

## **AGREEMENT SIGNED ON TRANS-BALKAN OIL PIPELINE, RUSSIAN RIVAL TO TRANS-CASPIAN PROJECT**

by Vladimir Socor

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Yesterday, March 15, Russia, Bulgaria, and Greece signed an intergovernmental agreement to build the Trans-Balkan Oil Pipeline, Burgas-Alexandropolis. Russian President Vladimir Putin, in full command of the signing ceremonies, took it upon himself to define the project's significance and the interests of other participants in the project. The pipeline, the first-ever to be controlled by the Russian state on European Union territory, would carry oil mainly from Russian Black Sea ports to the Aegean, for shipment from there by tankers.

The project's main official rationale is to provide a second outlet from the Black Sea, circumventing the overcrowded Bosphorus, for Russian oil and Russian-loaded Caspian oil en route to the open seas. With those flows from Novorossiysk and Odessa/Pivdenny a growing danger to safety in the Bosphorus Strait, a pipeline bypass from Burgas to Alexandropolis is in essence a transport-safety-enhancing project, necessary in that strict sense.

However, the Burgas-Alexandropolis project runs counter to the EU's strategic interest of reducing dependence on Russia-delivered energy. If built, this pipeline will become, in effect, a prolongation of the Caspian Pipeline Consortium's (CPC) line from Kazakhstan to Russia's Black Sea port of Novorossiysk. From there, the oil would proceed to Burgas-Alexandropolis directly across the Black Sea.

This two-stage route is a direct rival to trans-Caspian oil transport projects from Kazakhstan westward, such as the Kazakhstan-Baku-Tbilisi-Ceyhan (Turkey)planned tanker line and existing pipeline. The Burgas-Alexandropolis line would also divert Caspian oil volumes necessary to the Odessa-Brody pipeline in Ukraine and its possible extension into Poland.

Proceeding with Burgas-Alexandropolis and a commitment to its use by Western companies in Kazakhstan is a Russian precondition to the planned enlargement of the CPC pipeline from Kazakhstan. The U.S., European, and Kazakh oil companies face production delays and financial losses because Russia has blocked that pipeline's capacity expansion in the last three years. To allow that expansion, Moscow wants those companies to export their oil from Kazakhstan through Russia, as opposed to exporting it across the Caspian and the South Caucasus to the open seas.

The Burgas-Alexandropolis project can lend decisive impetus to enlarging the capacity of the CPC pipeline into Russia to Novorossiysk. That line's existing capacity amounts to some 27 million tons annually. If enlarged significantly beyond that capacity -- let alone the colossal 67 million tons annually as planned -- the CPC line would suck up massive production volumes from ongoing and upcoming projects in Kazakhstan, including the

supergiant Kashagan fields. Thus, an expanded CPC could severely undercut the trans Caspian projects that answer Western strategic interests.

Even in a short-to-medium term perspective, the Baku-Ceyhan system requires significant additional volumes of Kazakhstani oil. Inputs into that system from Kazakhstan will become critical within a decade. However, an expanded CPC pipeline would divert most of those volumes into Russian territory to Novorossiysk and from there via the Black Sea into the Russian state-controlled Burgas-Alexandropolis pipeline.

Burgas-Alexandropolis developments also affect negatively the prospects for the EU-supported Odessa-Brody-Plock (Poland) project. That route is also an alternative to the Turkish Straits as an oil exit from the Black Sea. However, availability of the Burgas-Alexandropolis outlet can ensure long-term use of the Odessa-Brody pipeline by Russian companies in the reverse, north-south, instead of the originally intended south-north direction for Caspian oil to Europe.

According to Putin and other officials at yesterday's event, future users of the Burgas-Alexandropolis pipeline will be Russia's monopoly Transneft regarding the oil volumes and schedules for using this pipeline. This means that U.S. and West European companies will depend on the Russian state for accessing EU territory to transport oil extracted by Western companies for Western consumers.

In his speech at the agreement's signing, Putin predicted that companies in Kazakhstan would be using this pipeline. Hard-pressed companies might indeed do so. Chevron has publicly indicated its intention to do so, while the CPC consortium seems to be hedging its bets for now in its public comments.

Transneft, GazpromNeft, and Rosneft hold a combined 51% stake in the Burgas-Alexandropolis project, with Transneft as project operator. Greece and Bulgaria hold the remaining 49% initially, with the right to sell portions of their stakes to international or Russian oil companies that would use this transit pipeline. The Greek side in Burgas-Alexandropolis consists of three companies, one of them a Gazprom joint venture. The Bulgarian stakeholder, BulgarGaz, is known to be eyed by Gazprom for setting up a joint venture.

The Burgas-Alexandropolis pipeline is intended to carry 35 million tons of oil annually in the first phase, with expansion to 50 million tons in the second phase. The first-phase capacity alone would be larger than the maximal planned addition of 38 million tons to the CPC pipeline's capacity. These figures apparently reflect intentions to direct the lion's share of Kazakhstan's growing oil production into the CPC and Burgas-Alexandropolis, still leaving spare capacity in the latter pipeline for Russian oil loaded at Novorossiysk and Odessa/Pivdenny.

Financing has yet to be lined up on international credit markets for the Burgas-Alexandropolis pipeline. The Russian side at this time does not wish to finance the Trans-

Balkan Pipeline, at least not directly. The intergovernmental agreement just signed is subject to parliamentary ratification in the three countries.

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