

**Politics and Economics behind
Proposed Caspian Export
Pipeline Projects**

**Current Studies on Business/Public Policy
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Preface

In 1997, the University of Houston, through the Energy Institute located in our College of Business Administration, became a participant in a consortium managed by Hagler Bailly Consultants for the U.S. Agency for International Development. The consortium was engaged in energy sector reform in critical republics of the Newly Independent States (NIS) of the Former Soviet Union. The NIS program included the republics Kazakhstan, Turkmenistan and Georgia, all critical players in the development and export of Caspian Basin oil and gas resources.

Like many other research organizations, we have strong interests in the multitude of issues impacting crude oil resource development and potential pipeline routes. This paper explores many of the assumptions underlying Caspian Basin exploitation, and raises several issues with respect to eventual outcomes. Our overall conclusion is a critical one: *given the complexities of the region, it is most likely that any workable solution for pipeline export routes will be a “brokered” one that reflects majority interests and appeases, to the extent possible, minority concerns.*

We are grateful to the U.S. AID and Hagler Bailly Consulting for the opportunity to participate in the important work being done in the Caspian Basin region, and to our other corporate sponsors and supporters who are vital to the operation and integrity of this Institute.

*Michelle Michot Foss, Director
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Abstract

The Caspian region has received considerable attention because of the potential of its hydrocarbon resources. The debates among companies operating in the region, local governments and outside forces such as the US and the EU concerning the pipeline options have been capturing analysts' attention. In this article, besides providing a concise overview of the hydrocarbon potential and geopolitics of the region, we entertain a forecast of the region's export options as well as export revenues complemented with an oil price scenario analysis. We conclude that the first pipeline to be built may remain the main option for a considerable period of time. Furthermore, if the operators can increase the capacity of the Baku-Supsa pipeline that is being built for "early oil" purposes from 100,000-200,000 b/d to 400,000 b/d as speculated, this may be the primary option. Finally, even under the most optimistic price scenario, oil export revenues for companies may not be sufficient to cover capital expenditures necessary to develop resources.