pipeline should not to be underestimated: one should pay attention to the question of human rights violations and inadequate compensation by companies. Without ignoring the environment, the pipeline is already destroying major natural areas like the Borjomi national park. The impact of the pipeline on the environment is not quantitatively measurable at the moment but the real effects will only be seen in few years. It will only be possible to tell the safety or dangers (if it is able to resist earthquakes) of the pipeline in few years time.

The same applies for the political situation. The impact of the pipeline on the political stability can only be evaluated in some years. One cannot tell today if old conflicts will start again or whether they would not.

However it is noticeable that it will be the poor population that benefits fewest and that would suffer most in case of a conflict or a natural disaster like an earthquake. Nevertheless, it still remains that the poor peasants' land was taken to build the pipeline without any adequate compensation. In case of a natural disaster, it is the population living next to the pipeline that will be in trouble and suffer from the consequences.

Only time will tell if the BTC pipeline represents good or evil. But it will never constitute good or evil for everybody; for some people it could represent good, for others evil. As always, there will be winners and losers.

References:

Baku-Ceyhan Campaign: <http://www.bakuceyhan.org.uk/> <22.08.2006>

Colombia Journal online: BP Refuses to Compensate Peasants For Pipeline Damage
<http://www.colombiajournal.org/colombia76.htm> <30.08.2006>

Friends of the Earth – Campaigns: Baku-Ceyhan Oil Pipeline
<http://www.foe.org/camps/intl/institutions/bakuceyhan.html> <22.08.2006>

Global Research. Centre for Research on Globalization: The War on Lebanon and the Battle for Oil
<http://www.globalresearch.ca/index.php?context=viewArticle&code=CHO20060726&articleId=2824> <24.08.2006>

The Armenian Weekly online: Interview: International Opposition to Baku-Ceyhan Pipeline Continues
http://www.hairenik.com/armenianweekly/march_2003/society001.html <25.08.2006>

Website for the hydrocarbons industry: Baku-Tbilisi-Ceyhan (BTC) Caspian Pipeline
<http://www.hydrocarbons-technology.com/projects/bp/> <20.08.2006>

Wikipedia: Baku-Tbilisi-Ceyhan pipeline:
http://en.wikipedia.org/wiki/Baku-Tbilisi-Ceyhan_pipeline <20.08.2006>

Covalence SA, Av. Industrielle 1, 1227 Carouge, Geneva, Switzerland
tel: +41 (0)22 800 08 55 ; Fax: +41 (0)22 800 08 56
US Representative Office, 143 Dudley Street, Cambridge MA, 02140, USA, tel +(1) 617 429 4758
Scandinavian Rep.Office, Lokföraregatan 7C, 222 37, Lund, Sweden, Tel: 0046 (0) 46 14 97 15
<http://www.covalence.ch> / email info@covalence.ch