XXV. The Problem of Oil Traffic in the Black Sea Straits and the Prospects of the "Bourgas-Alexandroupolis Project"

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Energy security is now one of the most important problems for the world's main consumers of energy resources. The unfulfilled hopes for essential Iraqi oil supplies, soaring oil prices and increasing energy consumption in the key importing countries, are making them take drastic measures in order to avoid a crisis.

The problem is also of great importance to the European countries. Frequent disruption of Middle East supplies (often caused by subversive activities on the main Iraqi oil export routes), the decrease of oil production in the key European producing area, the North Sea, are making the European states try harder to diversify energy sources – in terms of both type and area.

For the time being, the search for alternative energy sources that could weaken dependence on traditional hydrocarbons has not resulted in any revolutionary breakthrough. Nevertheless, it is necessary to point out that the European countries (as well as the USA and Asia-Pacific states) are actively increasing their consumption of natural gas – both via pipelines and as liquefied form (LNG). In this connection, the position of oil in traditional markets could be challenged in the foreseeable future.

This is closely connected to the expansion of pipeline gas supplies to Europe, first of all by African producers, with Algeria and Libya as key exporters. The latter lost its European market in the mid-1980s because of the international economic sanctions. But this year, after the USA lifted sanctions, Libya has started turning back to Europe. In October 2004, the supplying of Libyan gas via the "Greenstream" marine pipeline to Sicily is the result of a joint project of the largest Italian oil & gas company, ENI, and Libya's National Oil Co (the cost of the project is 7 bln. euro). Through "Greenstream", by the end of the year Libya will have exported about 1 bln. m^3 of gas; next year the exports are expected to increase to 8 bln. m^3. Some of this gas will be consumed in Italy and the rest re-exported to other European countries.

Russian Gazprom will not only remain one of the key gas exporters to Europe, but will also expand its presence there (at the expense of supplies to its traditional clients), for example Greece, where Gazprom will cover more than 80% of the country's gas imports and of the new projects (North-European gas pipeline via the Baltic).

In the medium and long-term, the position of pipeline gas in Europe will be challenged by liquefied natural gas, closely connected to the active offshore exploration. According to the International Energy Agency, LNG demand will have exceeded the demand for other energy resources by 2030. Besides, world LNG demand will increase by as much as 5 times and pipeline gas demand will only double.

Now, most LNG trade is with the Asia-Pacific region, although about 30% of world imports covers just seven West European states, with France as a leader (it imports almost 11 mln. tn). The European LNG market is considered to be much more lucrative in comparison to the Pacific one. By 2010, LNG demand in Europe will have doubled to 50-60 mln. tn, as can be seen from active construction of new regasification terminals: there are eleven projects at a different stage of readiness. Europe already has thirteen terminals in operation - most of them are in Spain, France and Turkey. Belgium, Cyprus, Italy, Greece and Portugal have one terminal each.

Nevertheless, a substantial turn to gas in the energy balance of the main European consumers that could really challenge oil is still a scenario of the future. And now they have to face the serious problems of uninterrupted oil supply to the refineries. The European Union's energy strategy aims at gradually diminishing dependence on Middle East oil and drawing on other sources – Kazakh and Russian producers, in particular.

With the latter ones, there is a problem of delivery of oil to its consumers and this is connected in turn to the problem of the Black Sea

Straits. Many assessments have been made of this issue, but it has certainly not arisen merely because of the threat to the environment, and is, rather, used by the Turkish authorities to promote the economic and political interests of their country.

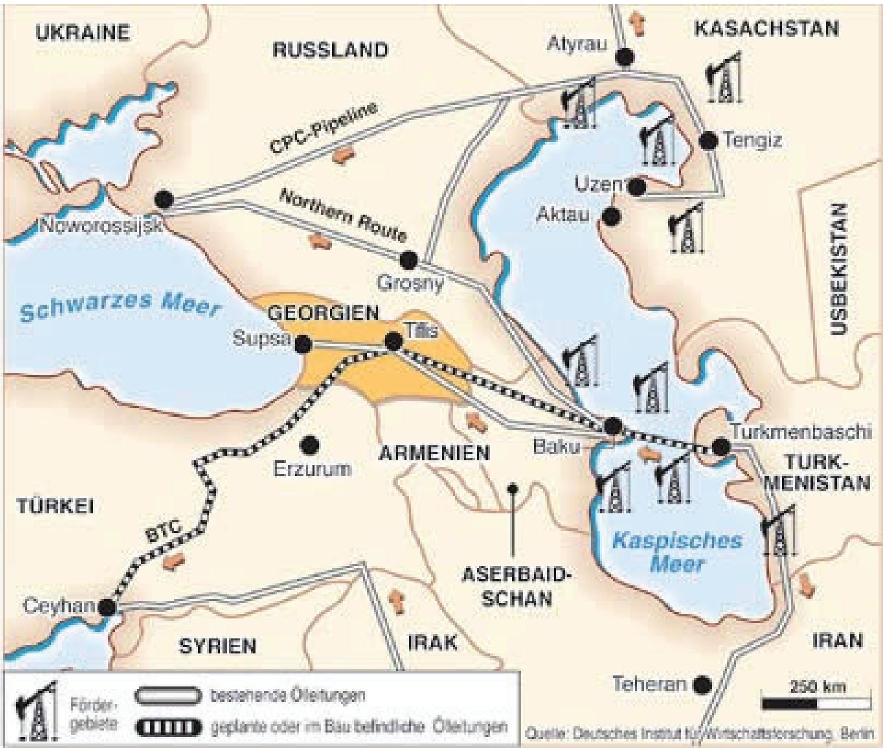
According to the Turkish Maritime Pilot Association, the number of tankers passing through the Straits doubled between 1999 and 2002. However, it is worth noting that the growth in traffic was caused not only by the increased production in the exporting countries of the Black Sea, but was mainly provoked by Turkey itself. The constant toughening of regulations for vessels passing though the Straits made traders increase the use of tankers of medium deadweight, to their own detriment.

The capacity of the Straits is an issue of a long-lasting discussion between the main participants of oil traffic there – Russia and Turkey, in particular. The data on the volume of oil and oil products transported through the Straits varies markedly: according to the Turkish data, it amounts to 140 mln. tn for 2003, while the Russian sources for 2003, put it at no more than 80 mln. tn. The "traffic jams" are caused by the very poor organization of the vessel traffic itself.

Map 1: Transport through the Straits
Source: http://www.cia.gov

Be that as it may, the situation in the Bosporus at the end of 2003, when the vessels had to wait at the entrance of the Straits for up to three weeks, and when traders and final consumers (the European refineries lost hundreds of thousands of dollars, made the parties involved again begin considering various alternative projects.

Turkish interests in this matter have not changed for many years and focus on the Baku-Tbilisi-Ceyhan (BTC) pipeline that was intended to transport oil from the Azeri, Chirag and Gunesli oil fields in Azerbaijan. It is obvious now that the potential of these fields is not enough for the normal loading of the pipeline, and there have been no new discoveries in the Azeri offshore sector recently, so only the companies involved in oil exploration in Russia and Kazakhstan can help BTC cover the pipeline's construction and operation cost.



Map 2: Oil pipelines crossing Turkish territory

From this point of view, the toughening of regulations on the Straits' oil traffic by Turkey can be considered as an instrument of pressure on the above-mentioned states, in order to make them re-orientate a part of their oil export to Baku-Ceyhan.

Negotiations with Kazakhstan have been conducted for the last two years. Russia, in its turn, has proposed some ways of connecting the transporting systems of the state oil pipeline monopoly, Transneft and BTC. They vary from a reversed use of the Baku-Novorossiysk route (that has been used for exporting the oil of the Azeri State Oil Company via the Russian Black Sea port) – which is viable theoretically – to the more utopian project of a pipeline from Novorossiysk to Georgia. The new Georgian President Mikhail Saakashvili went even further, and during his visit to Moscow in February 2004 proposed that Russia build a pipeline (Novorossiysk-Ceyhan) parallel to Baku-Ceyhan. This proposal by the Georgian leader also reveals his geostrategic objectives, which seem to fully coincide with those of the United States and Ankara, and which conflict with Russian geostrategic views.

The fact that Turkey has been increasingly active raising a problem concerning the safety of the environment of the Straits only in BTC's interest became evident during the official visit of the Russian President Vladimir Putin to the country in December 2004. The Russian proposal to improve the passage of vessels in the Straits and to involve Russian specialists has not endangered any serious reaction from the Turkish side. What is more significant was its reaction to the Kiykey-Ibrikhaba pipeline project that has been actively (and unexpectedly for everyone) promoted by Russian Transneft since early 2004.[1] The Turkish "counter-proposal" was the Samsun-Ankara-Ceyhan route, aimed at securing extra oil supplies for the same BTC.

The benefits for Turkey and Georgia from the new transit volumes are evident. However, for the Russian companies, the use of Ceyhan as a Bosporus "bypass" is the least interesting proposal among all they have for the moment.

Until recently, the Bourgas-Alexandroupolis pipeline has been considered to be the most attractive bypassing project for Russia.[2] It has been ten years since it was proposed. In 2002, after many years of pro-

1. The idea of the very project is far from being a new one: once it was considered as an alternative route to Baku-Ceyhan and was more efficient as far as environmental issues were concerned.
2. The initial annual capacity of this pipeline, according to the feasibility study contractor (the German ILF) is 23 mn. tn, the general capacity can be 35 mn. tn. The cost of the project is $ 700 mn approximately.

tracted talks, the process seemed to have got off the ground: Russia, Greece and Bulgaria signed an intergovernmental agreement on the establishment of a consortium and agreed on shares of their participation in the project.

Map 3: Proposed export routes
Source: http://www.johnson.cornell.edu/

The positive dynamics in the development of the project in 2002 were likely caused by the efforts of the Russian Lukoil (together with the Greek family company Latsis Group) to buy a part of Hellenic Petroleum from the Greek government. The connection between these two events can be proven not only by the time coincidence, but also by the participation of Latsis Group and Hellenic Petroleum in the financing of the feasibility study for the project.

Lukoil's chances in Greece in 2002 had every prospect for success (especially, if we take into account that the consortium of Lukoil and Latsis Group were the only bidders for Hellenic Petroleum). However, in early 2003, the Greek government rejected the deal with Lukoil. In the official statement on the issue, it was said that the proposal was unacceptable from the point of view of Greek national interests and that the government would search for an alternative foreign partner for Hellenic Petroleum.

Then things took an unexpected turn: the same Latsis family, but without Lukoil, became a partner of Hellenic Petroleum.[3] As for the pipeline,

3. In May 2003 Latsis made a deal with the Greek government on a two-step unification of the oil shares. On the first step, Pan European Oil & Industrial Holding, 100% family property, was to buy 16.65% of Hellenic Petroleum from the

the project was shelved again after the failure of the Russian company.

In September 2003, the matter was discussed by Lukoil president, Vagit Alekperov, and Vladimir Putin. The former pointed out the Greek position on the transport tariff as the main obstacle for the project and underlined that the key issues had been already coordinated with Bulgaria. In order to expedite the deal, Alekperov proposed to involve Transneft to come to a transport tariff.

Therefore, at the beginning of 2004, Transneft started to promote the Kiykey-Ibrikhaba route.[4] Comparing this proposal with Bourgas-Alexandroupolis, it should be noted that neither Kiykey nor Ibrikhaba currently have a port infrastructure. On the other hand, the Bulgarian-Greek proposal entails only the Alexandroupolis terminal having to be constructed from the very beginning. This fact, as well as a very high capacity, renders the Turkish project very expensive.

In this connection, the question is if Russia (i.e. state Transneft) is demonstrating its interest concerning the above project in order to strengthen its positions at the talks on Bourgas-Alexandroupolis. There has already been a precedent in Russian practice: in the early 1990s, Gazprom positioned a gas pipeline (Yamal-Europe) bypassing Ukraine, where Russia had permanent problems with transit; now Gazprom is designing a Trans-baltic gas pipeline that is to be a bypass not only Ukraine, but Byelorussia and Poland as well.

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state. On the second step, Hellenic Petroleum was to merge Petrola Hellas that owns the third biggest refinery in the country and is run by Pan European Oil & Industrial Holding. The merger of Hellenic Petroleum and Petrola Hellas was approved by the shareholders' meeting in September 2003. According to the final results of the whole project, the Greek government is to control 35.5% of the united company, Pan European Oil & Industrial Holding – 24.7% and 31.6% of the united company will belong to the minor shareholders, so Latsis Group has an opportunity to consolidate a controlling block of shares of Hellenic Petroleum.

4. The route is 913 km long; the planning capacity is 69 mn. tn per annum. The proposed cost is $913 mn. It is worth pointing out that according to the Russian Ministry of Industry and Energy, the volume of oil transported through the Bosporus Strait in 2003 was 62 mn. tn – i.e. Transneft is planning Kiykey-Ibrikhaba, meaning 100% of Russian transit volumes in the Straits.

Map 4: Oil pipelines in Eurasia
Source: http://www.wikipedia.com

There is definitely a possibility that Transneft has revealed its Kiykey-Ibrikhaba project in order to create competition between the two projects, as from the very beginning there has been little hope that the Turkish administration, being busy with Baku-Ceyhan, will approve a project that can be competitive for BTC.

The problem of the Black Sea Straits has not yet been solved. However, Russia has some scope to increase its oil traffic. First of all, there is the Baltic Pipeline System of Transneft, which can reach its full capacity (62 mn. tn per year) in 2005; secondly, its Croatian deep-water port of Omisal (the project of integration of the Druzhba and Adria pipeline systems); thirdly, there is a project (West Siberia-Murmansk), lobbied by the leading Russian oil producing companies. Lukoil also supported the route and has recently called it the most prospective one for the company's oil exports. The Murmansk project – if it is realized – can deprive Europe of its monopoly for Russian oil purchases and will help solve the problem of the Black Sea Straits.

However, the project does not have much chance of success (though there is real interest by the Russian companies to export their oil to the USA from the deepwater Murmansk port). At the same time, the weakening of Russian oil and (political) interests in the Black Sea region is unlikely, if not impossible. The Black Sea transit is the best export route for hydrocarbons from the Russian Caspian sector, and perhaps for the whole of the North Caspian region. In this connection, the solution of the problem of the Straits is the necessary condition to use this route. It is evident that after BTC starts its operation, Turkey will intensify its actions against tankers in the Straits. In this sense, the “Bourgas-Alexandroupolis” project has a real chance to become the solution to the problem.

The recent activity of the events over the project has been handled by the experts with restraint.[5] The negotiations between the Russian President Putin and the Greek Prime Minister Mr. Karamanlis that took place in Moscow in December 2004 did not make the situation over the future of the project any clearer. We cannot deny that among many Bosporus bypassing projects,[6] it is the Bourgas-Alexandroupolis project that is the most advantageous for Russia from the geopolitical point of view. And it is logical to assume that the Russian authorities will be guided by the geopolitical interests of the country, while making a decision on overcoming the Bosporus deadlock. The same interests will no doubt become the decisive ones for the policy of the oil companies that are likely to participate in the project.[7]

In any case, we should take into account that Russian oil exports are

5. It is mostly connected with the fact that most of the Russian companies sell their oil at ports on FOB conditions therefore the routes that provide oil transfer from one of the Black Sea ports and its transporting by pipeline to a port located on the “other side” of the Straits cannot get guarantees of loading. The solution of the problem of loading for bypasses requires the change of the conditions of current contracts or their orientation at using a special route when new contracts are to be signed. In other words, in spite of the recent agreements between Russia, Greece and Bulgaria, guarantees of loading for Bourgas-Alexandroupolis can create a problem for investments.

6. There are about 10 of them now. The Bourgas-Vlore and Constanza-Omisal can be competitive for Bourgas-Alexandroupolis.

7. Thus, in case of a positive decision of the Russian government that makes the realization of the Bourgas-Alexandroupolis possible, Lukoil is most likely to join the project. It is still this company that can be considered as the main oil supplier for the pipeline, being the key producer in the Russian Caspian sector. Besides, the fact that ConocoPhillips, which is in oil exploration projects in Kazakhstan, is now one of Lukoil’s shareholders, make it possible to assume that both of the companies mentioned will pursue a joint policy. That means that Conoco’s oil that will be transported via the Caspian Pipeline Consortium route can get to Bourgas. Besides, Lukoil is unlikely to let its relations with the government strain Bourgas-Alexandroupolis. In the context of the situation over Yukos, Lukoil’s management evidently prefers mutually advantageous cooperation with the authorities instead of resistance (as it happened in late 2001 when Lukoil tried to join the Baku-Ceyhan project). Now Lukoil’s oversea projects are promoted and lobbied at the governmental level and this would be very useful to Athens, should it take it into consideration.

almost completely controlled by the government, and the decision on choosing new export routes is its exclusive prerogative. Thus, the "last word" on the future of Bourgas-Alexandroupolis will be said by the Russian president.

The project could be also promoted by the European Union, and it will be in line with the economic and political interests of the EU, that in the future it can confront the situation when Turkey will control oil traffic from the Caspian region to Europe. However, until now there has not been any essential reaction from the EU authorities, and the European Committee on Transport, Energy and Communications has concentrated its attention on the disputable Ukrainian route Odessa-Brody.[8]

EU support would undoubtedly become a catalyst for the promotion of the Bourgas-Alexandroupolis pipeline, and might help to urge Russia make the final decision positive for the project, as when the BTC starts its operation, the problem of the Black Sea Straits will aggravate. Whatever happens, the very decision is likely to be topical in the foreseeable future.

Map 5: Oil and gas pipelines crossing the territory of Ukraine
Source: http://goo.gl/C4x43X

8. The Odessa-Brody oil pipeline was constructed in 2001 in order to transport Caspian oil to Europe (it was proposed to extend the route to Gdansk via Plock). It is the first and the only one pipeline in the world that has been built without any guarantees of oil supplies. All efforts to make the oil companies use it have been unsuccessful so far. The Russian proposal to use the pipeline in "reverse" way (to transport oil to the Black Sea ports) was strongly objected to by the USA and the European Union. But it was this proposal that was finally accepted by the Ukrainian government in 2004 as the further demurrage would simply make the pipeline worthless. In their turn neither the USA, nor the EU, that had warned Ukraine against the "Russian expansion" has given sufficient financial support to extend the route to Gdansk and to start transporting oil to Europe.