GUAM AND GLOBAL ENERGY POLICY

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It is absolutely clear that energy policy can be described as global if states scattered across the globe pursue similar interests in the energy sphere. Its entities are geographical regions with considerable proven or forecast resources of hydrocarbon and other energy and raw material sources, transportation means and routes, as well as a price-forming system and other economic parameters related to the functioning of the energy markets. In recent years, the Caspian-Black Sea region, a large part of Eurasia, has acquired more prominence as one of the entities of global energy policy. The area in which the active GUAM members are found has been and remains the place where East and West meet. It is also a corridor for the traditional and recent international transportation routes and transcontinental gas and oil pipelines that together create a powerful flow of energy resources indispensable for the regional countries' intensified economic development and very important for the European and other states which receive fuel from the same source. The Caspian-Black Sea region is where global energy policy is formulated and implemented. Moreover, its impact is increasingly felt in the worldwide economic and political processes. The post-Soviet republics (Azerbaijan, Kazakhstan, Turkmenistan, Ukraine, Georgia, and Moldova) are coming to the fore together with the United States, European Union, Russia, Iran, Turkey, China, and Japan. Each of the states or blocs of states has interests of its own that should be defended. In the last fifteen years, defending national interests has frequently given rise to conflicts and crises. The region's geopolitical location and its rich energy resources launched it into the center of the important developments. American experts have estimated the Caspian's gas and oil supplies at nearly $4 trillion. The five Caspian states, the owners of the local gas and oil, have failed so far to agree on the methods and technology for their production, transportation to oil refineries, and marketing. It is no accident that the Organization for Democracy and Economic Development—GUAM was formed in the region: it was set up to help each of its members realize its energy interests. Today, the members are pursuing this aim as they see fit.

1. GUAM's Energy Transportation Component

The fuel-deficient countries use different methods (up to and including the use of force) to gain access to energy sources and transportation routes. There is another way, however: they can seek cooperation in the prospecting, production, refinery, and use of energy resources (hydrocarbon and nuclear fuels), as well as in mastering high energy technologies to switch to easily accessible (and renewable) energy sources. Today, the world's energy industry is changing rapidly: energy markets are developing into global markets, individual energy regions are joining into integrated areas, while regional and national energy systems are merging at a faster pace. In short, global energy policy is being formed before our very eyes. The process will be a gradual one: the United States and Europe should reach a mutual understanding about the emerging policy's aims and methods, a process that will promote changes on the world energy market. The GUAM members, in turn, which do not have enough energy sources, should make every effort to remain in the mainstream of the coming changes.

The expert community has not yet agreed on what prompted the emergence of this transnational structure in the first place. There were several aims and objective factors, one of them being the members' intention to create a new Euro-Asian Transportation Corridor (EATC) not only to move hydrocarbon fuels from the Caspian-Black Sea region to Europe via Ukraine, but also to transport other commodities, capital, workforce, intellectual values, cultural values, and communication in both directions. There was an obvious intention to use the corridor to set up regional or even sub-regional security systems to lighten the burden of political and other dependence on the Russia Federation as a center of power within the CIS.[1]

The joint communique the heads of Georgia, Ukraine, Azerbaijan, and Moldova endorsed in Strasbourg on 10 October, 1997 spoke of the need to develop their cooperation for the sake of European stability and security based on the principles of respect for sovereignty, territorial integrity, inviolability of state borders, the rule of law, and human rights. (Later this initiative became known as a "consultative forum.") The GUAM members also discussed the Trans-Caucasian Transportation Corridor as one of their priorities designed to exploit the members' advantageous geographic location. The new fuel transportation routes linking Europe with the Eastern countries, the APR region, and India made it even more attractive. In the future, Europe, Central Asia, and the Caucasus might even be involved in large-scale integration processes. At that time, the Baku-Tbilisi-Poti-Odessa-Kiev transportation line looked more feasible than ever: it was planned as a passenger and freight line to be doubled as an oil pipeline to bring Kazakh oil from Aktau to Baku and Batumi or to Baku and Supsa; later it was to be extended to Ukraine and further on to Europe. This was expected to make Kiev part of the strategic transit route for European customers; its oil-refining capabilities could made it an important link in Europe's economic and energy security.[2] The routes across Ukraine are less than half as long as the routes that bring Middle Eastern oil to Europe; more than that, they would have enabled the republic to resolve its energy problems by covering oil imports with transit payments. It was at that time that Kazakhstan, Azerbaijan, and Georgia signed the Intergovernmental Agreement on moving up to 10 million tons of oil every year along the route. The harmonized interests of these countries, their involvement in the global Silk Road project and in the EATC, as well as their shared desire to cooperate with the European structures, called for alternative routes for Caspian oil. GUAM is a product of the same. As the only CIS member among the Central European Initiative states also involved in the Baltic-Black Sea Alliance set up in May 1997, Ukraine played the leading role in GUAM/GUUAM.

Nevertheless, what we called the "new" EATC could not be such by the time GUAM was formed. Back in 1993, Brussels passed a decision to open funding under the TACIS (Technical Assistance to the Commonwealth of Independent States) program for the South Caucasian and Central Asian republics bordering on the Caspian to help develop the Transport Corridor Europe-Caucasus-Central Asia (TRACECA). The TRACECA ideas completely coincided with the desire of the future GUAM members to move Caspian energy fuels to the West via the Black Sea region.

Azerbaijan and Turkmenistan needed a reliable transportation corridor for the oil and gas volumes anticipated within the new global energy policy being formed in the region. They needed the transit countries (potential users of Caspian energy resources) on their side. Both states could pick and choose: Azeri oil could reach the Black Sea via the Baku-Novorossiisk pipeline, or be brought by rail to the Georgian ports. Independent access to the European oil markets called for new transportation routes (including pipelines) going southward (to Turkey via Georgia) and westward (to the Black Sea coast via Georgia as well). It was expected that Caspian oil would be moved from the Georgian ports by sea to the Mediterranean oil markets or to Odessa where the Ukrainian part of the Euro-Asian Oil Transportation Corridor (EAOTC) still under construction could have been used eventually. The increase in Turkmen gas exports called for increased carrying capacity of the Central Asian gas pipelines in the direction of Uzbekistan, Kazakhstan, and Rus-

[1] Former Soviet republics were seeking self-assertion in different ways: Azerbaijan, for instance, joined the CEF Treaty flank agreement enacted on 15 May, 1997, etc.

[2] See: S.I. Pirozhkov, "Formirovanie modeli regional'nogo sotrudnichestva v sisteme GUAM," in: *Ukraina i problemy bezopasnosti transportnykh koridorov v Chernomorsko-Kaspiiskom regione: Materialy I Mezhdunarodnoy nauchno-prakticheskoy konferentsii,* Kiev, 1999, p. 23.

sia. There was another option: the new routes could link Turkmenistan with Azerbaijan, Iran, India, or China.[3]

An analysis completed in the early 1990s shows that Azerbaijan, which by that time had lost nearly all its previous achievements (according to certain sources,[4] the republic produced a mere 2 percent of the Soviet Union's total oil extraction), resolved to revive its oil and gas complex, encouraged by the idea of the so-called Main Export Pipeline (MEP). It was expected to give the republic, a player on the actively integrating Eurasian energy market, more clout. In Azerbaijan, SOCAR pooled forces with foreign companies (Amoco, Pennzoil, BP, and Botash) to launch the project. In 1993, Azerbaijan and Turkey signed an agreement in Ankara on the Baku-Tbilisi-Ceyhan Pipeline (BTC).[5] At that time, however, the route for future "big oil" looked doubtful. On 20 September, 1994, Baku signed the Contract of the Century related to the Azeri, Chyrag, and Gunashli oil fields (ACG) to alleviate the lingering doubts. If realized, it might have pumped larger amounts of oil than the existing pipelines could carry.[6] It was expected that the route would finally be mapped, feasibility studies carried out, and the construction stage launched by late 1996. By that time, however, SOCAR and Amoco had identified only two oil transportation routes (for early oil) from ACG: Baku-Novorossiisk (the so-called Northern route passing through Russia) and Baku-Supsa (otherwise known as the Western route passing through Georgia to its Black Sea port of Supsa).

The MEP talks began in earnest in May 1998; they involved only two GUAM members (Azerbaijan and Georgia), which thus played two roles. On the one hand, their cooperation with American, European, and Turkish companies and other influential actors ensured their real involvement in formulating and realizing elements of the global energy policy in the region. On the other, they acquired an additional dimension to their GUAM membership which allowed them to formulate fragments of GUAM's coordinated energy policy. In 1999, D. Berdzenishvili (at that time Executive Secretary of the Republican Party of Georgia) had to say: "Georgia clarified its geopolitical priorities and partners as it increased its awareness that Caspian and Kazakhstan oil and Turkmenian gas should be developed. This accounts for the emergence of GUAM inside the CIS with its obvious 'Caucasian' Georgia-Azerbaijan tandem… Georgia has acquired a key position in the two geopolitical vectors—the meridional (Russia-Armenia-Iran) and parallel (Central Asia-Azerbaijan-Georgia-Europe). Neither of the two vectors can be efficient without it."[7] Azerbaijan and Georgia are involved together in the EAOTC and in railway and ferry communication; their military doctrines have many things in common, etc. As a transit country for Azeri oil, Georgia alleviated its energy and transport dependence on the Russian Federation. Today, the two countries and Turkey are discussing a single economic expanse.[8]

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[3] Below the discussion of the Turkmenian gas export is limited to the route to Azerbaijan as one of the GUAM members.

[4] See: T. Juvarly, "Azerbaidzhanskaia neft: poiski ravnodeystvuiushchey,' available at [http://www.sakharov-center.ru/azrus/az_014.htm].

[5] See: S.R. Grinevetskiy, S.S. Zhiltsov, I.S. Zonn, *Chernomorskiy uzel*, Mezhdunarodnye otnoshenia, Kiev, 2007, p. 59.

[6] Under the Gulistan Contract, it was planned to produce $50 billion-worth of oil at the ACG oil fields. Their fuel reserves were assessed as follows: over 600 million tons of oil (today BP, which operates the field, offers the figure of 800 million tons), 100 billion cu m of petroleum associated gas, and 100-150 billion cu m of natural gas. The project laid the foundation for Azerbaijan's cooperation with West European companies. The total amount of investments poured into the project is assessed at the $20 billion level: Azerbaijan borrowed money from international companies and repaid with oil. I believe that by 2008 the republic will have repaid its debts, after which its share in the project will increase from the present 10 to 80 percent; the planned annual output will reach 50 million tons.

[7] D. Berdzenishvili, "Mesto Gruzii v sisteme evraziiskikh transportnykh koridorov," in: *Ukraina i problemy bezopasnosti transportnykh koridorov v Chernomorsko-Kaspiiskom regione: Materialy I Mezhdunarodnoy nauchno-prakticheskoy konferentsii,* pp. 35-36, 37.

[8] On 21 November, 2007, speaking at the Georgian-Turkish business forum in Tbilisi, President Saakashvili said that the presidents of Azerbaijan and Turkey shared his opinion that a single economic expanse and a free trade area were

As a GUAM member, Azerbaijan is developing into the main energy source for its partners; it is the only member that fully covers its domestic needs in energy resources and exports them to Europe. Thanks to the fuel and energy complex, in 2006 the country demonstrated the world's highest GDP growth rate of 34.5 percent. According to the EBRD, in the same year, the republic's fuel and energy complex was responsible for 54 percent of the GDP and about 75 percent of the industrial growth. By August 2007, the assets of the State Oil Fund of the Republic of Azerbaijan topped the $2 billion level, while the gold and hard currency reserves of the National Bank reached $2.8 billion (by the end of 2007 they could reach $6 billion). In August 2007, the republic's state debt was no higher than $2 billion.[9] Azerbaijan is actively involved in the construction of an oil terminal at the Moldovan port of Giurgiulesti on the Danube, which in the future could receive oil and oil products from Azerbaijan.[10] The Republic of Azerbaijan helped Ukraine with oil products during agricultural seasonal work, it was prepared to sell its oil to Ukraine for possible transportation via the Odessa-Brody pipeline to Europe. This gives Ukraine the chance to become an actor, in its own right (together with Poland), on the European energy market and to decrease its dependence on Russian gas. The Azeri leaders have not abandoned the EAOTC idea; it is associated above all with a possible international consortium that will unite interested oil suppliers, transit countries, and European customers.

From the very first days of its independence, Ukraine has been resolved to fully tap the great transit potential it inherited from the Soviet Union; it wants to decrease its excessive energy dependence on imported oil and gas, diversify energy sources, and create conditions conducive to the emergence of a global energy policy in the Caspian-Black Sea region. When Azerbaijan was looking for export outlays for its early oil and then big oil, Ukraine started building another oil terminal at the Yuzhny port in Odessa, the first phase of which was expected to move 12 million tons every year (an amount equal to the joint capacities of two public-owned oil refineries—3.6 million tons in Odessa and 8.7 million tons in Kherson). The port was expected to receive oil brought by tankers from the Middle East.

The possibility of a Ceyhan-Samsun oil pipeline system was discussed with Turkey; the Mediterranean and Black Sea terminals were to become transshipment points for the oil to be sent further on to the Yuzhny port on the opposite coast.[11] The first tanker carrying Middle Eastern oil should have reached Yuzhny in 1994. At the same time, it was decided to place the emphasis on the EAOTC in the form of the newly laid Odessa-Brody oil pipeline. Construction began three years later (on 1 October, 1996); the project took five years to complete. The terminal's first phase was commissioned in 2001. Today, however, the complex is temporarily functioning in the reverse regime.[12] Much earlier Azerbaijan gave Ukraine an opportunity to acquire Caspian oil. I have to go back to Azerbaijan to clarify the details of the failed elements of the two countries energy cooperation. This country never abandoned its efforts to find the best possible alternatives for its involvement in the new export oil and gas routes in the region.

The BTC had already been accepted as a feasible project that needed international approval. (This happened in 1999 at the OSCE Istanbul summit where a corresponding interstate agreement

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needed. "We are working together on a Turkish-Georgian-Azeri single economic and free trade area. The planned Baku-Tbilisi-Kars railway, transparent borders, visa free regime, and joint use of the Batumi airport will create even more favorable conditions," available at [http://vz.ru/news/2007/11/21/126452.html].

[9] See: S.R. Grinevetskiy, S.S. Zhiltsov, I.S. Zonn, op. cit., p. 25.

[10] Unfortunately, Ukrainian interests might suffer in this case. However, in the absence of a coordinated energy policy and mechanism for its implementation within GUAM, this was a purely commercial plan.

[11] The agreement registered in the Law of Ukraine of 17 September, 1997 (No. 739/97) has not yet been executed. Today, there is an intention to send oil from Samsun to Ceyhan.

[12] For more detail, see: D. Preiger, I. Maliarchuk, V. Dutchak, "The Ukrainian Part of the Eurasian Oil Transportation Corridor: Yesterday and Today. What about Tomorrow?" *Central Asia and the Caucasus*, No. 3 (15), 2002.

was signed. From that day on, the project, born nearly eight years before, began gathering supporters. The time had come to think about oil, money, and transit.) The Northern and Western routes for big oil remained doubtful. The Western alternative (through Georgia to Supsa) allowed the exporters to move the local high-grade oil (much superior to the other brands on the Mediterranean market) unmixed. A corresponding agreement was signed in 1996. The project did not have to start from scratch: the existing 761 km of pipeline had to be rebuilt; another 86 km added, a terminal built at the port of Supsa, and five compressor plants constructed. The work was to be carried out on the Georgian section (446 km of the pipeline) and on the Azerbaijani (about 400 km); Amoco was expected to invest $590 million in the Azeri section. The daily carrying capacity was to be 115 thousand barrels, or 5.75 million tons a year (the figures were expected to gradually reach 11 million tons). The tariff was $3.1 per ton for the total stretch of pipeline (Georgia was to get $1.2, and Azerbaijan $1.9). The revived pipeline was commissioned on 17 April, 1999; the ceremony was attended by the president of Ukraine and head of the Naftogaz Ukrainy Company.

Kiev showed a lot of interest in the Baku-Supsa pipeline from the very beginning: it hoped to build a new transportation route to move Caspian oil to Ukrainian oil refineries and Europe. In 1997, President of Azerbaijan Heydar Aliev visited Ukraine to discuss the restoration of the Great Silk Road and deliveries of up to 4 million tons of early Caspian oil a year to Ukraine, as well as the possibility of bringing the figure up to 29 million tons by 2002. Ukraine was ready and eager to organize a new oil and gas transportation corridor from the Caspian to Europe via the Black Sea and its own territory. The events, however, took a different course: the first (and all others for that matter) tanker left Supsa for Trieste on the Mediterranean.

There were several reasons for this. First, Ukraine was not prepared to buy oil at world prices from British Petroleum/Amoco, the main company with 34 percent of the shares in the Azerbaijanian International Operational Corporation. At that time, some of the Ukrainian oil refineries still belonged to the state, which was expected to look after their rational loading. Second, Odessa was technically not ready to receive tankers of over 50 thousand tons of tonnage from Supsa, which used larger tankers (up to 80 thousand tons); third, Ukraine invited the company to invest in the Odessa-Brody-Adamova Zastava pipeline. The offer was declined, but nothing was done to start oil refining in Odessa, something that LUKoil of Russia would have been interested in, since by that time it owned half of the shares in the local oil refinery and used to be a member of Amoco, which had the right to move oil by tankers along the Baku-Supsa route. LUKoil, the owner of an oil refinery in Rumania, was obviously not interested in moving oil to Brody. Besides, it was economically wasteful to transport raw material to Kremenchug and Lisichansk for refining. The situation would have been different had EAOTC been headed by the international consortium of the above-mentioned companies, as well as Polish companies and the owners of oil refineries along the route to Europe, from the very beginning. This is not on the agenda today; EAOTC is not used to move Caspian oil; its future involvement, however, is not excluded.

2. Energy Cooperation of the GUAM Member States with Their Black Sea-Caspian Neighbors

As the main "energy" member of GUAM, Azerbaijan not only has to maintain active cooperation with Georgia, the transit country for its oil and natural gas to Europe, but also with other energy producers and transit countries. Its involvement in this cooperation is indispensable for implementing global energy policy in the Caspian-Black Sea region. All the partners involved in this cooperation (unfolding in the new market conditions) must work hard to defend their national geopolitical and economic interests. In the case of Azerbaijan, it is very important to keep its smoldering conflict with Armenia in mind: to achieve a positive result, it has to coordinate its efforts with the forces able to change the course of events. It is probably for that reason that the country is trying to enhance its relations with the United States and NATO, intensifying its cooperation with Turkey, and gradually moving away from its Caspian partners—the Russian Federation and Turkmenistan,[13] to say nothing of Armenia.

Cooperation with Russia in the energy sphere is limited to the Baku-Novorossiisk pipeline and purchases of natural gas for thermal power stations. Back in the mid-1990s, Moscow put a project on the table designed to build up the pipeline's carrying capacity in order to export more Azeri oil from Novorossiisk. According to the Russian side, this would have been possible for the relatively low cost of $300 million, which would have included the expenses for laying a sideline to Grozny and rebuilding the Baku-Novorossiisk oil pipeline to bring its annual carrying capacity up to 12 million tons by 2003. To launch the project Russia needed the state's guarantees of the pipeline's continued loading. Baku took its time to analyze both the Baku-Supsa and the Baku-Novorossiisk pipelines: it took into account that the money needed to develop the existing projects (up to 1 billion) would be better spent on the BTC. Moreover, Azerbaijan would not be able to produce 55 million tons of oil to fill the BTC (if it were put into operation) or load the Baku-Novorossiisk and Baku-Supsa pipelines before 2009. At that time, the country was satisfied with the carrying capacities for transporting oil to Russia: the intergovernmental agreement for 1997-2002 was still in force; it covered the amount of oil the republic was prepared to move to Novorossiisk. In 1997-1998, it moved about 3.5 million tons of oil; in 1999-2000 it planned to ship 4 million tons more; and starting in 2002, this amount would rise to 5 million tons every year. Under the protocol of intentions, Azerbaijan was to transport 9 million tons of oil to Russia in 2003, even though it believed it would be not enough to fully load the Daghestanian oil pipeline (the Baku-Novorossiisk pipeline passed through Makhachkala and Grozny). The pipeline needed 25 percent more. To prove that it was determined to move oil to Novorossiisk (at that time the hostilities in the Chechen Republic did not allow Moscow to use the pipeline), Moscow organized railway transportation at the oil pipeline tariff ($15.76 per ton). Russia was obviously looking after its own, rather than Azeri, interests: it had its long-term obligations to live up to and oil transit profits to retain.

Azerbaijan, in turn, had to load two more oil refineries with a total planned capacity of 22 million tons a year: it had just begun augmenting its oil and gas production (see the table on p. 62). Azerbaijan had only achieved stability in oil and gas production in the last four years; throughout this period the production level of SOCAR remained the same; it was foreign companies that increased oil production, while SOCAR's share was steadily decreasing: in 2003, it was 57.8 percent; and in 2006, a mere 27.9 percent. The company plans to bring gas production up to 6 billion cu m in 2007 and to 9 billion in 2008. The oil reserves of all the fields owned by the company, operational companies (OC), and joint ventures (JV) are assessed at 280-300 billion tons.

As distinct from SOCAR, the foreign companies now operating in Azerbaijan managed to augment oil production for export. In 2003, they sold 9.1 million tons of oil and 1.6 million tons of oil products. In 2006, the volumes rose to 22.1 and 2.9 million, respectively; they accounted for 84.4 percent of the country's oil export.[14] The republic expected to bring oil production up to 50 million tons in 2007 and to 65-70 million tons in 2010.

[13] It seems that the conflict began during the incident related to the Kiapaz hydrocarbon sources in the Caspian.

[14] See: *Neftegazovaia vertikal,* No. 6, 2007, p. 55.

Table

Oil and Gas Production Dynamics in Azerbaijan in 2003-2006

Production Company	Oil, *million tons*				Gas, *billion cu m*			
	2003	2004	2005	2006	2003	2004	2005	2006
SOCAR	8.9	9.0	9.0	9.0	4.2	4.0	4.0	4.5
Including Azneft	8.1	8.0	8.0	7.8	4.0	3.9	3.9	4.4
JV and OC	0.8	1.0	1.0	1.2	0.1	0.1	0.1	0.1
Amoco	6.5	6.6	13.2	23.3	1.0	1.0	1.8	2.3
Total	15.4	15.6	22.2	32.3	5.2	5.0	5.8	6.8

Source: *Neftegazovaia vertikal,* No. 6, 2007, p. 50.

The decision on the BTC pipeline left all the countries involved in doubt. None of them expected to load the pipeline single-handedly: they had to look for other oil sources to fulfill their obligations to Russia, preserve the use of Supsa, and keep their own oil refineries working.[15] In 2002, Azerbaijan invited Kazakhstan to join the MEP; Astana made it clear right from the very start that its decision depended on the development of oil production in its sector of the Caspian and on Western investments in an underwater pipeline to Baku. In June 2006, in Astana, the prime ministers of both countries crowned many years of talks and deliberations with an Agreement on Assistance and Support of Oil Transportation from the Republic of Kazakhstan across the Caspian Sea and the Territory of the Republic of Azerbaijan to International Markets via the Baku-Tbilisi-Ceyhan System. In the future, tankers will bring no more than 3 million tons a year to Baku from Aktau at the first stage. Starting in 2008 (or no earlier than 2010, according to certain sources[16]), Kashagan oil would be pumped via the BTC. Kazakhstan probably expected that by that time a decision would be made on the underwater pipeline. According to experts, the underwater Aktau-Baku pipeline will repay itself, if it carries at least 400 thousand barrels a day.[17] Kazakhstan signed the agreement because the four shareholders of the international consortium that operated in Kashagan were also involved in the BTC (TotalFinaElf of France, ConocoPhillips of the United States, INPEX of Japan, and ENI of Italy).[18]

[15] In 2000, Azerbaijan began buying more gas from Russia to lower the amount of oil processed at the local refineries: in 2001, it bought 3.1 billion cu m and planned to buy 4 billion in 2002. This saved up to 2.5 million tons of oil that used to be burned as oil fuel at thermal power stations (see: *Neft i kapital,* No. 12, 2002, p. 53). In 2002, the ABB Lummus Global Inc. (American branch of ABB) was instructed to prepare feasibility studies for the readjustment of both Baku oil refineries to Kazakh and Turkmen oil with due account of the need to modernize the Dubendi sea terminal and to readjust the oil refining technologies based on Azeri oil. Having studied the projects, experts concluded that it would be better either to build a new refinery adjusted to the imported oil or rebuilt the existing plant—both options being very expensive. The project was dropped for want of money; the republic continued buying Russian gas. In 2006, Azerbaijan bought 4.5 billion cu m ($110 per 1,000 cu m). It was at that time that Gazprom invited Azerbaijan to switch in 2007 to the new price of $235 per 1,000 cu m. Azerbaijan refused and also stopped using the Northern oil route. Today, while Azerbaijan is looking for raw material for its refineries elsewhere, they are underloaded.

[16] See: T. Tagiev, "Baku-Astana: druzia po raschetu," *Neftegazovaia vertikal,* No. 17, 2007, pp. 24-27.

[17] *Neft Rossii*, No. 4, 2006, p. 112.

[18] The following companies are shareholders in the BTC: SOCAR (Azerbaijan) with 25 percent; British Petroleum (the U.K.), 30.1 percent; TPAO (Turkey), 6.53 percent; Unocal (the U.S.), 8.9 percent; Itochu (Japan), 3.4 percent; Amerada Hess (the U.S.), 2.36 percent; ENI (Italy), 5 percent; TotalFinaElf (France), 5 percent; INPEX (Japan), 2.5 percent; and ConocoPhillips, 2.5 percent.

They intended to invest $4 billion in Kazakhstan's transportation system (including the Caspian Transportation System of Kazakhstan—CTSK). Under the project, the republic was to acquire an 800-km-long oil pipeline from Kashagan to Kuryk, a system of oil terminals and offshore transport, together with a transshipment point for Kazakh oil in Azerbaijan. The CTSK was to be completed by 2010. Some of the foreign companies that work in Kashagan (ExxonMobil of the United States is one of them) intend to use the BTC to move their oil, which would be delivered to Baku by sea. There is an agreement with TengizChevroil on oil deliveries from the Tengiz oilfields starting in 2007 for a total annual amount of up to 6 million tons (previously oil was delivered by means of CTC). These plans can be realized only if organizational, legal, technical, and other problems related to the BTC are resolved. Kazakhstan and Azerbaijan are working on an intergovernmental transit agreement that envisages a reliable Aktau-Baku transportation line. At first the system will receive up to 7.5 million tons, later the figure will reach 20 million tons. These plans are geared to the new Kuryk terminal with a capacity of 20 to 42 million tons; $50 million have already been invested in the old terminal[19] and the related pipeline system. The consortium of four companies is engaged in the project, but none of them is confident that the project will be soon implemented.

This was indirectly confirmed by the meeting of the presidents of Azerbaijan and Kazakhstan in Astana in August 2007, as well as at the Caspian Summit in Tehran in October 2007.[20] The Agreement on Strategic Cooperation in the Oil and Gas Sphere and the Memorandum on Joint Implementation of the Trans-Caspian Project signed by KazMunaiGaz and SOCAR have not added clarity to the situation, even though they envisage a JV that will be responsible for the project, the Kuryk terminal, and for joining the BTC. According to Kazakhstan, Azerbaijan plans its own terminal in Sangachaly to receive Kazakh oil and pump it into the BTC. Both countries want to set up their own tanker fleet, an intention that will probably interfere with the project.

The GUAM members are obviously willing to sell their services (particularly transit services) in the joint energy and transportation projects at as high a price as possible. Georgia spent a lot of time haggling over the transit rate for the Baku-Supsa project, as it did earlier with respect to the BTC. Azerbaijan is following the same pattern when talking to Kazakhstan, which does not belong to GUAM. Rustem Jangoja, who wrote back in 2000: "International projects that are products of cooperation of the GUAM countries do not merely compete with Russia's energy deliveries to the European markets. There is competition inside and outside the organization as well born by the objective disparities between the members' economic potentials and interests,"[21] was quite right.

For this reason, Kazakhstan's involvement in the BTC does no prevent it from looking for other ways of energy self-assertion (together with the Russian Federation in particular), as well as laying oil pipelines to China and in other directions (Ukraine hopes that Odessa-Brody will be one of them). According to Prime Minister Masimov of Kazakhstan, his country has a good chance of becoming the largest oil and gas producer with a daily production rate of 3.5 million barrels and over 100 billion barrels of reserves.[22] Kazakhstan has successfully completed its talks with Bulgar-

[19] [http://press.lukoil.ru/news/29745/].

[20] See: R. Nitsovich, "Igry vokrug Kaspia," *UAenergy,* 24 October, 2007.

[21] R. Jangoja, "Strany GUUAM: sotrudnichestvo i konkurentsia." *GUUAM: problemy i perspektivy razvitia transportno-kommunikatsionnogo koridora: Materaily II Mezhdunarodnoy nauchno-prakticheskoy konferentsii,* Kiev, 2000, p. 206.

[22] In 2006, 64.9 million tons of oil and condensate were produced (105.5 percent compared with 2005); 57.1 million tons (113.7 percent) were exported. Three oil refineries refined 11.7 million tons. In the same year, 27 billion cu m of gas were extracted; it was planned to extract 29 billion cu m in 2007. In 2006, investments in the mineral-raw material sector reached $14.5 billion; about 80 percent of which went to the oil and gas sector (70 percent of the investments was spent on production; and 21 percent on prospecting). Unfortunately, there were no GUAM companies among the leading foreign companies (see: *Neftegazovaia vertikal,* No. 7, 2007, pp. 3, 9).

ia and Greece (two transit territories for the Burgas-Alexandroúpolis pipeline); it has to negotiate the volumes to be moved through the pipeline and the tariffs, which should be equal to those for Russia.

Everybody knows that Transneft of Russia, which as a monopolist limits Kazakhstan's oil exports via the Aktau-Samara line, has already formulated its conditions related to CTC's increased carrying capacity and is prepared to insist on them; there is an agreement on a new oil pipeline along the Caspian eastern coast through Kazakhstan and Russia.[23] This means that Kazakhstan is wisely involved in a multi-vector oil and energy dialog: this is the only road leading to unhampered transit of the steadily increasing volumes of oil production. At the same time, Kazakhstan has demonstrated the ability to maintain conflict-free relations with the Russian Federation. It should be said in this context that late in 2006 Kazakhstan signed a Framework Agreement on Cooperation of the Caspian and Black Sea regions with the EU countries in the energy sphere in Astana; in November 2006, a Memorandum between Azerbaijan and the European Union on Energy Cooperation was signed in Brussels.

In March 2007, the EU Three-Central Asian States Meeting discussed the new EU strategy in energy transportation to the European markets in the INOGATE (Interstate Oil and Gas Transportation to Europe) context designed to finally resolve the problem of oil and gas supplies to Europe.[24] The EU's increased interest in the region is explained by the energy and transportation routes, as well as the Central Asian capacious markets. The document clearly states that the European Union intends to establish close cooperation with its regional partners with a view to consolidating its energy sustainability through changes in the existing and newly built energy infrastructure.[25]

The European Commission plans to develop new trans-Caspian and trans-Black Sea energy corridors—something that the GUAM members badly need. Back on 22 April, 2005, the presidents of the GUUAM member states signed the Declaration "For the Sake of Democracy, Stability, and Development" which emphasized in part that the sides favored execution of the Agreement on a Free Trade Area as promptly as possible to be able to use transit potential for making reliable deliveries of energy resources and ensuring effective and secure transportation corridors. It was expected that this will promote European integration, international security, and trade and economic relations between the East and the West and improve the transportation and communication infrastructure in GUUAM's strategically important region. It was emphasized, in particular, that cooperation in the energy sphere was designed to implement joint commercially profitable programs and projects in the transportation of Caspian energy resources to the European energy market through the territories of the GUUAM member states. In November 2005, at the meeting of the heads of the security councils of the GUAM member states, Ukraine came forward with the Danube Energy Bridge idea as a transportation corridor for oil and gas with the participation of Azerbaijan, Turkey, Rumania, Bulgaria, Kazakhstan, Turkmenistan, Uzbekistan, and Russia. The project is supposed to improve the energy security of Europe and the GUAM members; it envisages energy deliveries to Moldova (hampered because the country receives them via the Transnistria region); later the pipeline will go to Rumania and Bulgaria. The project is still being studied.[26]

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[23] Under certain conditions, these developments might increase the amount of Kazakh oil moved across Ukraine (the present figure of 10 million tons a year might double); the national fuel and energy complex could take part in building the necessary infrastructure for the new transportation route.

[24] The program was supported by all the GUAM countries, as well as Albania, Armenia, Belarus, Bulgaria, Croatia, Greece, Kazakhstan, Kyrgyzstan, Macedonia, Rumania, Serbia, Slovakia, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

[25] See: *Commission of European Communities. Black Sea Synergy-A new Regional Cooperation Initiative,* Brussels, 11 April, 2007. COM (2007) 160 final, p. 5.

[26] The Cabinet of Ministers of Ukraine endorsed the Conception by its decision of 25 May, 2006, No. 285-r.

The European Union is always ready to encourage new oil and gas transportation projects and develop the existing ones, including those pipelines laid along the Black Sea bed. This obviously warms up the rivalry among the suppliers and users of energy resources; moreover, this could worsen the regional environment, which is already endangered by the so-called frozen conflicts. The transit countries, Ukraine being one of them, will join the race.

The gas issue is one of the priorities of contemporary global energy policy in which GUAM is also involved. Nabucco, a new gas transportation project, has been devised as part of Europe's new global gas-related policy. The GUAM members are also interested in it: Moldova will welcome a high-pressure gas pipeline, Beltsy-Ungeny, to connect its gas transportation system to the Rumanian stretch of Nabucco[27] (under the latest version, it will cross the Rumanian territory at a distance of no less than 600 km from the Moldovan border, which means that Moldova's plans may remain on paper). Today, the republic has no money to fund large-scale projects[28]; at the same time, it obviously needs a reliable transportation line for its imported gas (in 2006 it used 2.6 billion cu m, nearly the entire amount was imported). Today Moldova receives Russian gas that comes from Ukraine via Tiraspol. In 2006, another pipeline was started to connect Kishinev with the main line that moves Russian gas to the Balkans.

In recent years, Ukraine has been frantically looking for a place on Europe's gas and energy scene; it wants a greater transit role to decrease its dependence on Russian gas. In the past, Ukraine discussed the possibility of extending the Iran-Armenia gas pipeline to its territory to diversify supplies and organize gas transit to Europe. There were plans to join Nabucco in Rumania via the Hust-Satu Mare main gas pipeline; however, no relevant documents have been drawn up so far. The GUAM members are pinning the greatest hopes on Azerbaijan as a potential supplier of natural gas via Nabucco and Georgia as the region's main transit state. The planned gas pipeline will be useless without gas from Turkmenistan and/or Iran; Kazakhstan does not rule out its participation either. In May 2006, it supported the idea of the so-called Trans-Caspian gas pipeline, an inalienable component of Nabucco. It is planned to lay the pipeline under water across the Caspian, to reach Azerbaijan, and move gas across Georgia to Turkey.[29] The project has to be approved by the five Caspian states involved in the talks on the Caspian's status. Two of them—Russia and Iran—will gain nothing from the project.

The trans-Caspian idea is a fairly old one: Azerbaijan and Turkmenistan discussed it back in the mid-1990s. Azerbaijan had to agree on gas transit through its territory (the pipeline's carrying capacity was expected to be 30 billion cu m). In 1999, when it finally agreed, large gas deposits were discovered at Shah Deniz to make Azerbaijan a potential gas exporter. Its newly acquired role urged it to demand half of the planned pipeline's carrying capacity for its own needs. Turkmenistan refused to accommodate. In the 1990s, it was not yet considered necessary for all the coastal states to endorse the underwater pipeline. Since that time the project has remained frozen. Today, Azerbaijan is inviting the EU states to buy gas from Turkmenistan to ensure their energy security. The recent events and the EU-Turkmenistan dialog now underway suggest that the republic will seek an independent role on the European gas market; it will be even more determined if the newly discovered huge gas reserves it is talking about are confirmed. In this situation, Azerbaijan will be able to

[27] See: *Vremia novostey,* 19 March, 2007.

[28] According to [http://www.batopy.org.pl/doc./pressa] Moldova owes Russia $325 million for gas (the debts have accumulated since the early 1990s). The sum includes penalty provision but excludes the debt of Transnistria (which owes Russia $1.25 billion). Moldova imports about 75-80 percent of primary energy raw material of its total consumption; gas accounts for 45-51 percent.

[29] Part of the gas pipeline Baku-Tbilisi-Erzurum (BTE) often called the South Caucasian line (its Azeri stretch is 442 km long, Georgian stretch being 248 km) is almost complete. It cost $1.2 billion, but it has not been commissioned because the Turkish stretch (280 km long) is still under construction. According to the project, the pipeline should be commissioned in 2008; its carrying capacity will be 7.8 billion cu m; it can be later increased to 20 billion.

demand that Turkmenistan and Kazakhstan (if it joins the project at all) should pay for the transit of their fuel. The future of the Trans-Caspian gas pipeline is vague; if Iran joins the project, the 2004 alternative will be revived.

The above demonstrates that GUAM has a great role to play in global energy policy in the Caspian-Black Sea region. It may become even more involved if its members agree on and follow a united strategy in this vitally important sphere.