

# Where does Caspian Sea oil flow?

*A guest commentary by Prof. Yang Shu and Li Yan of Lanzhou University, Lanzhou, Gansu Province, People's Republic of China.*

The late 19th century witnessed the mass industrial development of oil in the city of Baku, now capital of Azerbaijan, and its neighborhood. In 1872, the annual output of crude oil reached 26,000 tons. In 1873, due to the application of steam engines to the drill equipment, crude oil production went up rapidly. It took only a little more than 20 years to reach 11,000,000 tons in 1901, which was over 400 times more than previously produced. This was half of the world oil output.

Caspian Sea oil took up 30% of the world oil trade. Nearly all the crude oil and oil products manufactured in Baku went to the domestic market of the Russian Empire and the world market (mainly the European market), except for a very small portion which was consumed locally. This indicates that for Caspian Sea oil, like any other big oilfields in the world, its exploitation and exportation had been closely connected from the very beginning. The world's first oil tanker and rail tanker wagons were used in the Caspian Sea area in 1878. At that time, the oil tankers sailed mainly along the Baku-Astrakhan coast and along the lower part of the Volga River, while the rail tanker wagons ran from Baku to the Russian Empire and the European railway network.

The Baku oil field was among the first oil fields in the world that used pipelines. In the early stage, pipelines were used only between the oil field and the refinery, factories, and harbors. Later, with the rapid growth of crude oil production, the longest pipeline in the era of Russian Empire was built. From Baku to Batumi, this covered a distance of 883 kilometers. Soon after the development of the Baku oil field, exploitation began of another oil field in Cheleken Peninsula on the east coast of the Caspian Sea, the boundary of Turkmenistan. It was of a much smaller scale. During World War I, its annual output was only a little over 100,000 tons, which was mainly transported to Baku for manufacturing and export.

After the Russian October Revolution, in 1917, the oil and gas industry developed quickly in the Caspian Sea area (mainly along the west bank), and many new oil fields were discovered. In 1940, the oil output in Azerbaijan reached 22,000,000 tons, taking up 71% of the total oil output of the Soviet Union. When World War II came to an end, the Soviet Union began a nationwide investigation of oil and gas re-

serves. A series of huge oil and gas fields were discovered in areas close to the Caspian Sea, such as the Volga, the lower part of the Ural River, the Mangyshlak Peninsula, the east coast area of the southern Caspian Sea, the Tengiz area to the east of the northern Caspian Sea, and some waters at the bottom of the Caspian Sea. According to some information resources, the newly discovered oil fields in Tengiz, on the coast of Azerbaijan and in the waters of Caspian Sea, have big reserves. The prospect of exploitation is very exciting.

## The contest over Caspian Sea oil

In recent years, following the breakup of the Soviet Union and the fast growth of gas and oil fields and reserves in the Caspian Sea, a number of governments and companies, including the littoral countries, have been involved in a fierce dispute which focuses on two aspects: one is the legal status of the Caspian Sea, including "dividing" the Caspian Sea and the sovereignty over the oil fields; the other is the various plans for building the oil and gas pipelines. Regarding the first issue, the author of this article has published a paper (Yang Shu, "The Legal Status of the Caspian Sea," *EIR*, May 8, 1998). The following content will focus on the second issue.

In summary, the following are the five plans, according to their routes:

- From Tengiz to southern Russia to Novorossiysk (hereinafter referred to as the *Southern Russia Plan*)
- From Turkmenistan, under the Caspian Sea, to Azerbaijan, to Georgia, to Ceyhan (hereinafter referred as the *Undersea Caspian Sea Plan*)
- From Turkmenistan to Iran to Turkey (hereinafter referred to as the *Northern Iran Plan*)
- From Turkmenistan to Afghanistan to Pakistan (hereinafter referred to as the *Afghanistan Plan*)
- From Tengiz to China (hereinafter referred to as the *China Plan*).

Detailed analysis of the five plans is given below.

## The Southern Russia Plan

This is often also called the "Northern Line Plan." In this program, the pipeline will run from the Tengiz oil field,

## Pipelines in the Caspian Sea region



to southern Russia to Novorossiysk, where oil tankers will embark to enter the world market. As far as Kazakhstan is concerned, this is its most efficient and convenient route for oil export. Apart from the Tengiz oil field, Karachaganak oil field in the north and Aktyubinsk oil field can also use this pipeline to export oil. (Previously, the oil has been exported to Russia through Atyrau [formerly Guryev] and Samara [formerly Kuibyshev].) In this plan, some experts suggest partial reconstruction and partial construction; while other experts are for a totally new construction, abandoning the out-of-date, small, and time-shattered original pipeline. Whatever, it will become Kazakhstan's most capacious export pipeline.

This project will be implemented by Caspian Sea Oil Pipeline consortium. Investment mainly comes from the Russian Ruk Oil Company, the American companies Chevron and Mobil, and the Kazak and Amman oil companies. This plan was proposed years ago. It is still not under implementation, because it is full of contradictions and conflicts. Russia always believes that it must maintain its influence in the Caspian Sea region. Hence, it adopts an attitude of limitation and rejection against the political and economic aggression of the Western countries, headed by the United States, that is carried out through the oil exploitation in Caspian Sea region. Russia does not want the enormous amount of oil in west Kazakhstan

to flow swiftly to the West. This will not only influence its oil strategic reserve and market, but also quicken Kazakhstan's attempt to cast off Russia. Russia would least like the United States to replace it in this region.

The United States aims to oppose Russia with equal harshness. Apart from its regional interest, the United States also wishes to enrich its strategic oil reserve, to relieve its dependence on the oil in the Persian Gulf. Because of Kazakhstan's wishes, the United States not only has the most shares of the oil franchise of the Tengiz oil field, but also has no inclination to let the oil that it extracts to flow through southern Russia, to encounter the control and limitation of Russia. Therefore, the United States does not want Russian investment to be involved in the development and construction of the pipeline of the Tengiz oil field.

However, the United States has come to realize this will not work, because of Russia's attitude and geographic advantage. Kazakhstan wishes to make use of oil to develop its economy and to seek a balance between Russian influence and that of the Western powers headed by the United States. In this regard, it is necessary to maintain a collaborative partnership with Russia. After a lot of negotiations, all the parties eventually reached agreement on the Southern Russia Plan. One ought to say that this plan represents each party's interest and it is a political compromise on the part of each individual

party. The implementation of this plan will play an important role in the relations among Kazakstan, Russia, and the United States.

### The Undersea Caspian Sea Plan

When initially proposed, this plan did not include the section under the Caspian Sea. It was called "Middle Line Plan." Later, an amendment was made. The core of this plan is to pave an under-Caspian Sea oil and gas pipeline that runs from Turkmenbashi (formerly Krasnovodsk) on the east coast of the Caspian Sea to Baku in the west, then from Azerbaijan to Georgia, where it separates into two lines: one, which already exists, runs to Supsa. The original port of destination was Batumi; however, a new port in Supsa, to the north of Batumi, will be built; the other leads to Turkey, ending at Ceyhan. Ceyhan is a well-equipped oil export harbor through which a large portion of Iraqi oil is exported. This pipeline will be made accessible to the rich oil and gas exports of Turkmenistan and also from the Tengiz and Uzen oil fields in the west of Kazakstan. The pipeline traverses 300 km across the narrowest part of the Caspian Sea. Under the waters lies Apseron, an undersea ridge. The water is up to 200 meters deep, and most of it is no more than 100 m deep. Technically speaking, it is practical and easy to construct.

This project will benefit the oil and gas exports of Kazakstan, Turkmenistan, and Azerbaijan. It will enable their exported oil to reach the Caspian Sea or the Mediterranean Sea conveniently. In the view of Kazakstan, it will relieve its dependence on Russia, because of the implementation of the Southern Russia Plan; in the view of Turkmenistan, this plan will give it a direct oil and gas harbor; the one most benefitted should be Azerbaijan. Azerbaijan will not only get a considerable income by taxing the oil and gas supplies that pass through its territory, but also will have its oil escape menace and control through bypassing Chechnya and southern Russia.

In the conflicts of the Caspian Sea, there are great contradictions between Azerbaijan and Russia. When the undersea Caspian Sea plan is implemented, it will improve Azerbaijan's international orientation and strengthen its bargaining position against Russia. The United States is greatly interested in this plan, for it bypasses Russia in the north and Iran in the south. It is of first priority for the United States in its Caspian Sea energy policy, to construct this pipeline.

Viewed from various other aspects, Iran and Russia have different opinions, since this plan puts them at a disadvantage. In view of environmental protection, they are against the construction of a pipeline under the Caspian Sea. They believe such construction violates the littoral countries' rights. On July 19, 1998, they issued a joint declaration that states their objection to such a plan. Apart from any other reasons, Russia and Iran have a strong case in opposing the undersea plan from the standpoint of environment issues.

There is a circulating flow in the Caspian Sea which runs at a usual speed of 0.1-0.15 meters per second. When there is a big wind, it can accelerate to 1 m/sec. The water flows from the northern Caspian Sea to the south. At Apseron underwater ridge, it separates into two branches: One follows Apseron to the east and turns north at the east coast and merges into the water that goes to the north; the other enters into the south of the Caspian Sea. Apseron is the most stormy part of the Caspian Sea, with waves which rise 11 m in height. If the constructed were to leak, it would have terrible consequences. Furthermore, if it leaked, efforts would be inadequate to remedy it, especially in closed waters like the Caspian Sea. The consequence of the pollution would be more serious than what might happen on the open sea. With consideration to the frequency of earthquakes in the Caucasus region, a cautious attitude must be adopted to the Undersea Caspian Sea project. Azerbaijan and Turkmenistan have their own considerations. Azerbaijan is more active.

Another obstacle exists because of the legal status of the Caspian Sea, i.e., the dividing of the territory (waters). Since the breakup of the Soviet Union, the five littoral countries of the Caspian Sea have held different positions, which have led to a dispute over the legal status of the Caspian Sea. Azerbaijan and its opposite across the Caspian Sea, Turkmenistan,

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have different opinions, especially concerning the sovereignty of the small islands through which the pipeline will pass. Since neither of them will give up the islands, the implementation of the plan is hindered. Both sides, however, understand that it is not wise to let this problem ruin their common economic interest. Through negotiation, this obstacle could be overcome.

However, it is difficult to estimate to what extent the opposing attitudes would influence the outcome. It mainly depends on the attitude of Turkmenistan.

A few days ago, the Turkmenistan government and Shell oil company signed an agreement for jointly exploring natural gas in Turkmenistan. According to this agreement, Shell will bear 50% of the total investment used for the construction of the undersea Caspian Sea pipeline. But immediately after the signing of the agreement, Russian Foreign Minister Ivanov expressed his strong opposition toward it. He thinks this plan is a politicized one, whose purpose is to violate Russia's interests. It is not easy to anticipate what kind of influence Russia's reaction will create.

### **The Northern Iran Plan**

According to this plan, a pipeline will run from the east of Turkmenistan (Azerbaijan can be also included) into Iran, then from the north of Iran to Turkey. This plan can avoid the potential pollution of the Caspian Sea. However, due to the years of tension between the United States and Iran, the United States consistently opposes this plan. It does not want the oil extracted through its investment to pass through the territory of Iran. Because European countries adopt a different attitude from that of the United States, the big oil companies of the United Kingdom, France, and the Netherlands have already been involved in this plan. With the strengthening of U.S.-Iranian relations, the United States has relaxed economic sanctions against Iran and has adopted a more flexible attitude. This might help the implementation of the plan.

Another factor that investors may take into consideration, is the Kurdish issue. The northwest of Iran and the southeast of Turkey, through which the pipeline will pass, is a part of Kurdistan. For many years, the Kurds have been fighting with different governments for independence. Repeatedly, armed occupations of different areas in this region have occurred. The situation is unstable. On Sept. 20, 1994, an international consortium signed the first oil contract with Azerbaijan. Soon afterwards, the Kurdish National Liberation Front declared that no pipeline was allowed to pass across Kurdistan unless the proper interests of the Kurdish people were considered. Although the Kurdish armed forces have been obviously weakened, we know that the area is still volatile.

The three countries through which the pipeline will pass, Turkmenistan, Iran, and Turkey, are members of the Eco-

nomics Cooperation Organization. If the plan is put into practice, it will strengthen the internal relationship among the members of this organization. If the pipeline is connected with the pipelines of Iran, the oil could be exported through the Persian Gulf. Furthermore, because Turkmenistan's natural gas is cheaper than that of Russia, it will reduce the Russian share in the Turkish and European markets. Russia is unwilling to face the fact that it will be helpless when a great amount of oil and gas goes through this pipeline. Because Iran and Russia have a consistently cooperative attitude toward one another on Caspian Sea issues, Russia

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unites with Iran to oppose the Undersea Caspian Sea Plan, avoiding a tough confrontation on the Northern Iran Plan. Some people think the plan is a paradox, mixing issues of regional development with the interests of the superpowers. With consideration of all the factors, one should admit that the Northern Iran Plan has its advantages.

### **The Afghanistan Plan**

The civil war in Afghanistan, now in its 20th year, is the biggest obstacle to the implementation of this plan. Although the government of Turkmenistan signed agreements with both warring parties to ensure the safety of the pipeline, giving the Taliban and its rival the promise that they will get 10% of the interest, many years of experience indicate that the factions in Afghanistan never abide by negotiated agreements. This makes a promising commercial plan become a mirage. Several years ago, the American company Unocal, and the Saudi Arabian firm Delta Oil Company, proposed a plan to invest in the preliminary work. It is still uncertain when the construction will be started. It is commonly believed that Turkmenistan's natural gas and oil will not flow to Pakistan or enter the Indian Ocean until the Afghanistan civil war is over and an effective government with a good reputation is set up.

## The China Plan

This route is planned to run from the west of Kazakstan to Xinjiang. Then it will extend to China's interior and the seaside provinces. This is the longest one among all the planned pipelines. Tengiz oil field, Aktyubinsk oil field, Uzen oil field, located in west Kazakstan, are all oil suppliers to this pipeline. It will not only meet the demand of China, but also will be able to export oil to South Korea, Japan, and other countries, from the harbors in the east of China. This pipeline will be of great importance to China and to the economic development of Kazakstan. It is well known that the oil fields are all in the west of Kazakstan, while its population and industry are mainly in the east. During the Soviet period, the crude oil of west Kazakstan mainly went to Samara (formerly Kuibyshev) in Russia through an oil pipeline, while the refined oil flowed to its east part from Russia. This structure has been kept up to the present day. The construction of this pipeline will enable Kazakstan to build refineries in the east and enable them to use the situation for the advantage of their economic development.

Kazakstan has a vast territory. From its beginning in the west to the boundary with China, the pipeline will span more than 2,000 km, most of which is desert. Conversely, there are no transportation lines parallel with the pipeline. This will cause a lot of difficulties for construction, and for maintenance and management when the pipeline is finished.

## A second Middle East?

The above is the introduction and analysis of the five pipeline plans for the export of oil in the Caspian Sea. All except the Southern Russia Plan are still on paper. This is because of the above-mentioned reasons that influence oil companies and concerned governments in making decisions on whether or not to invest. There is one additional reason of great importance: That is the real amount of gas and oil reserves in the Caspian Sea. The mass exploitation of oil started soon after World War II. Soon after the disintegration of the Soviet Union, many big Western oil companies joined in the exploitation. The reserve figures reported in the media, are quickly rising. The most frequently quoted is 200 billion barrels of oil and 7.89 trillion cubic meters of natural gas in total. There are higher figures reported too.

Many people tend to believe that the oil and gas reserves in the Caspian Sea are as great as those in the Middle East. More and more people use the term "Middle East II" in referring to the Caspian Sea region. However, as the research work continues, estimations of the reserves are not so optimistic. Various agencies and personnel have expressed their different opinions on the prospects of Caspian Sea oil.

For example, on April 26, 1998, John Chipman, spokesman of the noted British International Strategy Research Institute, said that Caspian Sea oil is not so crucial as once regarded, and that the figure issued by the Federal Reserve

Bureau of the United States is an overstatement. The impact of Caspian Sea oil on the regional development has been overestimated. Because the pipelines and relevant equipment cost a lot, there might not be a reasonable financial return. Many people share this opinion. Since last year, the heat of the Caspian Sea oil exploitation fever has cooled down a bit. Western oil investors have slowed down the pace of their investments. Actually, technically speaking, it is incredible that the estimates of the oil reserves in the Caspian Sea expanded as much as they did within just a few years.

It will take time before the plans discussed here are put into implementation, especially the Undersea Caspian Sea Plan and Northern Iran Plan, because they have a lot of similarities with the Southern Russia Plan that is already under construction. Currently, there is not enough oil and gas to fill the capacity of three pipelines. (The pipeline from Baku via Georgia to the Caspian Sea, i.e., the western part of the Undersea Caspian Sea Plan, is different, and requires different consideration.) Furthermore, the recession that is puzzling the world oil market must be taken into consideration also. It is known that the thinking of politicians does not always coincide with the considerations of oil merchants. Perhaps commercial interests will prevail eventually.

The conflict over the Caspian Sea has existed since the disintegration of the Soviet Union. The littoral countries still have not reached a consensus on the legal status of the Caspian Sea, and the different pipeline plans have made the problem more complex. Here I will not comment on the prospect of development of the situation. There appear to be some obvious characteristics as listed below:

The West, headed by the United States, is approaching the Caspian Sea region from political and economic aspects, and they have been welcome. They have their feet on the ground already. The United States has scored in this strategic area and it is going to play a more active role in the future.

Due to the decline of Russian national power, Russia is no longer able to maintain its influence and control in this region. Even its littoral rights are challenged. Despite its various efforts to prevent the expansion of the influence of the United States and the Western countries, Russia is unable to elevate itself from an inferior position.

The littoral countries have changing attitudes toward important issues on the Caspian Sea. They have formed various interest groups on different issues. A partner yesterday can be a rival today; and an agreement just signed, can be forsaken right away. Such examples are plentiful.

Because of different opinions, the littoral countries have no design for regional economic development. For example, they have not reached consensus on how to deal with the Caspian Sea pollution. Environmental ecological issues extend beyond national boundaries. Each doing things in its own way, will only lead to its own bad luck. In the long run, the construction of oil pipelines around the Caspian Sea and the

organization of regional oil production and export will be beneficial to all littoral countries. This project is not difficult. It only requires connecting the original pipelines in some areas. Even though the four countries, except Russia, have participated in the Economic Cooperation Organization, no real efforts have been made to promote regional development in the Caspian Sea region.

Except for Russia, Kazakstan, Turkmenistan, and Azerbaijan in the Commonwealth of Independent States, the remaining members are rarely involved in Caspian Sea issues. Even a country like Ukraine, which is traditionally a large customer for Caspian Sea oil and gas, also takes a wait-and-see attitude. This is because of the very bad domestic economic situation of those countries. They do not have the ability to join in the exploitation of the Caspian Sea oil and gas. On the other hand, they have no inclination to increase their troubles by getting involved in the disputes over rights and wrongs, to influence the development of other aspects.

The complication of the Caspian Sea issue derives from various issues. Factors of the world (of powers), regions, individual nations, economic interests, different cultures, even history and religions all merge together. Compromise marches with competition, and rival marches with partner. It should be noted that the so-called five poles of the world — the

United States, Russia, Western Europe, Japan, and China — have already been involved in the Caspian Sea region to different extents. Islamic countries are spreading their influence too. One rarely sees a region like the Caspian Sea in which so many powers of the world are involved. I believe that the conflict over the Caspian Sea will have more and more impact on the development of the littoral countries the region, and the world.

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