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Farid Guliyev and Nozima Akhrarkhodjaeva

Transportation of Kazakhstani Oil via the Caspian Sea (TKOC)
Arrangements, Actors and Interests



Farid Guliyev and Nozima Akhrarkhodjaeva
School of Humanities and Social Sciences
Jacobs University Bremen
P.O. Box 750561
D-28725 Bremen, Germany
Phone: +49 421 200 5909
Email: f.guliyev@jacobs-university.de

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SUMMARY

Although plans to enhance the westbound route for the transport of Kazakhstani oil have long been under consideration, it is only this fall that the interest in this route was revived and, beginning late October 2008, Kazakhstani crude started to flow, for the first time, via the Baku–Tbilisi–Ceyhan (the BTC) pipeline, bypassing Russia - by far Eurasia's biggest transportation network and accounting for almost 80% of Kazakhstani oil exports. A few days ago, at the November 14, 2008 Energy Summit held in Baku, Kazakhstan's energy enterprise, KazMunayGaz, signed an important agreement with Azerbaijani state oil company, SOCAR, that moved a step further the project of developing a Trans-Caspian Transportation system with links to Georgian ports and the BTC line. But, at the same time, the Kazakhstani president declined to sign a final declaration of the meeting in which the signatory parties stressed the importance of Western-backed export routes.

Three months ago, in August 2008, the outbreak of war between Russia and Georgia in South Ossetia served as a test case for the viability of the westbound routes passing the Georgian territory. Although the physical damage was insignificant, energy supplies to Georgian terminals were interrupted. Kazakhstan, the third largest investor in the Georgian economy, suddenly postponed the construction of an oil refinery at the Batumi terminal, which is owned by KazMunayGaz. The war and the subsequent suspension in the operation of the Caucasus energy route have caused losses in profits for Georgia, Azerbaijan and the energy companies.¹

The events raise the question of whether Georgia is a safe transit for Caspian energy exports. Or, put more broadly, what are the implications of the August 2008 crisis in Georgia for the prospects of the expansion of the westbound route and for the future of Caspian energy export routes? Will the westbound route for transporting Kazakhstani energy resources be extended beyond its present small-capacity status? What are the factors impeding and facilitating the transport of Kazakhstani hydrocarbons across the Caspian toward the Black Sea and the Mediterranean?

The present paper seeks to answer these questions by looking at both domestic and international actors, involved in the westward oil shipment, and their interests. It demonstrates that while foreign companies have been backed by their governments, national firms have also enjoyed considerable state support, partly because the companies represent the interests of political elites in Kazakhstan and Azerbaijan. The analysis reveals some important linkages between political classes and business elites. There are indications that most companies along the shipping line either belong to the governments of Kazakhstan or Azerbaijan, directly or indirectly (through subsidiaries), or enjoy favoritism and (near) monopoly positions in their markets (crony capitalism). Some of these firms are privately owned but registered in off-shore tax havens, while some others have rather obscure ownership structures and corporate profiles. It suggests that cronyism and state capture comprise that politico-economic environment within which the future of Caspian transport systems is to be decided.

The paper also uncovers the complex relationship between Azerbaijan and Kazakhstan, and their companies involving rivalry, competition and cooperation. It appears that Kazakhstan's attempts to move onto the Caucasus oil export market have met resistance from the Azerbaijani government-backed companies. On the Caspian Sea, Kazakhstan has promoted its KazMorTransFlot but has seen competition from Azerbaijani shipping operator Cross-Caspian Oil and Gas (which seems to be controlled by the Azerbaijani government via a non-transparent ownership structure), and owner of the largest tanker fleet in the area, Azerbaijani state shipping company, Caspar. Caspar, for example, has been charging higher tariffs for foreign vessels, including those from Kazakhstan, entering Baku ports. Support of the governments for their shipping companies has also taken the form of protectionism as is indicated by the stipulation in an agreement between the governments of

Azerbaijan and Kazakhstan on Kazakhstan’s participation in the BTC that the companies of the two countries will be favored in providing shipping services.

Having faced an unequal competition at sea, Kazakhstan decided to move to a market where it would face less competition: Georgia’s Black Sea ports. In February 2008, Greenoak, previously co-owner, sold its share in Batumi Oil Terminal and Batumi Sea Port to KazMunayGaz making Kazakhstani national company the sole owner of Batumi port and oil terminal. In a two month period, Azerbaijan followed suit – SOCAR announced the opening of its terminal at Kulevi. The acquisition of terminals by the two Caspian countries was followed by a “battle of tariffs” between Batumi and Kulevi. In order to boost trans-shipments from its terminal in Kulevi, Azerbaijan increased transit tariffs on carriages moving through its territory to Batumi but later announced that it would lower tariffs on Tengiz oil transit, on two conditions: first, that Baku oil has to be distributed between the Black Sea route and the BTC; second, in the Black Sea direction oil must be equally distributed between Batumi port and Kulevi port. Presumably, the issue was resolved thanks to the interference by the respective governments.

Due to their privileged status, the monopolist companies have been able to manipulate prices. The monopolist position of Azerbaijani State Shipping company and the State Railway company make the tanker-railway transit overpriced, and, perhaps, even less cost-effective than it would be on the Trans-Caspian pipeline, had the pipeline been built. It seems that the tanker-railway route (Aktau—Black Sea terminals) is promoted by those whose interests are best served, namely Western energy companies who are supportive of any route transpassing Russia and Iran, and those business groups and their protectors in the government in Kazakhstan (Batumi terminal) and Azerbaijan (foremost, Caspar, SOCAR and its subsidiaries, Azerbaijan State Railways) who yield profits on monopoly prices. Hence, crony capitalism flourishes but the Caspian energy transportation market remains underdeveloped.

Finally, as is seen from the example with tariffs resolved after the intervention by the Azerbaijani and Kazakhstani governments, it seems that the relationship between the two countries’ elites will be a decisive factor in determining the future of Caspian energy export. The agreement signed between the energy companies of the two countries at the Baku Energy Summit, as well as similar agreements signed between the two countries and their oil and gas companies in the past, indicate that the political leaderships of the Caspian states understand the importance of joint cooperative efforts in the developing Trans-Caspian transportation systems for shipping Caspian natural riches to world markets.



Figure 1. Kazakhstan: Oil Export Routes
 Source: Ernst & Young, *Kazakhstan: Oil & Gas Tax Guide* (2008), 6.

Contents

SUMMARY	3
1. INTRODUCTION.....	6
2. BACKGROUND.....	7
<i>Caspian Energy Outlook.....</i>	<i>7</i>
<i>Kazakhstan: Oil Profile</i>	<i>8</i>
3. TRANS-CASPIAN SHIPMENTS	9
<i>Overview: Kazakhstan's Trans-Caspian Shipments</i>	<i>9</i>
<i>The Westbound Route</i>	<i>10</i>
<i>Aktau–Baku–Black Sea ports</i>	<i>12</i>
<i>Interests of Shipping Companies.....</i>	<i>14</i>
<i>Azerbaijani and Georgian Ports</i>	<i>15</i>
<i>Aktau–Sangachal–BTC.....</i>	<i>16</i>
<i>Kashagan Launch and Trans-Caspian Pipeline</i>	<i>17</i>
4. POLITICAL–ECONOMIC LINKAGES	19
5. CONCLUSION	21

1. INTRODUCTION

On November 14, 2008 national energy companies of Azerbaijan and Kazakhstan concluded an agreement with respect to the development of a Trans-Caspian oil transport system to help get Kazakhstani oil to international markets. The new agreement outlines the key terms and principles of the Trans-Caspian Project, and determines a piecemeal development of the Trans-Caspian transport system. According to the plan, KazMunayGaz, the Kazakhstani national oil and gas company, and SOCAR, the Azerbaijani state oil company, will set up a joint Project company to implement the project. The new transport system would use a fleet of barges and tankers to carry Kazakhstani crude to Azerbaijani Sangachal terminal to be fed into the Baku–Tbilisi–Ceyhan pipeline (the BTC)² as well as other types of oil transportation infrastructure.³ The network would be able to ship initially 500,000 barrels of oil daily (23 million tons a year), eventually increasing to 750,000–1.2 mill. barrels per day (35–56 mill. tons annually).⁴

This arrangement is a further step in the development of westbound routes for Kazakhstani oil export. The Caucasus route has been in use for oil exports from Kazakhstan to the Black Sea, and, beginning in late October 2008, Kazakhstani crude from the Tengiz oil field was shipped, for the first time, to Sangachal and then loaded to the BTC. In addition, there is work underway to create the Kazakhstan Caspian Transportation System (KCTS) which will upgrade the Kazakhstani and Trans-Caspian transport infrastructure to enable larger volume shipments across the Caspian.

The new oil Trans-Caspian transport system agreement and the shipment by the BTC indicate that, despite some disagreements over transit tariffs and use of Black Sea terminals, Azerbaijan and Kazakhstan are willing to cooperate in oil transit, and that Kazakhstan is keen to improve exporting capacities and looks for options to diversify export routes. It is noteworthy, however, that Kazakhstan did not sign a declaration of the Baku Energy Summit held on November 14, 2008, the day of signing the abovementioned agreement concerning the establishment of the new transport system. The final declaration underlined the importance of alternative export routes and articulated support for existing and planned Western-backed pipelines.⁵

The issue of energy transportation routes, especially pipelines, has been a key issue in the geopolitics of the Central Eurasian region. The West has promoted transportation projects that would carry Caspian energy bypassing the Russian territory, such as the BTC, whereas Russia has used its power to keep almost all Central Asian energy exports under control and to prevent any major shift in Central Asian energy exports. The region, thus, has been a playground for Russian-Western rivalry over the access to the vast Caspian resources and control of the exporting routes. In the meantime, a booming economy of China with its accelerating energy demand added to the complex geopolitical game. Pursuing a balanced foreign policy, Kazakhstan agreed to export parts of its energy resources eastward. The energy-rich country has already begun to deliver its crude to China through the newly built Atasu–Alashankou pipeline.

Unlike the largely peaceful eastern part of the Caspian, the volatile western Caspian (the South Caucasus) has remained explosive, due to a number of still-unsettled territorial disputes in which Russia has played a part. The most recent (August 2008) outburst of violence in Georgia's breakaway region of South Ossetia was described by some regional analysts as a "reality check" for the functioning westbound transit routes– the BTC⁶ (oil), Baku–Supsa (oil) and Baku–Erzerum (gas). The Georgian War has raised concerns over safety and reliability⁷ of the existing Caspian routes and other westbound projects currently under consideration,⁸ and fueled doubts among Central Asian leaders as to whether to participate in the westbound transportation projects.

In light of these developments, the present paper⁹ examines how the interplay of interests, both domestic and international, provides opportunities and imposes constraints on the choices of key players involved in the westward oil shipment. It uncovers some important linkages between political classes and business elites that allow for rent-seeking under permissible conditions of crony economic system, that is the system of distributing economic favors by governments to their personal connections, and state capture, understood as the relationship between private interests and the state in which private groups exercise considerable influence over the government's policy making. It suggests that cronyism and state capture comprise that politico-economic environment within which

the future of Caspian transport systems is to be decided. Additionally, it investigates the implications of current developments, such as the Russian-Georgian war, for the possible participation of Kazakhstan in building the Trans-Caspian pipeline and other infrastructure to join the BTC.

The paper is organized into three sections. Section 2 provides a short background to the oil reserves and production in the Caspian region in general, and Kazakhstan in particular, and a description of existing exporting schemes. Section 3 looks specifically at cross-Caspian routes, focusing on the existing tanker and railway export through Azerbaijan and Georgia, and Kazakhstan's latest decision to export Tengiz crude via the westbound BTC. It also covers the Caspian shipping companies as well as Azerbaijani and Georgian ports and terminals as important stakeholders. Further, in light of the recent Georgia crisis, it discusses the prospects of Kazakhstan's joining the BTC by constructing a seabed Trans-Caspian pipeline to connect the eastern and western shores of the Caspian, and how the future launch of Kashagan might affect all this. Finally, we discuss the linkages between companies and political interests involved in the transport of Kazakhstani oil, and then present some conclusions.

2. BACKGROUND

Caspian Energy Outlook

Projected estimates of hydrocarbon reserves in the Caspian region range between 17.2 billion barrels (b/bbl) at the lowest level and 49.7 b/bbl at the highest.¹⁰ Based on data from BP from late 2007, oil reserves on the territory of Azerbaijan and Kazakhstan account for about 4% of the world's proven oil reserves (Kazakhstan 3.2%, Azerbaijan 0.6%), while the two countries produce roughly 3% of the world oil output: Kazakhstan 1.8%, Azerbaijan 1.1% (see Figures 2 and 3 in the Appendix).

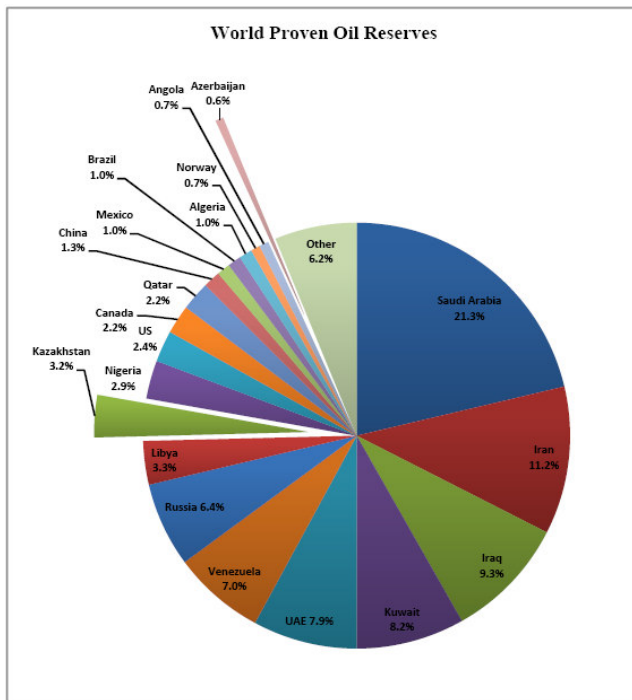


Figure 2. Caspian Share in the World's Proven Oil Reserves
Source: BP, *Statistical Review of World Energy*, 2008 (data at end 2007)

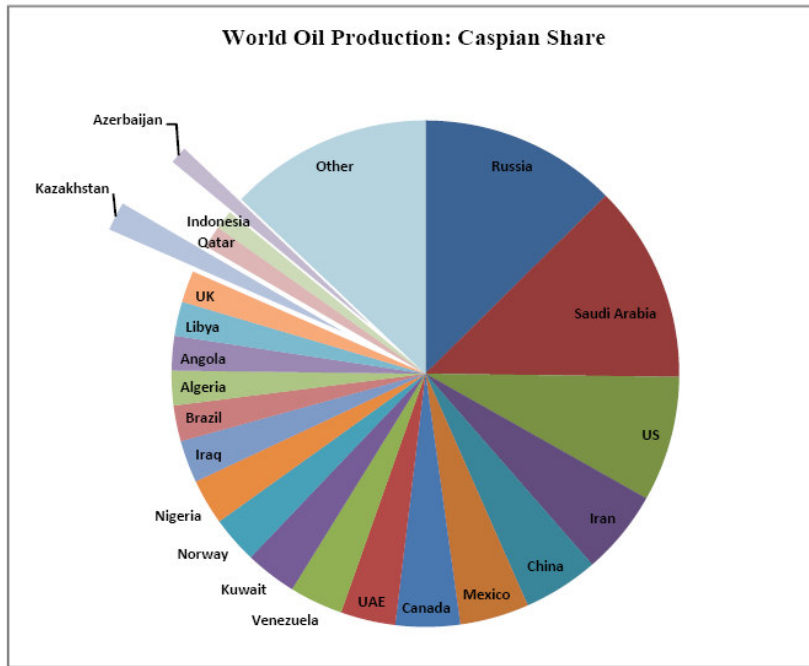


Figure 3. Caspian Share in World Oil Production
 Source: BP, *Statistical Review of World Energy*, 2008 (data at end 2007)

Kazakhstan: Oil Profile

It is estimated that Kazakhstan’s proven oil reserves in the Caspian basin are between 9 and 29 billion barrels (1.2 and 3.9 billion tons).¹¹ The country is the second, after Russia, largest oil producer among the former Soviet states and is ranked as one of the top 10 countries in oil and gas deposits.¹² The main deposits of crude oil are located in the western part of the country near the Caspian Sea and offshore. The largest fields are Kashagan (15 b/bbl), Tengiz (9 b/bbl)¹³ and Karachaganak (2.4 b/bbl). The smaller oil reserves were found in Uzen (1 b/bbl), Aktobe (1 b/bbl), Kumkol (0.6 b/bbl) and some other fields¹⁴ (for a summary, see Table 1). By producing 1.49 million (mill.) barrels daily, the country is the major producer of crude oil in this region.¹⁵ Total net exports from Kazakhstan amount to 1.146 mill. bbl a day.¹⁶ The Kazakhstani government believes that it has the capacity to enter the ranks of the world’s 10 major oil producers in the next decade.¹⁷ By 2010, the Kazakhstani government expects to reach production levels of 3.0–3.4 mill. bbl/d.¹⁸

The Kazakhstani government is represented in most energy deals by the national oil company, KazMunayGaz, which was established by presidential decree in 2002 through the merger of two national companies: KazakhOil, and Oil and Gas Transportation (the latter was a state enterprise for the transport of oil and gas created after a merger of KazTransOil and KazTransGaz).¹⁹ Since 2004 the national oil company has grown in size and importance, and all major energy deals have to be agreed with KazMunayGaz. In addition, according to the law “On Production Sharing Agreements” signed by the Kazakhstani President Nursultan Nazarbayev in 2005, KazMunayGaz has a right for no less than 50% of share in any PSA contracts on sea operations.

In addition to rail (with links to Russia and China) and tanker shipments (across the Caspian Sea to Russia, Azerbaijan and Iran), there are three main pipelines carrying Kazakhstani crude and oil products: the Atyrau–Samara and the Caspian Pipeline Consortium (CPC) links to Russia, and the Atasu–Alashankou pipeline to China. Pipelines remain the principal component of the Caspian transportation infrastructure (see Figure 4).

The major portion of Kazakhstani crude is transported to Novorossiysk in Russia. In 2007, 620,000 bbl/d (25.5 mill. tons per year) went through the Chevron-led CPC's line to Russia's Black Sea port of Novorossiysk.²⁰ Another 16 mill. tons are transported by pipeline from Atyrau to Samara in Russia to be further shipped through the Russian pipeline system, a monopoly of Transneft. Before the CPC launch in 2001, almost all Kazakhstani oil exports went through this northbound route. An additional 2.8 mill. tons are delivered to/through Russia by railway.²¹ This then means that some 80% of Kazakhstani oil is transported through the Russian pipeline network.²² Starting from May 2006, Kazakhstani oil was also sent to China through the 3000 km long Atasu–Alashankou pipeline, due for completion in several stages by 2011.²³ In 2007, 4.8 mill. tons of crude was shipped to China via this route²⁴ but the plan is to reach 20 mill. tons annually with a potential of exporting 50 mill. tons.²⁵ (see Table 2).

Kazakhstan: Main Oil Fields	
Field	Proven Reserves (billion barrels)
Kashagan	15.0
Tengiz	9.0
Karachaganak	2.4
Aktobe	1.0
Uzen	1.0
Kumkol	0.6
Others	1.0
TOTAL	30.0 (4.0 billion tons)

Table 1: Kazakhstan's Key Oil Fields
Source: EIA, Kazakhstan Energy Profile, October 14, 2008.

The next sections focus on the shipment of Kazakhstani oil through the Caspian to Black Sea ports and from there to Europe: Kazakhstani oil and oil products shipped from Aktau to Georgia's Black Sea coast through the territories of Azerbaijan and Georgia, as well as by the BTC line to the Turkish port at Ceyhan, a major energy hub in the Mediterranean. We also examine the proposed plan to construct a subsea trans-Caspian pipeline to connect Kazakhstan to the BTC.

3. TRANS-CASPIAN SHIPMENTS

Overview: Kazakhstan's Trans-Caspian Shipments

Although most Kazakhstani petroleum is exported through Russia, some of it is transported through the Caspian Sea toward the coasts of Azerbaijan, Russia, and Iran. The Kazakhstani port of Aktau sends some 9 to 10 mill. tons of oil annually by small-capacity tankers across the Caspian Sea to various destinations, mainly the Baku terminals in Azerbaijan, Neka in Iran, and Makhachkala in Russia.²⁶ The oil transported to the port in Makhachkala via the Caspian is later pumped into the pipeline in the Transneft system which goes to Novorossiysk. Kazakhstan also delivers crude oil through the Caspian Sea to Iran (4 mill. tons in 2007), in return for the equivalent supplied by the Iranian side through the Persian Gulf on condition of the repayment of swap deals by the Iranian side.²⁷



Figure 4. Transportation System of the Caspian Area
 Source: ENI, Press Release, April 24, 2007. http://www.eni.it/en_IT/attachments/media/press-release/2007/04/Rete_Trasporto_961_595.gif (accessed October 20, 2008).

Oil Export Volumes by Routes, 2006 and 2007

Name of route	Volume of exported oil <i>million tons</i>	
	2006	2007
Tengiz–Novorossiysk (CPC)	24.4	32.612
Atyrau–Samara	15.6	15.970
Aktau Sea Port	9.9	9.5
Atasu–Alashankou	2.2	2.714

Table 2. Oil Export Volumes by Routes
 Source: Agency on Statistics of the Republic of Kazakhstan

The Westbound Route

The westbound route, which is the focus of this study, has been an important component of the US strategy in Central Eurasia. Launched in 2006 and having an export capacity of 1 million barrel of oil per day (50 mill. tons annually), the Baku–Tbilisi–Ceyhan pipeline is the epitome of this strategy. It has been envisaged that, at some point, this pipeline system will carry Central Asian energy resources as well. It still remains to be seen, however, whether the energy-abundant Central Asian countries will continue to rely on Russia or diversify away from Russia-bound routes. In the absence of the infrastructure necessary to connect the two sides of the Caspian (except for low-capacity ships linking Aktau with terminals at Baku and nearby), and due to the Central Asian leaders’ unwillingness to put their relations with Russia in jeopardy, the initial large-scale plans have remained on paper. Besides

logistical and geopolitical constraints, competition among enterprises (international companies and local firms) closely linked to and supported by their national governments has also played a role.

It is only recently that Kazakhstan has demonstrated its intention to ship a minor part of its oil exports to the Sangachal terminal near Baku, for further delivery to world markets via the BTC. The first shipment of Kazakhstani oil from the Tengiz field was pumped through the BTC in the last week of October 2008.

In Kazakhstan, hydrocarbon shipment by pipeline is operated by seven companies, including KazTransGas JSC and KazTransOil JSC, property of KazMunayGaz JSC.²⁸ KazTransOil was merged into KazMunayGaz in 2002 and is in charge of overseeing all transportation through 10,000 km of major pipelines and water-transport pipelines in Kazakhstan. It is the official representative of the Kazakhstani government in all international pipeline deals.²⁹

For current and future deliveries of Kazakhstani (and, for that matter, Central Asian) energy resources to the world, Azerbaijan can offer its extensive transportation infrastructure, which includes five pipelines, two gas pipelines, and railways as well as maritime routes.³⁰

Hence, the westbound route for exporting Kazakhstani oil consists of various projects combining pipelines, tanker and railway transportation systems. Two transportation lines are already operational: the Aktau–Baku–Black Sea (Batumi/Poti/Kulevi) route, which currently carries Kazakhstani Kumkol crude and non–BTC Tengiz oil, and the Aktau–Sangachal–BTC route, which ships Tengiz oil via an oil terminal at Sangachal to Ceyhan (see Figure 5). Other projects await implementation or have been suspended. One such project that has long been studied by Kazakhstan and other parties involves the construction of a Trans–Caspian Pipeline (TCP) as part of the larger KCTS project (Kazakhstan Caspian Transportation System). Since Kazakhstani crude movement by tanker to the BTC has only recently become operational (end October 2008), we will concentrate on the conventional Aktau–Black Sea route, then present information on Kazakhstan’s oil shipments by tanker and via the BTC, and finish with a discussion of developments around the Kashagan field and Kazakhstan’s plans for larger-scale integration into the BTC system proper, especially in light of the recent events in Georgia.

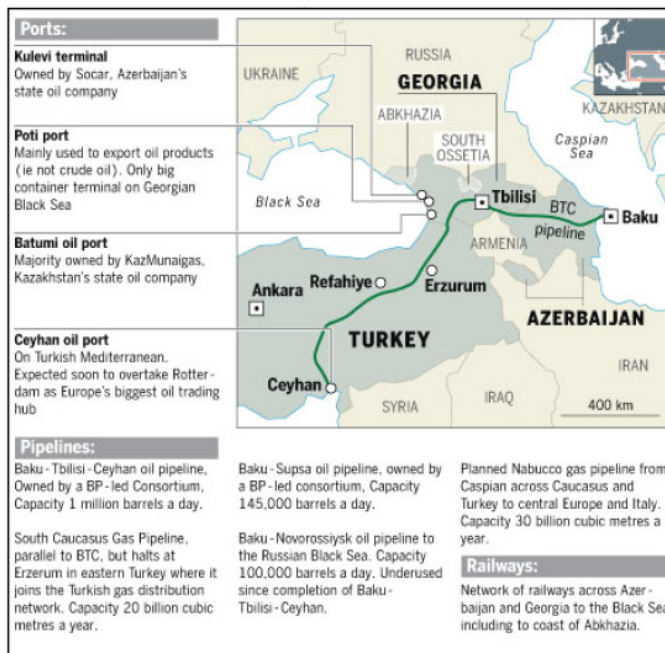


Figure 5. Westbound Transportation Infrastructure
Source: *The Financial Times*, August 10, 2008. <http://media.ft.com/cms/f61f0e58-670b-11dd-808f-0000779fd18c.jpg> (accessed October 25, 2008). Note that since 2008 KazMunayGaz is the exclusive owner of Batumi Oil Terminal Limited and Batumi Sea Port Limited.

Aktau–Baku–Black Sea ports

The Aktau–Baku–Black Sea transport corridor through the Caspian Sea onto the territories of Azerbaijan and Georgia is a conventional route for exporting light and heavy petroleum products and crude from the Azerbaijan section of the Caspian Sea, as well as a transit route for Kazakhstani and Turkmen crude to the Black Sea. The route is an integrated railway and maritime transportation system consisting of oil ports and terminals in Aktau, various terminals in and near Baku, and on the Georgian coast of the Black Sea (Batumi, Poti, and Kulevi), together with Caspian vessel carriers, and Azerbaijani and Georgian railways.

The Azerbaijan–Georgian section of this route has also been used to ship Azerbaijani oil to the Black Sea (alongside the Baku–Supsa Western Early Oil Pipeline). Two US companies, ExxonMobil and Devon, which participate in the Azeri–Chirag–Gunashli project but did not invest in the construction of the BTC pipeline, also export their share of light crude by rail to the Batumi port.³¹

Along with Azerbaijani crude transportation, the westbound route was also meant to carry Kazakhstani Kumkol crude and oil from the two large oil fields in western Kazakhstan: onshore Tengiz and offshore Kashagan. Since the launch of the Kashagan project is scheduled for 2013, we will turn to it below.

Kazakhstan transports between 2 and 2.4 mill. tons of oil annually to Black Sea ports of Georgia through the Caspian Sea and the South Caucasus.³² Kumkol crude is delivered to Aktau by the Kazakhstani national railways company (Kazakhstan Temir Zholy).³³ From Aktau it is loaded into tankers by the private firm Terminalex and KazMunayGaz’s KazTransOil, to be shipped to Dyubendi terminal operated by the Middle East Petroleum trans-shipment company,³⁴ and from there to the Black Sea. This route was also used to ship oil from Tengiz oil field.³⁵

Most recently, according to information from the Azerbaijani state oil company SOCAR, the company agreed with TengizChevroil to ship 2 mill. tons (to be increased to 5 mill. tons) of Tengiz oil a year by rail via Azerbaijan and Georgia, starting from the end of October 2008.³⁶ There has been talk of increasing the overall export of various oil products by rail to over 10 mill. tons annually.³⁷ Tengiz oil was transported through this route in 1998–2001, and this transportation mechanism was revived in October 2008.

Petroleum Export by Rail, Baku–Batumi/Poti

Years	2004	2005	2006	2007	2008
Million tons	8	10.7	12.8	10.9	10.9

Table 3. Railway Shipments of Oil and Oil Products on Baku – Batumi/Poti Routes

Source: Rauf Guseynov, “Railroad Supplies of Crude and Oil Products via Azerbaijan and Georgia,” Presentation at the 2nd Caspian Oil and Gas Trade and Transportation Conference, Baku, 23–24 April, 2008.

The volumes reaching Baku are transported by Azerbaijani and Georgian railroad to the Georgian terminals of Batumi and Kulevi on the Black Sea and onwards to European markets. The Georgian Railway LLC is owned by the state.³⁸ Azerbaijani railways sector is monopolized by Azerbaijan State Railroads which is a closed joint stock company with full state ownership. The west–east link connecting Baku to the Black Sea ports of Georgia carries most of the traffic (20 to 25 train sets per day). The company has 7,771 railway carriages in the working fleet, another 10,162 that are usable and spare, and a further 5,6655 that could be rehabilitated if needed.³⁹

Railroad Fleet

Owner/property tenant	Number of tank-wagons
Azerbaijan State Railroad	2,500
Georgian State Railroad	up to 2,000
Azertrans	800
MEPF	500
Other	500

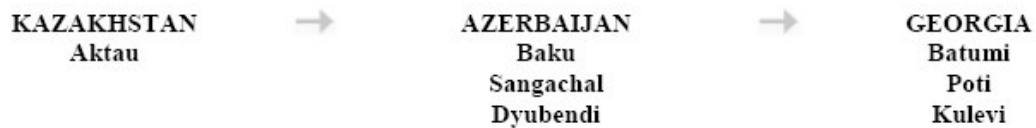
Table 4. Railroad Fleet, Baku–Batumi/Poti

Source: Rauf Guseynov, "Railroad Supplies of Crude and Oil Products via Azerbaijan and Georgia," Presentation at the 2nd Caspian Oil and Gas Trade and Transportation Conference, Baku, 23–24 April, 2008.

Every year, some 10.9 mill. tons of petroleum and petroleum products are shipped by rail along the route Baku–Batumi/Poti (Table 3). The length of this route is about 870 km. Among the forwarders operating on this line are Petrotrans,⁴⁰ Silk Road,⁴¹ MEPF,⁴² and Aztransrail.⁴³ The corridor hosts from 2,500 to 3,000 tank-wagons, but shortages of carriers are not unusual (see Table 4).⁴⁴ The tariff per a ton of oil from Aktau to Batumi is set at between \$39 and \$39.50.

Between 200,000 and 250,000 tons of Kazakhstani oil, mostly Kumkol oil, are shipped via Aktau–Baku–Batumi route every month.⁴⁵ Both Dyubendi⁴⁶ and Baku terminals⁴⁷ are used as trans-shipment points. In total, the Baku–Batumi rail network carries 150,000–200,000 barrels per day to Black Sea terminals.⁴⁸ Various Kazakhstani suppliers are involved. Among the final buyers is StatoilHydro – mainly for the Kumkol and Kazakhstani–Turkmenistani blend of oil.⁴⁹ Supplies for this route from Tengiz were halted in 2001/02 with the launch of CPC, resuming only in October 2008.⁵⁰

Figure 6. The Westbound Route Terminals*



*Note: Supsa terminal is not used for Kazakhstani oil.

Azerbaijani and Kazakhstani shipping companies play a major role in the Caspian tanker traffic. Main operators in the freight market are Caspar Ltd., Palmali Ltd.,⁵¹ Meridian Shipping Company and KazMorTransFlot JSC.⁵² The tankers used on the Caspian are small-capacity tankers, from 3,000 to 13,000 dwt. New tankers are 12,000 and 13,000 dwt. Most of them belong to the Caspian Shipping Company (Caspar),⁵³ which navigates in the Caspian Sea, the Black Sea, the Mediterranean Sea, and the Sea of Marmara, and transports cargoes, predominantly petroleum and petroleum products (see Figure 7). The company has 86 vessels: 41 in the tanker fleet, 10 auxiliary vessels, and 35 in the dry-cargo fleet, with a total deadweight of 443,782 thousand tons.⁵⁴ Non-Caspar transport capacity across the Caspian Sea is still limited to less than 20% (as of 2006) of oil transport on the Caspian Sea. Despite difficulties in competing with Caspar, Kazakhstan is building up its own

tanker capacity. JSC National Sea Navigable Company KazMorTransFlot, set up in 1998, is owned by the State Assets Management holding Samruk and KazMunayGaz, with both holding equal shares in KazMorTransFlot. Main activities of KazMorTransFlot include oil transportation from Aktau to Makhachkala, Neka, and Baku. The company accounts for 45% of oil exports from Aktau. It has three almost-new tankers – the “Aktau,” the “Astana” and the “Alamaty” – with capacity of 12,000 dwt; in addition, it owns three tow boats and eight site barges of “KMG” series with carrying capacity of 3,600 tons.⁵⁵

Similar to railways, marine transportation is characterized by a lack of clear institutional framework as well as lack of transparency. The fleet is freighted on a long-term contract basis, from several months to a year. Spot agreements are limited. Freight rates are determined on case-by-case basis depending on individual agreements, volume of shipment and type of cargo. Currently, transport costs on Aktau–Baku route are \$8.5 to \$9 per ton (in April 2008, spot market rates were higher – \$10 per ton). This rate is more expensive than costs of shipping oil from Novorossiysk to Italy or from Primorsk to Rotterdam (\$6 to \$9.8 per ton). Just to compare, the rate of oil and oil product shipment on Turkmenbashi–Baku route by Caspar vessels (5,000–7,000 dwt) is \$7–\$8 per ton, Aktau–Makhachkala \$8, Aktau–Neka \$11. Shipping oil from the coastal areas of Kazakhstan and Turkmenistan to Georgian ports costs between \$40 and \$50 per ton (Turkmenbashi–Batumi), and \$39–\$39.5 per ton (Aktau–Batumi).⁵⁶

Unlike the world shipping industry, the Caspian Sea shipping market lacks competition and is nearly closed. The incumbent shipping companies seek to prevent third parties from entering the market. For example, Caspar has been actively working to block companies like Palmali, Mobilex and KazMorTransFlot from entering the Aktau–Baku segment of the market.⁵⁷ Caspar imposes higher tariffs for foreign vessels entering Baku ports (Kazakhstani vessels have to pay to \$36,000 to dock in Baku, while Azerbaijani vessels are charged only \$12,5500 to use Aktau port).⁵⁸ Also the governments of the two Caspian countries are trying to protect their shipping companies. For example, an agreement between the governments of Azerbaijan and Kazakhstan on Kazakhstan’s participation in the BTC stipulates that only companies of these two countries will be permitted to provide shipping services.⁵⁹

Interests of Shipping Companies

The state-supported shipping companies (Caspar and KazMorTransFlot) might have their own position on the issue of possible construction of a trans-Caspian pipeline. Do they constitute a lobby on this matter?⁶⁰ Some experts think that there will be resistance to the construction of a trans-Caspian pipeline “although at this point a pipeline does not seem a feasible near term option anyway.”⁶¹ Since it is the vested interest of the shipping companies to use other means than pipelines, the companies are not supportive of the pipeline option, but they might have only limited influence on the decision-making process: “As both Azerbaijani and Kazakhstani shipping companies are affiliated with their state and/or ruling elites, political courses and decisions of their governments play a more important role.”⁶² Another opinion pointed that the shipping companies in both Kazakhstan and Azerbaijan “represent groupings within the political and business elites in these countries that are associated with state oil companies. Strictly speaking, the nature of lobbying activities prevents taking the analysis of examples that abound beyond the level of speculation.”⁶³



Figure 7. Caspar's Connections
 Source: <http://www.caspar.baku.az>

Azerbaijani and Georgian Ports

There are four terminals on the Azerbaijani coast of the Caspian Sea (Baku and Absheron): Dyubendi (MEP), Baku (Timber oil terminal), Sangachal oil terminal (BP) and Sangachal oil terminal (Azertrans) (Figure 6). There is another terminal under construction in Garadag. Most of the oil flow is trans-shipped through Dyubendi.

The International Sea Trade Port of Baku (ISTPB) is an independent state-owned enterprise that manages Baku port together with its facilities. ISTPB can be characterized as “a near-total freight handling monopoly.”⁶⁴ There are two competitors in this sector: the Oil Terminal in Baku (formerly a timber terminal) operated by Azpetrol⁶⁵ (with annual capacity of 10 mill. tons of oil and oil products), and the Dyubendi Oil Terminal operated by Middle East Petrol.⁶⁶ The Baku Port comprises a ferry terminal, a container terminal, the fishery port and the oil terminals with refineries. It has six shipyards of various capacities (up to 12,300 dwt) and four floating docks. The port has seventeen berths, of which five are for transport of crude oil and petroleum products. The port can accommodate vessels up to 12,000 tons, and its facilities include portal cranes, tugboats, and equipment for handling petroleum and petroleum products. The port area has 10,000 square meters of covered storage and 28,700 square meters of open storage.⁶⁷

Azpetrol⁶⁸ has another oil terminal at Sangachal, located 45 km from Baku in Garadakh district, which can handle 10 mill. tons of oil a year. This terminal is operated by Azertrans, a member of Azpetrol group of companies. The access channels were deepened to allow the terminal to handle tankers of up to 12,000–13,000 dwt. Azpetrol, with its Baku and Sangachal terminals, is involved in the transport of oil and oil products from Kazakhstan and Turkmenistan (up to 3.3 mill. tons in 2005).

Thus Sangachal has two parts under different jurisdictions. One is connected to the BTC and cannot receive tankers; the other is for tankers but previously without connection to the pipeline network.⁶⁹ BP is the operator of the BTC-connected Sangachal Terminal, but terminal facilities are shared by consortium partners from AIOC, BTC Co., Shah Deniz and SCP. Sangachal is linked to the Baku–Supsa, Baku–Novorossiysk, and BTC oil pipelines. In late 2005, construction of the pipeline connecting the oil terminals of Azertrans Ltd. and British Petroleum–Azerbaijan in Sangachal was

completed. Pipeline construction started in 2005, carried out by KaspMorNefteGazStroy, member of SOCAR group. The pipeline link connecting the two terminals has made it possible to receive and further transit Kazakhstani oil to world markets through the BTC pipeline which starts from the Sangachal terminal.⁷⁰

On the Black Sea coast there are four terminals, three of which are used for Kazakhstani oil. The Batumi terminal, where most of the oil cargo is delivered by rail for further transport to Europe, is located near the seaport of Batumi in the autonomous region of Ajaria. In fact, this terminal has been operational for almost 120 years. It loads oil and oil products on four wharfs with an area of 8 hectares and total length of 755 meters. Cargo carriage capacity for oil products is between 15 and 18 mill. tons annually.⁷¹ Until recently, the Batumi oil port belonged to two companies: KazMunayGaz and Greenoak Group, a private investment firm. In February 2008, Greenoak sold its share in Batumi Oil Terminal and Batumi Sea Port to KazMunayGaz for US \$220 million, thereby making Kazakhstan's national company the sole owner of Batumi port and oil terminal.⁷² Kazakhstan has become the third largest investor in Georgia. Although the agreement to build a \$1 billion dollar oil refinery had already been signed, after the Russia–Georgia crisis construction was delayed.

The SOCAR-owned Kulevi Oil Terminal was opened on May 16, 2008. SOCAR, the Azerbaijani state company, bought Kulevi from the late Georgian tycoon Badri Patarkatsishvili for an undisclosed sum.⁷³ Initially, it intends to ship 5 mill. tons of oil and oil products annually, aiming to reach 10 mill. tons in the next two years.⁷⁴ SOCAR was established by presidential edict in September 1992, to act on behalf of state interests in newly discovered fields, reviewing and approving oil and gas projects in Azerbaijan, as well as to manage the extraction, refining and transportation of energy resources.⁷⁵ SOCAR is the world's 68th largest company, producing about 7.84 mill. tons of oil and 4.34 b cubic meters of gas in 2006.⁷⁶

Aktau–Sangachal–BTC

The 1,768-km, \$3.6 billion Baku–Tbilisi–Ceyhan pipeline carries Azerbaijani oil from the offshore Azeri–Chirag–Guneshli (ACG) fields (developed by the BP-operated AIOC consortium – Azerbaijan International Operating Company) from the Sangachal terminal on the Caspian via Georgia to the Turkish port of Ceyhan on the Mediterranean.⁷⁷ The ACG fields are estimated to contain about 5.4 b/barrels of oil. The first oil was pumped in the BTC in May 2005; the pipeline was inaugurated,⁷⁸ thus becoming operational, on July 13, 2006 in Ceyhan. It will be operating at full capacity by 2009, delivering 1 mill. barrels (133,333 tons) of oil daily to Ceyhan, from where it can be shipped all over the world by supertanker. The pipeline's throughput is 50 mill. tons (375 mill. barrels) a year, which can be increased to 75 million tons. The BTC is owned by a consortium of energy companies led by BP, with a 30.1% stake in the project. Other significant BTC shareholders include SOCAR (25%) and Chevron (8.9%).

In November, 2002 SOCAR and KazMunayGaz negotiated a deal to transport portions of Kazakhstani crude via the BTC.⁷⁹ Following an agreement signed in June 2006 by Azerbaijani and Kazakhstani leaders and another agreement in October 2008 between TengizChevroil and the BP-led BTC company (where, after acquiring Unocal, Chevron has an 8.9% share)⁸⁰ Kazakhstan started delivering oil to the BTC in late October 2008. About 10,000 tons of oil per day are being transported from Tengiz through the BTC, with a capacity to reach 100,000 barrels or 14,000 tons per day.⁸¹ By the end 2008, up to 300,000 tons are expected to be exported through the BTC.⁸² It is believed that when Kashagan goes on-stream, Kazakhstan may export 25 mill. tons of its crude annually through the BTC. The Tengiz crude is first brought by rail to Aktau, from where it is shipped by small-capacity tankers to Sangachal. This shipping route, together with an oil port and pipeline terminal at Sangachal near the BTC terminal, is operated by Cross Caspian Oil and Gas, a joint venture of SOCAR and the Dubai-registered Middle East Petroleum Farm.⁸³ At Sangachal the crude is pumped into the BTC pipeline. TengizChevroil also transports oil by rail to the KazMunayGaz-owned Batumi terminal. There is also a contract that part of Tengiz oil will be moved to SOCAR-owned Kulevi terminal (a gentlemen's agreement sets to distribute non-BTC Tengiz oil exports equally so that half goes to Batumi and another half to Kulevi).⁸⁴ There was a “battle of tariffs” between Batumi and Kulevi, which are owned by Kazakhstan and Azerbaijan respectively. Azerbaijan increased tariffs on

its territory such that oil was transported by railway for \$36.5 per ton.⁸⁵ Azerbaijan later said that it would low tariffs on Tengiz oil transit, on two conditions: first, at Baku oil has to be distributed between the Black Sea route and the BTC, which has been experiencing difficulties in operating at its full capacity of 50 mill. tons; second, in the Black Sea direction oil must be equally distributed between Batumi port and Kulevi port.⁸⁶

As we can see, there is growing competition between Azerbaijan and Kazakhstan, and their companies, to control the Caspian–Caucasus route for Kazakhstani oil export. KazMunayGaz controls important operations along this route. It owns KazTransOil (100%) which operates pipelines in Kazakhstan. It has a 50% share in KazMorTransFlot (50% Samruk Holding⁸⁷, 50% KazMunayGaz) which ships oil tankers but faces competition from Caspar and Cross Caspian Oil and Gas (joint ownership of SOCAR and Middle East Petroleum Farm). And now it owns the Batumi port and oil terminal, from where oil is loaded into large tankers and shipped to Europe. Here it faces competition from another Azerbaijani company – the SOCAR-owned Kulevi Terminal.

Kashagan Launch and Trans-Caspian Pipeline

Kashagan is Kazakhstan’s largest hydrocarbon field with an estimated 9 to 13 billion barrels of recoverable oil reserves. Together with Tengiz, Kashagan accounts for half of the country’s total oil reserves and is one of the “four giants” (the other three being Tengiz, Karachaganak and Kurmangazy).⁸⁸ Kashagan is the biggest oil discovery in the last 40 years worldwide. Although operations were due to begin in 2005, production at Kashagan has been delayed several times, and the launch is now scheduled for 2013. Various explanations exist for the delays. First, Kashagan is very complicated to explore technologically: it is an offshore field in Northern Caspian. Secondly, there are environmental concerns: It is located in Northern Caspian with a highly vulnerable natural environment. Most important, logistically Kazakhstan does not possess an adequate pipeline capacity, and the existing capacity of the Atyrau-Samara and CPC (linked to Russia) is not enough. Furthermore, this technologically sophisticated project requires additional financing. Lastly, there is a political reason associated with Kazakhstan’s new strategy of promoting its national company KazMunayGaz. There has been talk that KazMunayGaz will replace the current project operator or become a joint operator with Agip, the subsidiary of Italian ENI. KazMunayGaz’s share will increase from the current 8.33% to 16.81%, making it an equal stakeholder in the consortium with some other partners (ExxonMobil, Shell, Total).⁸⁹

Total has conducted a feasibility study for Kazakhstan to develop the Kazakhstan Caspian Transportation System (KCTS) project, which would include the construction of a \$4 billion, 730/800 km pipeline from the onshore terminal at Eskene in western Kazakhstan to a loading terminal at the port of Kuryk. Once the Kuryk port completed, oil from the Kashagan field would flow from Aktau to Kuryk for shipment across the Caspian Sea to Baku by small crude oil tankers owned by shippers in Azerbaijan and Kazakhstan.⁹⁰ The other project is a construction of a 600 km undersea trans-Caspian pipeline, linking Kazakhstan’s oil directly with the BTC pipeline.⁹¹ This is how Laurelle (2008) describes the prospects of Kazakhstan’s involvement in the BTC pipeline:

The launch of the Kazakhstan Caspian Transport System [KCTS], operational in 2012, will enable Kazakhstan to transport through the BTC pipeline twenty million tons of oil each year. It will transform the small Kazakh[stani] processing port of Kuryk, located 70 kilometers south of the regional capital Aktau in the Mangystau peninsula (one of the country’s most isolated regions), a hub of Kazakh[stani] oil exports and economic development. It will receive shipments of 500,000 barrels of oil per day through a 600-kilometer pipeline to the reserves of Atyrau, located further to the north. A complex system of barges will then carry the oil to Azerbaijan, where the KCTS consortium has established storage structures and connections to the BTC.⁹²

On June 16, 2006, the presidents of Kazakhstan and Azerbaijan signed a framework agreement to create a Trans-Caspian “Kazakhstan-Azerbaijan oil transport system” for sending Kazakhstani oil via the BTC, initially 7 mill. tons a year but with prospects of increasing to up to 20 mill. tons annually.⁹³ According to Socor, shipping Kashagan oil by tanker is “the least cost-effective option” and the westbound trans-Caspian pipeline on the Caspian seabed is the most promising option to handle large volumes from Kashagan and this can be profitable at below 20 mill. tons annually.⁹⁴ As another regional analyst notes, although tanker traffic may be “cheaper, more environmentally sensitive, involve greater local content and, crucially, engender a lower political risk to US interests in the region”, a seabed pipeline might add value in the form of a companion gas line which would carry Kazakhstani and even Turkmenistani gas into the South Caucasus Pipeline, to provide Europe with non-Russian gas free of the Russian transit infrastructure.⁹⁵

Prospects of the Cross-Caspian Route and the Impact of the Georgian Crisis⁹⁶

Commenting on the potential of Aktau–Black Sea route, the majority of our respondents opine that the shipment of Kazakhstani oil across Caspian to the Black Sea represents a promising export outlet for Kazakhstan’s energy resources. It is stressed that this route has the potential to carry some 800,000 barrels of oil a day to world markets, and that this route will help both Kazakhstan and European consumers to diversify away from Russia. For Kazakhstan, it is in its own interest to consider alternative shipping route, since diversification can provide better security with regard to oil and gas deliveries to European and other markets.

However, despite its potential, this route is seen as constrained by political considerations, among them the Kazakhstani government policy to prioritize routes going through Russia, and the limited capacities of the facilities, including port capacity in Aktau and Baku as well as that of railroads. Another expert noted the insistence of Azerbaijani transit monopoly Cross Caspian, which wanted the final say on transit tariffs, as the main stumbling block in shipping Kazakhstani oil through the Caspian Sea. The issue was resolved through intervention by the Azerbaijani government – which supports another respondent’s point that the relationship between Azerbaijani and Kazakhstani elites will be a decisive factor in determining future of Caspian energy

In your opinion, what hinders the construction of the Trans-Caspian pipeline? (Please, check all that apply but rank-order your choices)						
	of little importance			highly important	Rating Average	Response Count
lack of investment	33.3%	33.3%	22.2%	11.1%	2.11	9
Russia's dislike of the project	0.0%	11.1%	55.6%	33.3%	3.22	9
'small country' status necessitates multi-vector foreign policy	11.1%	33.3%	33.3%	22.2%	2.67	9
lack of Western support	22.2%	11.1%	22.2%	44.4%	2.89	9
Other (please specify):						
1. project economics - no guarantee that a pipeline will be used at full capacity unlike the BTC 2. domestic political and social situation in both Azerbaijan and Kazakhstan as “weak states” 3. the lack of EU common energy policy; the financial crisis and presidential elections in the USA; late production of oil in the Kashagan oil field; economic crisis in Kazakhstan						3

Figure 8. Trans-Caspian Pipeline: Major Obstacles
 Note: N=9

According to another expert interviewed, there are three main disadvantages with railway transportation. First, oil export by rail is expensive, especially when oil prices are low. Second, the tankers used on this route are all small-capacity ones – river- and sea-going vessels built in Soviet times for internal use on Siberian rivers and the Black Sea–Volga–Caspian channel, although some of them were used for oil. Most tankers are of 8,000–12,000 dwt capacity, and there are some 50 to 60 ships. Because ships are of small capacity, transportation is expensive.⁹⁷ Third, there is a problem of Turkish Straits: oil has to go the Black Sea and its subsequent transportation is constrained by heavy traffic in the Bosphorus and Dardanelles. All these factors make it difficult for this route to achieve its full potential.

Asked to comment on the impact of the August 2008 crisis in Georgia on the prospects of Kazakhstan’s fully–fledged participation in westbound routes,⁹⁸ our respondents agreed that, while the Kazakhstani government was drawn to the “wait and see” position, the country will still be interested in joining. One respondent noted that, despite its short–term effect, the crisis in fact showed to Kazakhstan the importance of having a diversity of routes which would include the development and expansion of westbound routes to reach out to European markets. This would also mean the promotion of the trans–Caspian pipeline. A seabed pipeline is attractive to companies; it is cheaper, and can help overcome the problem of cost–effectiveness of small ships. While presenting some of the reasons impeding the realization of a Cross–Caspian Pipeline, one interviewee pointed out that the issue will come to the fore by 2010, three years before Kashagan goes on stream. The pipeline project has not been implemented because of opposition from Russia and Iran, and lack of Western support: “USA is disengaged, EU does not engage.” In light of the events in South Ossetia, a trans–Caspian pipeline might have an important political advantage of spreading the risks: if companies agree, then the risk of irritating Russia will at least be shared. The results obtained on the question of conditions hindering the construction of the seabed pipeline are available in the Appendix (Figure 8). The results indicate that the lack of Western support and Russia’s dislike are seen as major obstacles to implementation of the project. The small–state status, necessitating balanced foreign policy, is another important impediment. Lack of investment is viewed as being somewhat important, or of little importance. Other obstacles mentioned include the absence of guarantees that such a pipeline will be used at full capacity, unlike the BTC; the domestic political and social situation in both Azerbaijan and Kazakhstan and the lack of EU common energy policy coupled with the financial crisis and delays with Kashagan.

One analyst pointed out that because of the Georgian crisis some of the initial projects to expand the cross–Caspian transportation capacities, such as plans to carry 300,000 b/d (to be upgraded to 600,000) through a new pipeline between Baku and Batumi, have been halted. The BTC, this analyst went on to say, will enjoy support but the trans–Caspian pipeline option will be jeopardized. Most probably, Kazakhstan will be supportive of the Kazakhstan Caspian Transportation System (KCTS) which seeks to carry 500,000 b/d of Tengiz (and then Kashagan) oil to connect with the BTC pipeline.

Another expert argues that Kazakhstan, if provided with the proper economic incentives, and without damaging its relations with Russia, will be willing to engage more eagerly in the westbound projects. To quote: “Given the current economic situation, the time may be ripe to consider a Caspian pipeline. Russia’s ability to influence oil/gas markets has declined with the global financial crisis. Having said this, the Georgian situation has restabilized and may be considered a safe alternative route.”⁹⁹

4. POLITICAL–ECONOMIC LINKAGES

In this final section, we discuss the linkages between governments and businesses, both domestic firms and foreign companies. Do Western governments provide support for their oil companies operating abroad? How can we characterize the relationship between governments of Kazakhstan and

Azerbaijan, and the companies operating along the westbound route for Kazakhstani oil transportation?

Most of our interviewees believe that foreign companies involved in the Caspian energy projects enjoy support from their governments. The EU and the US government have sent missions to the region to push for the cross-Caspian route. The US has supported Chevron, ExxonMobil, and ConocoPhillips. Russia has supported Lukoil in Caspian projects. China National Petroleum Corporation (CNPC) and the China National Offshore Oil Corporation (CNOOC) are Chinese state-owned companies that have represented the interests of their owner. Another example is the Italian energy company Eni. When Eni was told by Kazakhstani Prime Minister Karim Massimov that delays in developing the Kashagan field harm Kazakhstan's economic growth and development plans, Italian Prime Minister Romano Prodi paid a visit to Kazakhstan in October 2007 to restore confidence but also to take on a number of commitments.

In the case of TengizChevroil (TCO), which is a joint venture of Chevron (US), ExxonMobil (US), LukArco (a Lukoil/BP joint venture) and KazMunayGaz (representing the Kazakhstani state) operating the Tengiz oil field, respondents mainly agree that these companies are supported by their respective governments. One respondent pointed out that the companies have been supported but "the degree and mode of support varies from country to country, from mild collusion through state domination to indirect ownership. The Western companies have access to the White House/Downing Street and Senate/Houses through a number of former and current partners/stakeholders. Lukoil is pretty much state-controlled. KazMunayGaz is essentially one of President Nazarbayev's ventures."¹⁰⁰ Another expert concurred, adding that this has caused tension, "LukArco is an advocate of continuing shipment through Russian pipelines. The others do seem to have an interest and support diversity, with KazMunayGaz playing a bit of a neutral role."¹⁰¹ "The US Embassy played a role actively lobbying the Kazakhstani government to ensure that the discussions over new rules on energy taxation, other regulatory changes do not adversely impact US companies involved in the project,"¹⁰² noted another expert.

As to local actors involved in the transportation chain along the route concerned, one expert opined that "the degree of fusion between the state and businesses, and state capture among post-Soviet Caspian littoral states is remarkably high."¹⁰³

Here it has to be emphasized that the post-Soviet economic model comes close to a qualified form of capitalism also referred to as "crony capitalism" – a system where companies use their close connections with the government to get favors that provide them with economic power. Such favors may take various forms: ownership of a business and its operations, privileged access to governmental favors that have economic value such as monopoly and quasi-monopoly positions, preferential treatment in awarding government contracts.¹⁰⁴

For example: Azerbaijani Railways Company is an enterprise with 100% state ownership. As a natural monopoly the company adopts tariffs established by the state Tariff Council. The latter sets the transport prices low in order to prevent possible social discontent. This would apparently make the state company unprofitable. Nevertheless, the company uses its monopoly position to create private railroad operators with questionable ownership structures. These companies make profit on serving rail shipments of oil and oil products from Central Asia to the Black Sea (75% of the total amount of carriages on this route is oil and oil products)¹⁰⁵. By using their connections with the State Railways Company, they charge relatively high tariffs for their services. These commercial operators generate profits for the otherwise inefficient and unprofitable railways monopolist. As a result, despite the huge cash flows circulating in this business, the economy of Azerbaijan and that of the region incur losses. Due to this mechanism of diverting income towards commercial operators, the state budget is in loss. Furthermore, the inflated tariffs and the lack of competition lead to higher prices and poor quality of service suppressing new technologies and contributing to rent-seeking and, eventually, the crony system.¹⁰⁶

Another transportation company, Caspar, has enjoyed a near-monopolist position in Caspian oil cargo shipments, whereas Cross Caspian Oil and Gas company, the main operator on the Aktau-Sangachal shipping line, belongs to SOCAR, the state oil company, and MEPP, which is registered offshore in Dubai.

It might well be that offshore registration of companies is a comfortable arrangement for government officials, who may, in fact, be the actual owners of these firms.¹⁰⁷ Middle East Petrol Farm, in this regard, has an ideal location for illicit financial activities like money laundering. The company is registered in the Jebel Ali Free Zone (Jafza) in Dubai, UAE. The “advantages” of being registered at Jafza include:

- 100% foreign ownership;
- corporate tax set at 0% for a period of 50 years, a concession that is renewable;
- unrestricted repatriation of capital and profits;
- no import or re-export duties;
- 0% personal income tax;
- no currency restrictions.¹⁰⁸

However, further evidence and research are needed to make a stronger case for cronyism and state capture as distinguishable characteristics of capitalism and business/politics relationships in the economies and societies of Azerbaijan and Kazakhstan.

5. CONCLUSION

This paper has provided an overview of options for Kazakhstani oil exports with a special focus on the cross-Caspian route that allows for shipment of oil by tanker and rail to the Black Sea and by a major pipeline to the Mediterranean. Based on interviews and an expert survey, the paper has given various explanations for Kazakhstan’s rather cautious stance on exporting its oil through non-Russian routes, especially in the western direction.

We have also gauged opinions about the impact of the recent war in Georgia on the likelihood that Kazakhstan will connect to the BTC by building a new trans-Caspian pipeline.

Finally, the paper has presented an analysis of the linkages between businesses and the governments involved in the transport of Kazakhstani oil. The analysis has shown that foreign oil companies operating in the Caspian energy sector are supported by their governments, whilst most of the companies along the transportation route either belong to the government, directly or indirectly (through subsidiaries), or enjoy favoritism and (near)monopoly positions in their markets (crony capitalism). The connections are so close that it is difficult to say whether the governments give favors to their cronies and command their actions – or the other way around: that the state is controlled by various captor groups. Importantly, some of these firms are privately owned but registered in offshore tax havens, which enables them to avoid taxation at home, hide their incomes, and engage in various other financial machinations, while others have rather murky ownership structures and corporate profiles. In any case, crony system and state capture will be the domestic political-economic context within which the future of Caspian energy transportation will be decided.

Finally, the paper has pointed to the complex relationship between Azerbaijan and Kazakhstan and their companies involving both competition and cooperation in the westward oil export.

Notes

¹ Vladimir Socor, "Azerbaijan-Georgia Corridor: Growing Transit Volumes Bolster Security," *Eurasia Daily Monitor*, November 18, 2008.

² *The Moscow Times*, "Astana, Baku Set Up Oil Shipping Links," November 17, 2008; AP, "Azeris, Kazakhs Sign Deal on Oil Transportation," November 14, 2008.

³ *SOCAR News*, November 14, 2008. <http://socar.az/1352-news-view-az.html> (accessed November 16, 2008)

⁴ *Ibid.*

⁵ *The Moscow Times* (fn. 2).

⁶ Kent Moors, "Georgian Conflict Obliges Export Route Reality Check," excerpt from *Caspian Investor*, August 21, 2008; Shamil Yenikeyeff, "The Georgia–Russia Standoff and the Future of Caspian and Central Asian Energy Supplies," *Oxford Energy Comment*, August 2008; Steve LeVine, "Kazakh Oil – A War of Nerves," *Spiegel Online*, September 12, 2008.

⁷ According to media reports, as a result of the bombing, an important railway bridge in Georgia that was part of the oil export route was damaged, and an oil trunk carrying Azerbaijani oil was blown up.

⁸ Proposed pipelines include the Nabucco gas line from the Caspian area to Austria, and trans-Caspian oil and gas pipelines to link Turkmenistan and Kazakhstan to east–west transportation routes.

⁹ This study is based on media reports, data from energy organizations as well as opinions collected through an expert survey (for which an open-ended questionnaire was used) and interviews with local and international experts. It has been difficult to find information on railway and maritime transportation of hydrocarbon resources both in Azerbaijan and Kazakhstan, a point also raised by the experts we surveyed. Some of the facts were provided by informants during interviews or are based on calculations by specialists, and wherever such information is presented, the parenthetical reference is given to a particular interview, usually marked as confidential.

¹⁰ EIA, *Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts* (Washington, DC: US Energy Information Administration, 2006).

¹¹ *Ibid.*

¹² Ernst & Young, *Kazakhstan: Oil & Gas Tax Guide* (2007), 2.

¹³ With the estimated 9 b barrels (1.2 b tones) in reserves, the Tengiz oil field is considered one of the biggest oil field discoveries in recent history. The development of the Tengiz field was Kazakhstan's first major oil project with foreign participation. A partnership agreement establishing the TengizChevroil (TCO) joint venture was signed between Chevron and the Kazakhstani oil company in 1993. According to that arrangement, Chevron holds 50% in ownership, ExxonMobil – 25%, the Kazakhstani government represented by KazMunayGaz – 20%, Russian LukArco – 5% (Nadia Campaner and Shamil Yenikeyeff, "The Kashagan Field: A Test Case for Kazakhstan's Governance of its Oil and Gas Sector," *Note de l'IFRI* (October 2008): 14).

¹⁴ Bernard A. Gelb, *Caspian Oil and Gas: Production and Prospects*, *CRS Report for Congress*, 2006; EIA, *Kazakhstan Energy Profile*, October 14, 2008.

¹⁵ BP, *Statistical Review of World Energy*, 2008 (data at end 2007).

¹⁶ EIA (fn. 14); note data are for 2006.

¹⁷ Mark J. Kaiser and Allan G. Pulsipher, "A Review of the Oil and Gas Sector in Kazakhstan," *Energy Policy*, 35 (2007): 1300.

¹⁸ *Ibid.*, 1302.

¹⁹ Ernst & Young, "Obzor Nalogovogo Rezhima v Neftegazovoy Otrastli Kazakhstana" [Overview of Tax Regime in the Oil and Gas Industry of Kazakhstan], 2005, 4.

²⁰ EIA, "Kazakhstan: Background, Country Analysis Briefs," February 2008; CPC is a joint project between the governments of Kazakhstan, Russia and Oman, on the one hand, and a consortium of international oil companies, on the other. The pipeline was officially opened on November 27, 2001. Its capacity was set to 560,000 bbl/d (barrels a day) with the potential to increase to 1.34 mill. bbl/d (Kazkommerts Securities, "Kazakhstan: Oil and Gas Sector Review for 2002," July 2003, 13). Russia bought Oman's share in the pipeline company in early November 2008 (Vladimir Socor, "Oil Development in Kazakhstan Underscores Significance of Azerbaijan–Georgia Transit Corridor," *Eurasia Daily Monitor*, November 5, 2008).

²¹ Vladimir Socor, "Kazakhstan's Oil Export Picture Detailed," *Eurasia Daily Monitor*, October 15, 2007; EIA (fn. 20); Alexandra Jarosiewicz, "Oil Transport through the Caucasus is a Top Priority Issue in Kazakh Oil Export Policy," *CES – Centre for Eastern Studies, CES Commentary*, 6, June 23, 2008.

²² Robert Cutler, "Kashagan Leads Kazakhstan to Increase Trans-Caspian Oil Exports," *Central Asia-Caucasus Institute Analyst*, July 9, 2008. There is also Kenkiyak–Orsk pipeline with the annual capacity of 7.5 mill. tons which connects Western Kazakhstan with the Orsk refinery in Russia (Kazkommerts Securities (fn.

20), 14). In total, “Russian pipelines ship more than 85 percent of the 6.3 million barrels of oil exported daily from the former Soviet Union” (LeVine (fn. 6)).

²³ Socor (fn. 21).

²⁴ In 2007, 85,000 bbl/d were transported via this pipeline to China (EIA (fn. 20)).

²⁵ Yenikeyeff (fn.6), fn. 5.

²⁶ Socor (fn. 21).

²⁷ According to Henry Hale, despite the US policy that prohibits American companies from engaging in any deals involving Iran, Chevron was allowed to participate in oil swaps with Iran in the late 1990s as a temporary measure conditional upon the completion of CPC in northern Caspian as the major export route for Tengiz oil (Henry E. Hale, “Independence and Integration in the Caspian Basin,” *SAIS Review* (Winter–Spring, 1999), note 14, 188; Companies involved in swap contracts are TH KazMunayGaz Ltd. (Kazakhstan) and Naftiral Integrated Company Ltd. (Iran) (Trade House (TH) KazMunayGaz, company website, <http://www.thkmg.com/home.html>; EIA (fn. 20)).

²⁸ Authors’ interview with Yuriy Krivodanov, Kazakhstan-based expert, October 26, 2008.

²⁹ Kazkommerts Securities (fn. 20), 14; KazTransOil is in possession of all oil pipelines in Kazakhstan, and provides 65% of oil transportation (information from the company’s website: www.kaztransoil.kz).

³⁰ This transportation infrastructure consists of oil-export pipelines (the BTC, Baku–Supsa (also known as the Western Early Oil Pipeline), Baku–Novorossiysk (the Northern Early Oil Pipeline)), gas pipelines (Baku–Tbilisi–Erzerum (the South Caucasus gas pipeline), Baku–Gazakh–Gardabani), railroads (Baku–Batumi/Kulevi/Poti) and maritime routes (Aktau–Baku, Baku–Turkmenbashi, Baku–Okarem, Baku–Neka and Baku–Resht). Information provided in interview with Azerbaijani economist, October 18, 2008.

³¹ Information provided during an interview with Azerbaijani economist, October 18, 2008.

³² Authors’ interview with Rauf Guseynov, Editor/Caspian Market, Argus Media Ltd, November 7, 2008. This costly (according to LeVine) tanker and railroad route was also used by Chevron when Russia opposed the expansion of Tengiz oil flow through its pipelines and blocked the construction of a new pipeline Chevron planned for Tengiz (later known as CPC) in 1993 (LeVine (fn. 6)).

³³ JSC “NC” Kazakhstan temir zholy” is the Kazakhstan national railroad company that operates along four routes: the Central Asian, West, Central and North Corridors. The West Corridor (Aksaraiskaya II – Makat – Beineu – Aktau) provides service for the main oil-producing region of Kazakhstan. In 2007 the company unloaded more than 4 mill. tons of cargo towards Aktau (information from the company’s website: <http://www.railways.kz>).

³⁴ Having started operations in 2002 at Dyubendi terminal (50 km northeast of Baku), Middle East Petroleum FZE (tax-free zone establishment) has provided transit transportation of crude oil and oil products from the Caspian Sea to Georgian Ports on the Black Sea. Company headquarters are located in Dubai (UAE). Middle East Petroleum is part of Azerbaijan’s Azersun Holding, and Mr. Abdolbari Gozal is the president of Middle East Petroleum, the Intersun Group and Azersun Holding (information from the companies’ websites: http://www.middleeastpetrol.org/media_centre/5_1_1_News_Caspian_Transport.asp and http://www.azersun.com/en_holding-tariximiz.asp).

³⁵ Tengiz oil was transported via the Caspian to Dyubendi trans-shipment base near Baku, and then fed into the Dyubendi–Ali–Bayramli pipeline for further transport via rail to Batumi port in Georgia. A contract for shipment of oil by pipeline and rail to the Georgian Black Sea port of Batumi was signed between Chevron and the Turkish-run TransCo (*Azerbaijan Business Report*, “Caspian TransCo Starts Transportation of Kazakh Tengiz Oil to World Market Through Azerbaijan,” March 31, 1997). On October 19, 1996 SOCAR, Brown & Root and Caspian TransCo signed an agreement on transportation of 1.2 mill. tons of Kazakhstani oil annually through Azerbaijan and leasing of two oil pipelines Dyubendi–Dashkil and Ali–Bayramli–Dashkil. Oil through this pipeline started pouring in March 1997 (*Azerbaijan Business Report*, Ibid.)

³⁶ *Dow Jones Newswires*, “Azerbaijan OKs Oil Shipments by Rail from Tengiz Field,” September 10, 2008.

³⁷ Marlene Laurelle, “Is Kazakhstan Disengaging from Georgia?” *Central Asia-Caucasus Institute Analyst*, October 15, 2008, 3.

³⁸ There were talks that state-owned company “Georgian Railways” Ltd. will be put under private management. Companies interested in acquiring a 100% stake are: Center Invest Capital Partner (Russia), Stratton Holding LLS (US), Capital Investment Group (Sweden), East Capital (US), and the Silk Road Group (Kazakhstan) (Nino Patsuria, “Privatizing Georgia’s Railway: Bids before Strategy,” *Eurasianet*, January 31, 2008).

³⁹ Scott Wilson, “Overview of the Azerbaijan Transport System,” ADB Technical Assistance Consultant’s Report II for the Ministry of Transport,” June 2006, 26–30.

⁴⁰ Established in 2004, Petrotrans provides oil forwarding and trans-shipment services from Gardabani to FOB (free on board) Batumi. It is one of the holding companies of Nafrans Ltd which together with Petrotrans owned Batumi Oil Terminal. Along with Greenoak Group, Nafrans had four minority shareholders: Addax & Oryx Group, ENR Russia Invest, the Hillside Apex Fund and Nobel Investment Ltd, an investment company controlled by BNP Paribas (information from the company's website: <http://www.greenoakholdings.com>).

⁴¹ Silk Road Group deals with transportation and trading of crude oil and petroleum products from Azerbaijan and Central Asian states to the Georgian Black Sea ports of Batumi and Poti, and to Iran. The company has a fleet of about 3,000 rail tank cars. It works closely with the Addax & Oryx Group (from the company's website: <http://www.silkroadgroup.net>).

⁴² With the head office in Dubai (UAE), Middle East Petrol Farm operates on the Caspian–Batumi route by providing transportation, handling, and other logistic services (from the company's website: <http://www.middleeastpetrol.com/aboutus.htm>).

⁴³ See fn. 65.

⁴⁴ Information is derived from Rauf Guseynov, "Railroad Supplies of Crude and Oil Products via Azerbaijan and Georgia," Presentation at the 2nd Caspian Oil and Gas Trade and Transportation Conference, Baku, 23–24 April 2008.

⁴⁵ Authors' interview with Guseynov (see fn. 32).

⁴⁶ Operated by Middle East Petroleum FZE, Dyubendi Terminal receives crude oil and oil products transported by tankers from Caspian Sea ports. It has a capacity of 12 mill. tons/year and can offload 4 vessels simultaneously. Dyubendi Port can receive vessels of 12,000 dwt. About 78 rail tank cars can be loaded simultaneously within 2 hours at the terminal (Wilson (fn. 39), 18). Dyubendi Terminal is also viewed as the ideal location for the terminus of the sub-sea pipeline between Kazakhstan and Azerbaijan, under consideration for the transport of Kazakhstani crude oil through the BTC (Ibid., 19).

⁴⁷ Launched in 2001, a new terminal at Baku International Sea Port was built by Azpetrol to handle up to 10 mill. tons of oil a year. Azpetrol has two terminals, one in Baku, the other in Sangachal (operated by Azertrans, an Azpetrol subsidiary).

⁴⁸ Yenikeyeff (fn. 6), fn.2.

⁴⁹ Authors' interview with Guseynov (fn. 32).

⁵⁰ This is a quite stable, well-established and functioning export route, partly because this transport route is believed to involve business interests close to the Kazakhstani leadership (Authors' interview with Azerbaijani economist, October 18, 2008).

⁵¹ Palmali Group of Companies is a shipping company which transports cargoes via inland waterways in the European part of Russia and in the Black Sea, Caspian Sea, and Mediterranean. The company was established in Turkey in 1998. In Caspian Sea it operates on several routes including Aktau–Makhachkala. It works in close cooperation with such companies as Lukoil, BP, Vitol, KazMunayGaz, Argomar, Glencore, and others. The company time-charter vessels of up to and above 100,000 dwt include Aframax, Suezmax (two vessels named after Heydar Aliyev and Zarifa Aliyeva) and Panamax type. In sum, Palmali manages over 100 vessels, 40–45 of them are in time charter, in trust or bareboat charter (information from the company's website: <http://www.palmali.com.tr/>).

⁵² Figures provided during interview with Caspian energy expert, October 20, 2008.

⁵³ According to Natig Aliyev, Azerbaijan's Minister for Industry and Energy, "Azerbaijan has the Caspian region's largest auxiliary service fleet. Its Caspian marine oil flotilla comprises almost 300 vessels: crane ships, supply vessels, pipe layers, diver support vessels, tugboats and engineering geotechnical ships, port tugs, self-propelled barges, fire-fighting vessels, passenger ships and multipurpose motorboats. For example, the heavy-duty *Azerbaijan* crane ship is capable of lifting loads of 2,500 tons, while the crane ships *General Shikhlinisky* and *Kurban Abbasov*, up to 600 tons. The modernized pipe-laying ship *Israfil Guseinov* is capable of laying 219–820 mm pipes at depths of down to 300 m." ("Azerbaijan is Making Confident Progress," *Oil of Russia*, no. 3, 2008. <http://www.oilru.com/or/36/714/> (accessed October 15, 2008)).

⁵⁴ From Caspar's website: <http://www.caspar.baku.az>. In addition to Caspar's fleet, another state company SOCAR has its own fleet of 300 vessels operated by KaspMorNefteFlot (Wilson (fn. 39), 19).

⁵⁵ Authors' interview with Guseynov (fn. 32); Draft Speech of the Deputy General Director for Commercial Issues of JSC KazMorTransFlot Mr. A.I. Andryushchenko for the Seminar "State and Outlooks for Development of the Kazakhstan Transport Industry," Astana, April 27, 2007.

⁵⁶ Authors' interview with Azerbaijani energy expert, October 19, 2008.

⁵⁷ Comment from expert survey, October 26, 2008.

⁵⁸ Figures are from John S.K. Daly, "With no Pipelines in Sight, Tankers Set to Roam the Caspian," *Central Asia-Caucasus Institute Analyst*, May 16, 2007.

⁵⁹ Comment from expert survey, October 20, 2008.

⁶⁰ Question 5 in our survey asked: “The shipping companies (e.g. the Caspar shipping company, Kazmortransflot) engaged in the transportation of Kazakhstani oil might have their own position on the issue of possible construction of the trans-Caspian pipeline. Do you think they constitute (or would possibly form) a lobby on this issue? If yes, can you give a specific example? What would be potential present and future effects of these lobbying activities?”

⁶¹ Comment from expert survey, October 20, 2008.

⁶² Comment from expert survey, October 20, 2008.

⁶³ Most of the experts interviewed believe that with regard to lobbying, government decision-making process is open to the concerns and actions of interest groups in both Azerbaijan and Kazakhstan. The Office of the President was identified as the most effective place for lobbying on matters of cross-Caspian shipping (100% = all respondents agree). The state oil company was indicated as the second (44%) followed by the parliament (11%). Among other venues for lobbying the following responses were obtained: through the KazEnergy business association, individual members of the President’s office, concrete individuals and private firms closely connected to the government.

⁶⁴ Wilson (fn. 39), 17.

⁶⁵ Baku Oil Terminal was built and launched by Azpetrol. However, according to some sources, it is operated by Aztransrail Ltd which is named as the “General Forwarder of Oil and Oil Products in the territory of Azerbaijan.” We were unsuccessful in finding out more about Aztransrail, but the company’s webpage “Aztransrail.com” redirected us to “middleeastpetrol.org” which is the official homepage of Middle East Petroleum (MEP) FZE operating Dyubendi oil terminal.

⁶⁶ Wilson (fn. 39), 16–17.

⁶⁷ Ibid.; There are also plans to relocate Baku International Port to Alyat in Garadakh district of Baku. The project will cost \$400 million and is to be completed by the South Korean GSE Engineering & Construction by 2016 (ABC.Az, “WBG is Ready to Fund New Baku Port Project in Alat Settlement,” July 21, 2008).

⁶⁸ Azpetrol International Holdings B.V. is a Dutch holding company, a largest private petroleum-services company in Azerbaijan. It comprises two sub-holdings, Azpetrol Group, which runs a network of 60 gas stations, and Azpetrol Oil Services Group, which deals with oil terminals and other oil-related operations. Prior to 2005, the head of Azpetrol was Rafik Aliyev, brother of Farhad Aliyev, former Minister of Economic Development, who, like his brother, was arrested on charges of conspiring to overthrow the government of President Ilham Aliyev. Based on the Economic Court’s decision, ownership of Azpetrol was granted to Ibrahim Mammadov. In July 2006, there were disputes between the Dutch company and the Azerbaijani government related to illegal expropriation of company’s property and violation of the Energy Charter Treaty, to which Azerbaijan is a party. However, this did not change the government’s initial decision (Rovshan Ismayilov, “Business & Economics Observers: Azpetrol Shake-up Could Affect Investments in Azerbaijan,” *EurasiaNet*, January 10, 2006; Rovshan Ismayilov, “Azerbaijan: Former Minister of Economic Development Receives 10-Year Term,” *EurasiaNet Eurasia Insight*, November 1, 2007).

⁶⁹ Authors’ interview with Guseynov (fn. 34).

⁷⁰ Wilson (fn. 39), 19; *Brief article Publication: FSU Energy*, “Azertrans Finishes Sangachal Dredging,” October 5, 2007; *Regnum*, “Azerbaijan is Ready for Transit of Kazakh Oil,” January 10, 2006; BP company website: <http://www.bp.com>

⁷¹ Information from Batumi Sea Port Ltd. (2008), <http://www.batumiport.com/en/01-004.html>

⁷² Laurelle (fn. 37), 3; Also see, *The Financial*, “Greenoak sells Batumi Oil Terminal to KazMunaiGaz,” February 5, 2008.

⁷³ Vladimir Socor, “Oil-handling Capacities Growing and Available on Georgia’s Black Sea Coast,” *Eurasia Daily Monitor*, February 13, 2008.

⁷⁴ Rovshan Ibrahimov, “State Oil Company of Azerbaijan Republic: Transition from National to Transnational Company or Demand of Time,” Commentary from *USAK Energy Review Newsletter*, published in *The Journal of Turkish Weekly*, February 18, 2007. In a recent interview, Natig Aliyev, Azerbaijan’s Minister for Industry and Energy, gave the following assessment with regard to Kulevi terminal and Azerbaijan’s role in the transit of Central Asian energy: “As of today [2008], it [Kulevi terminal] is capable of transshipping 3 MMT [million tons] of oil, 3 MMT of diesel fuel and 4 MMT of black oil a year. In the future, depending on demand, the Kulevi terminal’s transshipping capacity may be increased to 15–35 MMT/y. For Azerbaijan, the most rational way to deliver oil and petroleum products to Kulevi is by rail. Besides that, a fuel storage and a network of gasoline filling stations belonging to SOCAR Energy Georgia will be set up in Georgia. On the whole, Azerbaijan’s investments in the fuel and transshipment business of Georgia amounted to over \$380 million in the first stage. In the sphere of oil and petroleum product transit, Azerbaijan has been maintaining fruitful

cooperation with Kazakhstan and Turkmenistan for years, transshipping through Baku terminals and delivering to Georgian ports by rail from 9 to 10 MMT of liquid Central Asian hydrocarbons annually.” (“Azerbaijan is Making Confident Progress” (fn. 53)).

⁷⁵ Ernst & Young, *Azerbaijan: Oil & Gas Tax Guide* (2007), 6.

⁷⁶ Ibrahimov (fn. 74). According to Ibrahimov, the acquisition of the Kulevi terminal is a step in the company’s strategy of expansion to global markets. SOCAR has its own interest in building refineries in Black Sea countries (Romania) as well as in Turkey. In 2007, the company created SOCAR Energy Georgia company which will run gas stations across Georgia.

⁷⁷ BTC (BP) company website,

<http://www.bp.com/genericarticle.do?categoryId=9006669&contentId=7014358>; The BTC supplies one percent of world’s oil needs.

⁷⁸ There were three inauguration ceremonies for the BTC: May 23, 2005 at Sangachal terminal near Baku (Azerbaijani, Georgian, Turkish and Kazakhstani heads of state as well as US Energy Secretary participated); October 12, 2005 at the pumping station near Gardabani in Georgia, and July 13, 2006 at the Ceyhan terminal in Turkey (*ITAR TASS*, “Kazakhstan starts transporting oil by Baku–Tbilisi–Ceyhan,” November 3, 2008).

⁷⁹ *Ibid.*

⁸⁰ Chevron, Azerbaijan Fact Sheet. Updated March, 2008.

⁸¹ *The Caucasus Review of International Affairs*, Caucasus Update, November 3, 2008; *AP*, “1st Kazakh Oil Shipment Goes through BTC pipeline,” November 4, 2008; Vladimir Socor, “Oil Development in Kazakhstan Underscores Significance of Azerbaijan–Georgia Transit Corridor,” *Eurasia Daily Monitor*, November 5, 2008.

⁸² *ITAR TASS* (fn. 78).

⁸³ Socor (fn. 81). The SOCAR’s official website (Azerbaijani version) lists Cross Caspian Oil and Gas Logistics LLC (“Kros Caspian Oil and Gas Lojistiks MMC” in Azerbaijani) under joint ventures. The enterprise was started on March 13, 2005 with the following distribution of shares: SOCAR – 34% share, Aztransrail (“Az Trans Reil”) – 33%, Caucasus Trans Service (“Qafqaz Trans Servis”) – 33.00% (source: <http://socar.az/42-combestablishments-view-az.html>).

⁸⁴ *Oil.Ru*, “Competition with Kazakhstan in Georgia Tightens,” March 23, 2007.

⁸⁵ *Ibid.*

⁸⁶ *RusEnergy*, “Caspian ‘Bombardiers’”, July 10, 2008.

⁸⁷ Samruk Holding Company for State Assets Management itself belongs to the state. Samruk recently merged with Kazina Sustainable Development Fund into Samruk-Kazina Fund of National Welfare (*Trend Capital*, “Kazakhstan Fund, Samruk Holding Merge into Fund of National Welfare,” October 14, 2008).

⁸⁸ Campaner and Yenikeeff (fn. 13), 6; Kurmangazy is located in Northern Caspian and is developed jointly by Rosneft and KazMunayGaz.

⁸⁹ *Ibid.*, 9–10.

⁹⁰ Laurelle (fn. 39); Michael Denison, “Kazakh Decision to Join BTC Pipeline May Alter Delicate Regional Dynamics,” *Central Asia-Caucasus Institute Analyst*, June 28, 2006.

⁹¹ Note, however, that a seabed pipeline construction may be complicated by the unresolved legal status of the Caspian Sea.

⁹² Laurelle (fn. 37), 4–5. See also KazMunayGaz website’s section on Oil Transportation in the Caucasus direction: http://www.kmg.kz/page.php?page_id=1229&lang=2&parent_id=1221

⁹³ Vladimir Socor, “Kazakhstan–Azerbaijan Oil Transport Agreement: Not Yet Historic, but Might Become So,” *Eurasia Daily Monitor*, June 19, 2006. Commenting on this agreement, the Industry and Energy Minister Namig Aliyev noted that “Azerbaijan and Kazakhstan are now busy building up the technological facilities necessary to implement the Agreement. Kazakhstan has drawn up a project of its own system for hydrocarbon delivery to world markets the investment potential of which is estimated at \$3 billion. For its part, Azerbaijan is building, next to the Sangachal terminal, a Sangachal–Garadag terminal the throughput capacity of which may amount to about 50 MMT [million tons] of oil a year. In a word, Azerbaijan’s export pipelines and railroads will have to handle up to 90 MMT of liquid hydrocarbons a year. To cope with the job Azerbaijan will have to put all its export routes into play” (“Azerbaijan is Making Confident Progress” (fn. 53)).

⁹⁴ Socor (fn. 93).

⁹⁵ Denison (fn. 90).

⁹⁶ The discussion in this section is based on our expert survey/interviews. In total, interviews and surveys with 13 energy experts and regional analysts were conducted. For reasons of confidentiality, names are not disclosed.

⁹⁷ Expert also added that the introduction of large tankers into Caspian tanker traffic would be complicated. Large tankers are expensive; given the absence of a shipyard company on the Caspian, difficulties with bringing in new ready-made ships, this option does not look realistic.

⁹⁸ The exact wording of the question is “After the recent crisis in Georgia, which made everyone rethink Georgia as the safe transit route, would you expect that Kazakhstan will still be willing to join the trans-Caspian export routes?”

⁹⁹ Comment from expert survey, October 26, 2008.

¹⁰⁰ Quote from expert survey, October 26, 2008.

¹⁰¹ Comment from expert survey, October 26, 2008.

¹⁰² Quote from expert survey, October 26, 2008.

¹⁰³ Comment from expert survey, October 20, 2008; State capture refers to “the capacity of firms to shape and affect the formation of the basic rules of the game (i.e., laws, regulations, and decrees) through private payments to public officials and politicians” (Joel S. Hellman, Geraint Jones, Daniel Kaufmann, ““Seize the State, Seize the Day”: State Capture, Corruption, and Influence in Transition,” *World Bank Policy Research Paper*, no. 2444, September, 2000).

¹⁰⁴ Anne O. Krueger, “Why Crony Capitalism is Bad for Economic Growth,” in *Crony Capitalism and Economic Growth in Latin America: Theory and Evidence*, ed. Stephen Haber (Hoover Press, 2002), 2.

¹⁰⁵ *Trend Capital*, “Experts Say Azerbaijan in Competition with Georgia in Hydrocarbon Transportation Market,” April 2, 2007.

¹⁰⁶ Authors’ interview with Azerbaijani energy expert, October 19, 2008.

¹⁰⁷ This fits one of the forms of business-politics links identified by Heidi Kjærnet, Dosym Satpaev and Stina Torjesen and described as follows: “a number of businesses belong directly to top-level bureaucrats and politicians, even if they are not formally registered as such. Many top figures have developed business activities as a sideline to their political activities.” (Heidi Kjærnet, Dosym Satpaev and Stina Torjesen, “Big Business and High-level Politics in Kazakhstan: An Everlasting Symbiosis?” *China and Eurasia Forum Quarterly*, vol. 6, no. 1 (2008): 99).

¹⁰⁸ Jebel Ali Free Zone (Jafza), Corporate Brochure, 2007. <http://www.jafza.ae/en/publications/jafza-corporate-brochure.html> (accessed November 4, 2008).