

Proceedings

Caspian Natural Resources: Sustainability and Accountability

A panel discussion organized by ISAR

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ISAR Forum
**Caspian Natural Resources:
Sustainability and Accountability**
a panel discussion

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I. Introduction

Kate Watters

Deputy Director

ISAR-DC

Before our panelists begin their presentations, I would like to take this opportunity to thank everyone for attending today's forum and to offer a brief introduction of ISAR's Caspian Program. The program has been operating for three years with generous support from USAID, the Open Society Institute, the Trust for Mutual Understanding, Rockefeller Family Associates and the Academy for Educational Development. The Caspian Program reflects the interests and focus of Caspian regional nongovernmental organizations (NGOs), and is managed by a diverse team of environmentalists and NGO representatives from around the basin. These people include ISAR staff from Almaty and Atyrau, Kazakhstan; Baku, Azerbaijan; Tbilisi, Georgia; Moscow, Russia; and Washington, DC; as well as a board of advisors comprised of environmental NGO experts from each of the Caspian countries.

Since 1998, we have dispersed grants, provided informational and technical support to Caspian environmental NGOs, conducted seminars on themes relevant to the Caspian, including interaction among NGOs, transnational corporations (TNCs), and government structures, and created resource centers devoted to environmental and Caspian-related issues. Our plans for the next two years include the establishment of a public environmental monitoring system throughout the Caspian, the facilitation of a series of seminars on the role of NGOs in oil spill response, and the continuation of building bridges and promoting accountability among all three sectors of society.

We have learned several lessons thus far in supporting open and constructive dialogue among NGOs, TNCs and government representatives. First, in order to ensure the sustainable development of the Caspian region, NGOs must operate effectively as a solid and equal part of society. In order to do this, they must have open access to information and be included in decision-making processes. The understanding and capacity that comes with this responsibility makes them more effective and informed partners for both government and business. The main goal of ISAR's program has been and continues to be capacity building of environmental NGOs in the Caspian basin. Their ability to work effectively has a direct impact

on the development of civil society and environmental improvements in the region.

Secondly, we have learned that effective interaction among all three sectors of society requires a nuanced approach. Labeling all companies, all government officials or all NGOs with the same identity simply does not work. Just as NGOs vary in their level of competence, so do government officials and business representatives vary in their level of commitment to transparency and public participation. All of us who work in this field must keep this in mind. It is something both ISAR and local NGOs have incorporated into their strategies in working with their colleagues in business and government over the past two years.

Today's meeting reflects ISAR's commitment to supporting interaction among all three sectors of region, as well as an effective system of accountability.

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Panelists Richard Carey, Kate Watters, Barry Halton, Steven Mann, Timur Berkeliev and Michelle Kinman

II. Panel Presentations

Ambassador Steven Mann

Senior Advisor

Caspian Basin Energy Diplomacy

Department of State

Ambassador Mann has held his current position with the Department of State since May 2001. Previously, Ambassador Mann held a variety of distinguished positions including Ambassador to Turkmenistan from 1998-2001. Ambassador Mann also served in Moscow and at the State Department Soviet desk in Washington. He received his BA from Oberlin College and an MA in political science from Columbia University.

The United States government policy for developing Caspian energy is to create multiple pipelines for the export of Caspian oil and gas resources. This policy has been in place for the past two administrations for a number of reasons, including to help the Caspian countries develop their energy resources; bring energy to the world market at the lowest possible cost; help the global economy; bypass Iran; and create commercial opportunities for American firms. Among all of these reasons, the fundamental aspect of US policy is strategic. Out of the wreckage of an old empire, the US wants to see new, sovereign, independent states establish themselves and prosper in this geographically important piece of real estate that is located proximate to Russia, China, Iran and Afghanistan. We believe energy resources can play an important role in this achievement and that governments will have greater autonomy in terms of their own policy making, not being 100 percent dependent on Transneft and Gazprom to decide whether and how they can export their resources. To support this policy, the US has supported a number of pipelines coming out of this region as part of an East-West energy corridor. These include the Baku-Supsa and the Caspian Pipeline Consortium (CPC) pipeline routes, as well as the Baku-Tbilisi-Ceyhan (BTC) pipeline, on which the first phase of construction will commence next month and which will be on track to carry oil to the Mediterranean Sea in 2005.

That said, the question that is most interesting to the forum is how do we achieve all of this? First of all, it is important to note that the entire Caspian energy issue has been oversold. Caspian oil constitutes only 4 percent of world oil supplies—not even close to that of Saudi Arabia and the Gulf—but Caspian oil will set oil

prices on the margins for current decades in the same way that North Sea oil did in the 1970s. Secondly, it is not a given that the Caspian will attract investment. A great deal of competition exists within the region, but the competition that Baku and Astana face is not that posed by one another, but for investment dollars with the Deep Water Gulf, West Africa and East Asia. These are some of the issues that Caspian governments are facing. Regional governments have to attract foreign investment in a way that is commercially attractive to the major companies; this is the most important point in how to achieve an East-West energy corridor.

The second point is that this needs to be done in an environmentally responsible way. For the US government, this is said in a very political sense. The government does not want a policy that will create problems in the future. In addition, the development of the East-West corridor has to be done in a financially responsible and rational way. If investment money is not used to develop the societies, the US will not achieve its policy; it will not have those stable states in this critical part of the world. For this reason, I have wholehearted admiration for NGO activities



pushing for transparency and real investment. I say this not out of sentiment, but as a result of hardheaded strategic calculation. And as NGOs study these issues, I would urge them to focus on the right subject. The fact is that Caspian resources are going to be developed. The question is who will develop them. It will be much better for the environment and society if BP or ExxonMobil are the primary developers rather than less experienced companies. Western companies have good reasons to care for the environment; not out of sentiment, but out of liability and out of branding. These companies want to be seen as taking the environment seriously, and I believe they are. I believe they will bring international best practices to their work. That said, all of us are in this together and we need to keep a sharp and rigorous eye on the environment. As a case in point, the Baku-Tbilisi-Ceyhan Environmental and Social Impact Assessment (ESIA) will be made publicly available. This publication should not be viewed as a starting point—the BTC consortium has already done a good

amount of serious work on the route—but also not as an end point. The ESIA is the starting point for serious discussion among NGOs and the environmental community. From a US government standpoint we absolutely want to make sure that the environmental issues for this project have been as rigorously handled as possible. Also bear in mind that the BTC project represents an environmental good because it serves as a Bosphorus bypass. At some point, the Bosphorus is not going to be able to handle additional oil traffic coming through the Straits. Bypasses are one of the most environmentally friendly ways to export large volumes of oil from the region, and BTC is high on that list.

As a final point, I would like to once again emphasize that the fundamental strategic point of US policy to promote stability, development and autonomy in the region meshes very well with the ideas of democracy, civil society, transparency and accountability. Without these components, without rule of law, new societies will only be temporarily stable. Stability is not stagnation; stability is a process of measured development that brings societies gradually towards prosperity, political participation and rule of law. I believe that all of us here have parallel methods towards the same goal in trying to achieve the development of Caspian resources. With dialogue, good will and the application of good intellect we can achieve our goals together.

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Barry Halton
Regional Affairs Director
Baku-Tbilisi-Ceyhan Pipeline Project
British Petroleum

Mr. Halton worked as the public affairs manager for BP in Azerbaijan from 1992-96, when the first major Production Sharing Agreements (PSAs) were being negotiated. Mr. Halton joined the Baku-Tbilisi-Ceyhan (BTC) project in January 2002, with primary responsibilities in communications and reputation aspects for the project, including oversight for the community investment programs in the three countries that are affected by the project.

Ambassador Mann spoke very highly about BP and from what I can see of the BTC team I work with there is a very genuine desire to get this particular project right; to make it a model for oil pipeline development all over the world. This, of course, is easy to say but difficult to achieve. I have worked for BP for over 25 years. Twenty years ago the focus of our work was very much on the environment. It sounds trite to say, but I think a lot of people would admit that the environment has already been banked. It is accepted now that it's normal, decent practice for any major project that a company will not mess up the environment. I think that although we have made mistakes and have to be humble about that, BP does know how to carry out oil developments without messing up the environment. We have the technology and we have the management procedures in place to ensure that doesn't happen.

What I think is a more recent phenomenon and what characterizes this project for me is that we are now starting to talk more actively about people as well as ecology. The two are certainly interrelated, but for me the focus for this decade is people and social affairs. This is fascinating because it is much more difficult to understand and to quantify. One cannot measure social effects in quite the same way as emissions, etc. However, getting it right is absolutely crucial. Listening to everyone's opinion, accommodating those views and trying to find the right solution is fascinating. For me, the BTC project fuses these factors together. The BTC is a tremendous route, covering nearly 1760 km, through three countries with different languages, different cultures, different types of neighbors, sensitive environments, and a lot of people. Well over 500 different communities and three-fourths of a million people live along the route and may or may not be affected by pipeline development.

In the spirit of our gathering today it is important to address the following questions: How is BP trying to go about this project? What do we see in it? What are we going to do in this tripartite partnership that this forum refers to as a way we can all get it right? What do we expect of other people?

First, our approach is to be a player; to be actively engaged at all levels. For our part, BP is involved in several places. We are involved locally, nationally and internationally. We see things from commercial viewpoint: we are responsible to shareholders who want to see a return, we have customers, and we have employees who are aware of the issues we are talking about today. We need to look for new business. We need to find new developments. We need to regenerate our organization and our company. To do this, we need to have a decent reputation. Reputation is hard to win and very, very easy to lose. We need to be aware of who we are, what we are, and what our responsibilities include. We are not government; we are not democratically elected; we are an investor. We are a wealth-creator. We are not a charity; it is not our role to usurp the role of government or assume their responsibilities. We will not accept those roles because we do not think it is right that we should do that. To operate in these environments and carry out these complicated and difficult developments we need to work with partners so we touch many different groups. Our business is long-term. Oil development is by definition a 20 to 30 year project, and that is for a single development. It can take up to five years just to bring a development on stream. So we have partners in local and national governments and we work with local and international NGOs as well as business, academia, multilateral agencies and so on. We want the same things that all those organizations want. From our point of view as a commercial organization, we would like a stable society. We would like to operate within a healthy economy and we would like to be able to find good local staff who are well qualified and enthusiastic. We need reliable suppliers and we need a constructive and helpful officialdom. We need a good press; we need good relations with the media. We want contented neighbors—neighbors that we can get along with, that we are happy with, that we can discuss things sensibly with and resolve our problems if there are any. We need the respect of international observers and we need them to understand that we are trying our best and doing a decent job.



But at the end of the day we will be judged by our behavior. BP's behavior is outlined in the brand values and the principles and policies by which we operate. These cover things such as ethical conduct, the way we treat our employees, the relationships we try to develop and hold, our health, safety and environmental standards, and our financial and control standards. All of this information is available publicly. We try to adopt and follow best practices wherever it is possible to do so. On our projects in the Caspian region this translates into our business practice, our social investment policies and our engagement in policy and debate. I was reading the Oxfam report that came out a few months ago which addresses the "resource curse"; an expression that implies that oil development always

produces negative outcomes. Certainly there are plenty of examples around the world where this is true, but our aspiration is to buck that trend.

What does BP see in the Caspian and more specifically, Azerbaijan? We think Azerbaijan is one of the most closely observed places in the world in terms of oil development. There has been a tremendous amount of attention given to the area in the last ten years and this is continuing to grow. We also see Azerbaijan as one of the countries that is most willing to engage in an international dialogue about how to produce the best results for everybody concerned. BP pays tribute to Azerbaijan because they are open to ideas and they are willing to be engaged. Some of the things that are already in place are a good indication that Azerbaijan too would like to see things go the right way. Of course things are not perfect and we should not be naïve and assume that everyone thinks they are, but there is evidence. For example, there is an oil fund which will continue to exist and grow and will face a fair amount of scrutiny as we move forward. Azerbaijan has gained praise from the International Monetary Fund on the way the macro economy is being run; inflation is being kept down and the government has a poverty reduction plan, albeit in its infancy. These are all signs that Azerbaijan is willing to take advice and use it in its own way to control its destiny. The country is blessed with assets. They have an educated population, a great staff working for BP, an active NGO sector, a relatively free press, an immense sense of national pride and a desire to get things right. On the other hand, there are also big problems that still need to be solved, such as corruption, poor banking and finance reform, and legal reforms.

What will BP do about this? I've said what we won't do. We don't play the role of government and we aren't going to act as a charity. First we will invest. We are set to invest \$12 billion over the next five years. It's not the investment that is important but the revenue that results as payback on the investment, which is estimated at \$24 billion over the next 20 years or so. We don't know if that will be accurate, it depends on oil prices and so on, but this is a reasonable estimate at the moment. The other part of our investment is confidence because as Steve said, we have a choice of investing in different places around the world. In the next five to ten years, Azerbaijan will represent approximately 10 percent of BP's worldwide oil reserves and 7 percent of its production. That is quite a commitment to make to one country when one is trying to spread risk.

In addition, we are going to employ people; we do employ people. We have about 1,200 staff in Baku and Georgia, mostly local. More importantly, we have 40 Azerbaijanis scattered around the BP globe. These are the high flyers—the ones who are going to run the industry in Azerbaijan once they have picked up the international experience that they are now getting with BP. BP employs 11,000 people during construction. Unfortunately this is a short-term phenomenon because construction only lasts 2 to 3 years, but nevertheless it's a massive injection into the economy at a direct level. We will work on employment practices

and we will influence our subcontractors so they behave the same way, etc. We will favor local suppliers and we will buy local services. We will work to international standards. We will address the issues of safety, environment, human rights—we will adopt the voluntary principles on human rights—and transparency. We are already disclosing the payments and revenues that Azerbaijan has accrued from our activities. We will publish PSAs on the Internet because they should be publicly available documents. We will have a community investment program and an environmental investment program, as additional and voluntary measures of goodwill. And finally, we will take part in debates, just like now. We are already involved in the poverty reduction plan. We will advise on the management of oil revenues. It is not our job to tell the government how to spend these revenues, but we can certainly advise them on how to make the best use of them, how to cope with the volatility of oil prices. We will try to address some of the issues that are directly relevant to our business like the shortage of energy in the winter, particularly in Georgia and Azerbaijan. And we participate in the Caspian Environment Programme, which is a very important forum.

What do we want from the NGOs and the community? We appreciate constructive dialogue. There are lots of NGOs; some are not quite what they seem, some are corrupt, some have other agendas, but many of them are very positive. There are approximately 25,000 registered NGOs around the world and I would imagine that BP deals with a fair number of them because of our geographical spread. What I ask of NGOs is that they do come and talk to us if they have an issue; our doors are always open. We ask that they please do not go immediately to the press, but speak to us first in the case that we could clarify the issue. We are all judged by our actions; we have to be clear in our intentions and clear of our role and not make promises we cannot deliver. We have to stretch the boundaries because if we want to be a force for good, if we really want to change the world, then we have to push the boundaries. With this particular project we are trying to push the boundaries and I think this is an aspiration all involved sectors share.

* * *

Richard Adams Carey
Author and Fisheries Advocate

Mr. Carey has recently returned from a trip around the Caspian where he visited Azerbaijan and southern Russia, collecting data and doing research for a book he is writing on the fate of sturgeon and fisheries. Mr. Carey has written other books on fisheries and communities dealing with fish and water, including Raven's Children: An Alaskan Culture at Twilight which describes a summer he spent fishing with an Alaskan Eskimo family, and Against the Tide: The Fate of the New England Fisherman which describes a year in the lives of four commercial fishermen from Cape Cod. This book won the 2001 New Hampshire literary prize and was described by the New York Times as "deep, ecological journalism at its best; an effective and passionate chronicle of a threatened way of life."

When I began this project on sturgeon and the operations of the caviar industry a year ago, I did so without a lot of optimism about the ultimate fate of sturgeon on this earth. I spent the first part of my research traveling around the US talking to scientists, caviar retailers, processors, chefs, connoisseurs, law enforcement agents, agriculturalists, conservationists, bureaucrats, sports fishermen, commercial fishermen and more. Through my conversations with all these groups of people my optimism grew because I was meeting so many bright and committed people who absolutely love this fish, whether for the sake of its roe or more frequently for the sake of the fish itself.

And why not? This is a fish that is so remarkable in so many different ways. Statistically the sturgeon is our largest freshwater fish—the beluga is the granddaddy of them all, growing to beyond 20 feet and more than 2000 pounds, with a lifespan of 100 years or more. Sturgeon are among the most ancient life forms on earth, dating back 250 million years. We have other living fossils of course, but this particular one is uniquely speciose, meaning that many different species of it exist. Twenty-five different species of sturgeon provide scientists a wonderful window into life on earth in its earliest stages. Not to mention that the sturgeon is a great example of a design that has been unchanged for 250 million years. We do it an injustice to call it a primitive fish. Most fish aren't very pleasant to handle, but if you visit a hatchery you might be given the opportunity to handle a juvenile sturgeon and you'll find that the skin is dry and gritty, the way a shark skin is, but this fish won't take a bite out of you. Customarily, they will lie very placidly in your arms and you can bond with this fish the way you might with a kitten or a puppy. It's really kind of a primal experience and to experience this with an inhabitant of the marine world is very unusual.

Then there is the roe, what people have been describing as the food of the gods for lo, these many centuries. In the marketplace of wildlife conservation we talk about

charisma. Fish in general do not have a lot of charisma, but in that realm these guys are destined to be the panda bears of the marine sphere.

Sturgeon were once common in the northern hemisphere, but they have taken terrible hits over the last years from damming, pollution and overfishing. I was cheered as I went around the US to find several populations of sturgeon that were recovering and stable. I've also been cheered by the work of the Convention on International Trade and Endangered Species (CITES). In 1998 all sturgeon species were placed in Appendix 2 for CITES, meaning that they could only be bought and sold with documentation proving that they had been legally harvested. Considering all of that and all the talent we have working on the side of this fish, I thought surely we can save the three most legendary and valued species of sturgeon: the beluga, the Russian sturgeon and the stellate sturgeon which provide 90 percent of the world's black gold caviar.

When I went to the Caspian last May, I had in the back of my mind those depressing bar graphs that show harvest levels from the mid-70s on to the 1990s, with a very steep staircase down. The beluga, in particular, occupies that bottom step. I went to a symposium last summer in Wisconsin where Vladimir Ivanov from the Russian Federation sent a ripple through a crowd of 400 scientists when he announced that as far as he could tell the beluga had ceased natural reproduction in the wild; that whatever beluga are being harvested were only hatchery-bred fish. But last fall CITES requested that the Caspian states voluntarily suspend their harvest of sturgeon, and these states complied, with the exception of Iran. Also, during that time they worked on a renewed commitment to cooperative research, increased law enforcement, and hatchery production. These things were all good news to CITES, and therefore the spring harvest was duly granted a seal of approval. Consequently, when I was in the Caspian I spoke with government officials of various sorts and was informed that things were on the upswing.

Then I talked with scientists who were not necessarily on the government payroll. I talked with fishermen out on the rivers. I talked with government workers who were willing to talk more frankly. I heard from those sources that the downswing was really more of a down than ever before. Oil development is a huge issue. People are angry about what they perceive to be current environmental deterioration connected to oil production, but with sturgeon the more immediate concern is that of poaching. It's been estimated that the legal harvest is the tip and the illegal harvest is the iceberg, estimated at four to sixteen times in volume to the legal harvest. In Russia, the sturgeon harvest is divided into several large quotas. Those quotas are auctioned off to large corporations. In Azerbaijan, the sturgeon harvest is a government monopoly. Most fishermen in these very hard-pressed villages along the shores of the Caspian are locked out of the fisheries. That was the case in the days of the USSR, but then you had waters that were patrolled by law enforcement officers who knew very well that it was the government that buttered their bread and very assiduously enforced regulations there. These days,

the government no longer butters their bread so well. The villagers for their part don't trust the government. They trust it to protect the interests of those entities (namely, the moneyed elite) who might be benefiting from the sturgeon harvest, but not their interest. Both the villagers and the cops know that the only way they are going to benefit from the presence of sturgeon in these waters is to deal with the black market. And they better deal with it now because the fish may not be there tomorrow.

Most fishery populations are afforded some degree of protection by the operations of the free market; supply goes down, price goes up and eventually you reach a point where it's either too expensive for fisherman to find a certain fish or consumers just simply aren't going to pay the price and will find some other species instead. Fishing pressure eases and the stock may begin a recovery process. With sturgeon, only half of that scenario is true; supply goes down, price goes up. But with caviar, rarity and expense are part of the sexiness of the whole experience. Therefore rising price is not necessarily a disincentive; it may in fact be a stimulant. Soon we reach a point where caviar is more or less proximate to a tiger skin or ivory. The harder it is to get and the more prohibitively expensive it is to obtain, the more some people just have to have it. Somewhere out there is someone with enough money and ego to spend one million dollars to treat his very special dinner guests to the last spoonful of wild beluga roe.



On my way home, I was thinking about my experience researching my previous book on the New England cod fishery, and the differences between the New England cod fishery and the Caspian sturgeon fisheries. The differences are vast and profound, but there is one common element that makes the fisheries mutually relevant—human nature. In 1977, the US extended its sovereignty 200 miles from our coast and assumed control over most of Georges Bank—the richest cod fishery in the history of the world. American boats swarmed into Georges and reaped immense harvests. There were regulations in place limiting those efforts, but those regulations by and large were not enforced. Scientists were issuing dire warnings that the population was not going to last much longer, but fishermen were making a lot of money and chose to go on doing so. In the late eighties two things happened. First, the scientists were proven right and nets all of a sudden were coming up very empty. Second, an NGO, the Conservation Law Foundation sued the federal government for its failure to protect the Georges fishery. Those two things led to stricter fishing regulations and better law enforcement, but more importantly they led to a change in the hearts and souls of New England fishermen. They began to understand that since they themselves were the ones who benefited from cod in the water, they were also the ones who were destroyed economically by its absence. In

addition, they realized that through their seats on the New England Fishery Management Council and through the public hearing process they themselves, at least in part, were the author of many of these fishing regulations. Though political pressure from the federal government and environmental groups pushed them further in tightening those regulations than they would have preferred, it was clear that their voices were being heard and represented in the management of these fisheries. As a result, it became easy to see that someone who steals, who poaches, is stealing from his own friends and neighbors. A poacher is not a bold entrepreneur such as he pretended to be in the 1980s, but rather a thief and a pariah. It is this revelation, more than placing additional cops in the water, that has caused fishing violations in the New England fisheries to decline almost to the vanishing point.

In the Caspian we often hear that what we need is more cops and higher salaries, and yes, I think that might help to buy us time. But what I think would really help is increasing villages' stake in fisheries. What needs to happen is the enlargement of legal access to the fisheries in those villages to allow fishermen who catch sturgeon to sell and negotiate independently with buyers and processors as they do with other species. Fishermen themselves need to play a credible role in developing the rules governing the harvest. Local ownership of this resource will lead inevitably to the understanding that a person who goes out and poaches is stealing only from himself and not from some plutocrat in Moscow. This would be a big change, though it's something that I'm afraid won't happen fast enough to save the sturgeon.

These fish are not going to go gently into the good night of extinction. As the population drops down to zero, there will be a hue and a cry from an international coalition of connoisseurs, conservationists, scientists and media. And what an opportunity that will provide for anyone trying to improve both the social and natural environments of these villages. Consider the resources that might be brought to bear in that event—resources that may provide a model of fisheries management that unfortunately may not get off the launching pad in enough time to save the sturgeon, but will provide a political impetus that can be used on other species, other natural resources and beyond to the development of real democracy and official accountability. Processes that may not save the sturgeon, but will go a great distance toward saving the Caspian.

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Enver Safar-Zade
Caspian Program Officer
ISAR-Azerbaijan

Mr. Safar-Zade graduated from Baku State University with a degree in Geography in 1981 and received his PhD in Environmental Science in 1992. He worked for 10 years in the Academy of Sciences and the Institutes of Geography and Ecology giving lectures on environmental science. Since 1997, Mr. Safar-Zade has worked for ISAR-Azerbaijan as the Caspian Program Officer and as an NGO management trainer.

Often times we hear from the government or even business structures that NGOs do not have real things to do. Though this may in certain instances be true, perhaps the problem is that the different sectors do not know how to work together. For NGOs it is difficult to achieve useful cooperation with government and business, especially oil companies. What is an NGO's role in society? The mission of ISAR's Caspian Program—protecting the Caspian Sea by creating a sustainable NGO community—calls for useful cooperation among sectors. It is not possible to achieve our goals separately. For example, policymakers in our region cannot solve the issue of the Caspian's legal status, and I believe that if ecologists were to be involved in that decision-making process it would be much easier to find a solution.



How do the sectors cooperate in Azerbaijan? Corporations often make deals with our government, which unfortunately does not always have its own citizens' best interests in mind. Agreements between international oil companies and the Azerbaijani government do not always take into consideration potential environmental consequences of extraction operations. That said, NGOs have had positive experiences working with certain transnational corporations, especially British Petroleum. BP approached ISAR about facilitating constructive dialogue between the company and NGOs in Azerbaijan. BP has also involved NGOs in certain environmental impact assessment processes. Unfortunately, everything regarding the company's operations is not always clear. It is extremely important for transnational corporations to improve their image among society. They can provide an excellent example to our governments on how to work with their own people.

ISAR strives to cooperate with everyone in the Caspian region in order to reach our goals. For example, in April of this year, I and two other ISAR representatives traveled to Iran. There we participated in several workshops and meetings along with NGO coalitions, businessmen and government representatives. We met with

a gentleman who was the deputy of former President Rafsanjani and now is the Deputy Director of Foreign Policy and International Relations at the Center for Strategic Research in Iran. Without his support, our trip would not have been as successful. This meeting showed us that solving environmental problems can be a basis for solving political problems. Although Iran is the only country in the Caspian basin that does not have serious oil interests in the region, we met several NGOs—both independent and governmental—that showed great interest in exchanging information with corporations and participating in workshops and seminars regarding Caspian oil and gas extraction. ISAR hopes to continue our work both with Iran and on the topic of NGO-TNC-government relations in general. Currently we are taking new program directions by creating a network of independent public environmental monitoring. We hope to have your support in the future in order to create real civil society throughout the Caspian region.

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Timur Berkeliev
Public Environmental Monitoring Coordinator
ISAR's Caspian Program

Mr. Berkeliev has a PhD in Geology from the Vernadsky Institute in Moscow, and has worked as the Deputy Manager of Turkmenistan's National Environmental Program and as an expert on biodiversity threats for the Global Environmental Facility (GEF) project in Turkmenistan's Biodiversity Strategy and Action Plan. Mr. Berkeliev is the co-chair of the Catena Ecology Club in Ashgabat. He recently finished a Humphrey Fellowship at Cornell University and is the Public Environmental Monitoring Coordinator for ISAR's Caspian Program.

Today I would like to focus on the major environmental problems of the Caspian Sea and the role of NGOs in solving these problems. According to the media, offshore oil extraction and transportation poses the most significant threat to the Caspian environment. Therefore I will begin by addressing the petroleum industry.

As Ambassador Mann stated, the Caspian does not constitute a large portion of the world's oil reserves. However, it is the only portion that is available for development by transnational corporations (TNCs). Approximately 90 percent of all oil reserves are managed by national governments such as the Arabic countries and the Russian government, leaving only a small percentage of world reserves for TNC development.

Certainly, we hear a lot about the damaging effects of petroleum industry accidents ranging from small leakages to large spills. The most serious accident to occur in the Caspian Sea was Tengiz-37. This huge disaster produced a flare that burned 3.5 million tons of oil, which is equivalent to the total capacity of the Baku-Supsa pipeline. Huge oil spills have also occurred in the center of the south Caspian and no one has taken responsibility. Governments hesitate to even discuss the issue of who is responsible. And the pollution issue does not lie only within the realm of large accidents. Even under normal conditions, it is understood that each 1 million tons of extracted oil produces 130 tons of spilled oil; this is standard operating procedure. A lot of pollution also occurs during transportation either by tanker or by pipeline. In addition, there is the issue of byproducts, such as the tons of sulfur and drilling muds that are produced by the Tengiz oil fields.

Ninety percent of oil pollution, however, comes from rivers. Due to a recent industrial decline along the Volga River, this number will decrease. In the 1980s, 10 percent of oil operations were offshore, but now that number could rise to 50 percent. There are differences between sea and river oil pollution. Pollution that

travels down through the rivers reaches each part of the sea, whereas pollution occurring directly in the sea is mostly concentrated in limited areas. Unfortunately, in those areas everything is damaged, which proves to be most dangerous for waterfowl.

Next I will move on to the issues of Caspian biological resources. Since 1980, the sturgeon population has experienced a dramatic decrease in all of the Caspian countries, with the exception of Iran. Our governments have accused poachers for this phenomenon. They have officially estimated poaching figures at 14,000 tons of sturgeon and 1,200 tons of black caviar. Officials claim that nobody can control the poachers despite the fact that large amounts of money make it possible for the government to control law enforcement bodies. So what is the real issue at hand? In reality, there are a lot of ways to determine the quantity of illegal black caviar produced, which could be from 10 to 50 percent of legal quotas. For example, if 400 tons of Caspian caviar is produced in one year, less than 200 tons of that total were produced legally.

Another problem is the introduction of the alien species *mnemiopsis*, which first attacked the Black Sea and now is in the Caspian. Although *mnemiopsis* is blamed for the extreme decline of the sprat population, real changes in the sprat biomass occurred before this species was introduced. In the 1970s, mature fish composed 70 percent of Caspian bioresources; today this number has dropped to only 3 percent. This illustrates that there is a huge problem with overfishing. Earlier, sprats made up 50 percent of the Caspian fish population and sturgeon were at 30 percent. Now we've lost almost all sturgeon and approximately 75 percent of the sprat population. The largest Caspian bioresources have been destroyed by government and institutionally owned fisheries.



Another problem affecting the Caspian environment is dam construction. Certain species of Caspian fish have lost almost all their spawning grounds and there has been a significant change in the influx of critically important nutrients to the sea. The most important source of phosphorus, the Volga River, has been blocked by the Volgograd dam, causing the richest biological portion of the sea (the northern portion) to become extremely poor.

An additional issue is the changing economic situation. We often hear that the Caspian Sea is a sphere of interest for the US and Europe, but sometimes it seems that those countries have also become part of the sphere of influence on the Caspian Sea. For example, Caspian sprat losses total approximately \$2 million. This is of course nothing in comparison to \$10 billion to \$40 billion of investments in the oil sector, but it's about 200,000 tons of cheap protein for local residents, and we have completely lost this resource.

It would now appear that river pollution, the introduction of mnemiopsis, and petroleum development are the three most important factors affecting the Caspian environment. But how can NGOs influence and be involved in the process of alleviating these issues? A strange circle exists in which the public's and decision makers' opinions are affected by media, and the media is in turn influenced by the government and so on. Poor decisions and improper use of resources can easily be multiplied. However, even relatively small organizations can have an influence on this circle through public awareness campaigns, environmental education and public participation in natural resource management. In addition, I believe that monitoring and quota determination have to be taken out of fisheries' control.

These efforts describe very generally the reasons that led ISAR's Caspian Program to begin a new project on public environmental monitoring. We would like to see this new public environmental monitoring network serve the region not as a replacement to the government monitoring system, but something very flexible and easily accessible by all.

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Michelle Kinman

Caspian and Natural Resources Program Officer
ISAR-DC

Ms. Kinman has been working at ISAR for the past five years and is ISAR's Caspian and Natural Resources Program Officer. She has been spending about half her time in the Caspian region, especially the city of Atyrau in northern Kazakhstan. In the past, Ms. Kinman has also worked with ISAR's offices in Azerbaijan and other parts of Central Asia. She has a BA from Washington University in St. Louis in Russian Language and Literature and International Studies.

I'm pleased to talk about one of ISAR's most recent efforts to facilitate constructive interaction between the sectors in the north Caspian. ISAR, together with Caspian and US-based partners, received funding from the Trust for Mutual Understanding to conduct a traveling public educational campaign along the route of the Caspian Pipeline Consortium's oil pipeline this June. ISAR partnered with the Sustainable Energy and Economy Network (SEEN), of the Institute for Policy Studies, based in DC, as well as with many partners from the Caspian region including an Atyrau-based NGO called Globus: The Center for Environmental-Legal Initiatives and the Independent Environmental Services of the Northwest Caucasus, based in Novorossisk. The "Caspian Caravan" was designed to provide educational and organizing opportunities to Caspian and US activists interested in cooperating on the global issue of oil extraction in the Caspian. As Enver and Timur have demonstrated, there is a growing community of environmentalists in the Caspian basin that is concerned by the focus of regional governments on oil extraction and export as the major revenue source, to the exclusion of any other areas of economic development. Similarly, in the US, environmentalists are concerned about multilateral institutional lending support for fossil fuel development, particularly in the potentially unstable countries of the Caspian region. The Caravan provided local activists committed to protecting the fragile environment of the north Caspian with the opportunity to work with one another and with activists in the US to improve public participation in the decision-making processes affecting the region.

Over the course of two weeks, we traveled along the Caspian coasts of two countries, Kazakhstan and Russia, with five main city stops and many, many kilometers in between. We began in the port city of Aktau, Kazakhstan from which point we took a short three-hour journey to the Uzen oil field. From there we flew north to Kazakhstan's boom town of Atyrau where we took a unique day trip to the world's deepest developed super giant oil field, Tengiz. From Kazakhstan we traveled onward to Astrakhan, Elista and finally Novorossisk, Russia where the CPC pipeline terminal is located.

In each place we held public meetings on environmental and civil society issues related to oil development. Some gatherings served as organizing meetings for environmental activists while others facilitated dialogue among all sectors including NGOs, government and business representatives as well as representatives from the local mass media. Overall we saw quite a lot of interest in the environment and civil society growth in the Caspian region. There were 10 to 35 people in attendance at each of the public meetings we held along the route. However, it was interesting to note that the local concerns varied from place to place.



In Aktau, the discussion focused on two main issues. The first was how to conduct proper public hearings about oil industry projects currently in operation and those proposed for the future. The second issue was the ongoing need for financial, logistical and moral support for the local community groups that have just begun to form in the Aktau area and are interested in environmental issues. In Atyrau—the focus of so much attention and so many hopes for Kazakhstan’s development—the primary concern of local citizens was Agip’s plans to construct a gas refinery in western Kazakhstan. Residents are concerned about the proximity of the facility to local communities and the potential environmental health threats that this facility presents. The concerns of the Atyrau community extend beyond the city limits to the Tengiz oil field, which for us was about a six-hour drive east of Atyrau. Tengiz is currently operated by ChevronTexaco Overseas Company, Kazmunigaz, ExxonMobil, Kazakhstan Ventures, Inc., and Lukarco. In

2001 the field produced 271,000 barrels of crude oil per day, a majority of which is being transported through the CPC pipeline. The environmental concerns around the Tengiz oil field are numerous but two in particular have drawn international attention. The first issue is the field’s substantial gas flares; the second is the potential and current environmental health effects of large openly-stored sulfur deposits.

It is important to mention, however, that the concerns of the communities are not solely focused on the oil and gas industry. We also found that citizens around the northern part of the Caspian are very concerned about the sturgeon population, as Rick has explained. We had the opportunity in Atyrau to visit a local hatchery that conducts research and breeds farm-raised sturgeon for consumer production. The facility is sorely in need of reliable funding, but nonetheless provides an alternative to wild caviar and sturgeon harvesting and offers a concrete economic alternative to oil production.

Moving on to Russia, we found that in Astrakhan citizens are paying close attention to Lukoil's growing influence in the region as well as tanker safety and trafficking issues. Further along in Elista, community groups and government departments alike are working to ensure safe and accessible drinking water for communities along the pipeline route. Finally, in Novorossisk, the terminal site, the community has been long active in working to gather information, mobilize forces and protest the construction of the now-existing oil pipeline. Currently these groups are working to examine and evaluate the possible construction of a second pipeline that would transport gas to the Black Sea parallel to the existing oil pipeline.

As you can see, there was a wide array of citizen concerns, some directed to the local and international arms of the oil and gas industry, some to local and national governments, and some to international financial institutions. For us the trip confirmed the need to look at the Caspian as a whole ecosystem and yet carefully consider the unique dynamics in each local situation. The composition of the NGO community differs from place to place, and what has resonance for a company in one town may not have resonance for a company operating in a community down the road. The relationship between the sectors and with the local governments adds another layer of complexity. That said, one overarching concern for the communities with whom we met was access to information. Communities displayed a readiness to be part of the decision-making process, though generally speaking they lacked the complete information to do so effectively. They are lacking on-the-ground access to information from industry and governments alike about current and proposed development projects.

For ISAR the Caravan deepened our commitment to working with communities in the north Caspian and throughout the region. The Caravan saw Kazakhstani colleagues sharing information and tactics with colleagues in Russia and likewise saw Russian colleagues exchanging their experience and developing plans to work in the future with Kazakhstani activists. We see great value in regional cooperation and plan to continue supporting our colleagues as they share experiences and strengthen one another's efforts to protect the Caspian. Individuals, groups and companies may and will change over time but each sector will play a role in the long-term development of the Caspian basin. As such, ISAR is committed to facilitating dialogue and interaction among sectors, thereby supporting local NGOs as they meet the challenges presented in this extremely complex region.

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III. Discussion

Miguel Schloss, Transparency International: I have been listening to the panel presentations with the Latin American experience in mind. My overarching reaction is one of concern. Here is a region that over the next few years is going to generate a tremendous surplus of financial resources in a situation where there are very weak public administrations, governments that have been captured by small particular interests and a civil society that is fractured and unorganized. How does one deal with a situation like that? I'm delighted to hear the IMF finds that the situation in Azerbaijan has improved. I have looked at economic reports on Azerbaijan in detail and while it is true that from a macro point of view they have stabilized their situation, if you examine the next layer sector by sector there is not a single sector that has not faced a massive decline over an extended period of time. So you (to Mr. Halton) are getting into a massive problem and the question is, how does one manage that? And specifically, the question to all of you is how does one build the mechanisms of oversight to establish the transparency and contestability to select authorities and make them accountable for what happens so that resources are reasonably well managed? The point that you (to Mr. Carey) made about fisheries—that the communities need to be empowered—this is fundamental. This is what has permitted Chile more than anything else to put pressure on the authorities so resources are properly managed. How does one do that in this region? Those are, at the end of the day, the real differences between a developed country and a developing country. What does one do with all the societies that you (to Ms. Kinman) saw? How does one get them the necessary know-how so they can have influence and hold their authorities accountable?

Mann: We, the outside observers, have to make better arguments than we've made for the 11 years of independence. We have not made good arguments. What's the argument we should make? It is rule of law.

I'm learning from my own mistakes. When I was Ambassador in Turkmenistan, I would appeal to people by encouraging them to seek free elections and free press because these were their international commitments. But that argument does not sell out there. Human rights are important, international commitments are important, but put them to the side for a moment. You, Mr. President, should think in these terms: if you want economic development, you need rule of law. No one will invest in your country unless they can be sure that there are fair ways of dealing with their investment. Freedom of the press is necessary, not just for human rights but how do decision-makers get feedback on what works and

doesn't work in this society? How does one know where to allocate resources unless people feel free to express their opinions? So in terms of economic development, if Mr. President wants, for example, the people in a village to try and build a shoe factory, no one is going to invest their money unless there is an independent court system that can rule against the deputy minister or the *akim* who tries to steal that enterprise. So I think that is the fundamental argument we need to be making: development cannot occur without rule of law.

Berkeliev: We are very weak socially. We have so-called "strong" governments whose legitimacy is called into question more and more. We have an unstructured general public; we have companies coming in from the outside we call "sharks." I can't understand how this region could be a sustainable source of energy. This is a real problem. We are trying to make something. We understand that outcry and protest alone are not enough. We have to do something real, but we do not have the resources. Therefore, our appeal to other sectors is to be involved in aiding this process and to realize these problems.

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Ellen Pikitch, Wildlife Conservation Society: We launched a Caviar Emptor campaign in December 2000 to try to recover and restore sturgeon populations around the globe with a special focus on the Caspian. I hope, Mr. Carey, that you are wrong. You started off your presentation by saying that if we can save any sturgeon, these are the ones. Yet you ended by saying that we may not be able to save these fish, but maybe we can arouse enough political force so that we can save others. I don't think those other fish can cut it; I don't think they are as charismatic as the sturgeon.

Mr. Halton, you said that you thought the environment is something we have grappled with and that the standards for how to deal with environmental issues in oil development were pretty much a given and that this is the decade of people. I actually think that we need a new standard for environmental conservation and that standard should not be "first do no more harm," but rather, "let's restore." The Caspian sturgeon is in a critical situation and restoration should be the highest priority. The reason there is some hope is that hatcheries do exist; the technology does exist to rear these fish from eggs and sperm. That is not true of all species of sturgeon. It is not true of most species of marine fish. However, the hatcheries that do exist need funding. Also, I was in the Caspian recently and the hatcheries there do need some upgrading so that should also be a priority. Spawning habitat is another issue. The Volga dam led to the destruction of 90 percent of the beluga sturgeon's spawning habitat. When you talk about energy development I think we should be looking at a comprehensive energy plan that includes not just oil production, but also takes a close look at the dam to determine whether it is doing more harm than good environmentally and what are the economic trade-

offs in terms of the energy they produce in comparison to oil production? The US has a role too. The US imported 80 percent of the beluga caviar from the Caspian region last year. Caviar Emptor has filed a petition with the US Fish and Wildlife Service to have the beluga sturgeon listed as a US endangered species. The Fish and Wildlife Service issued its findings about a month and a half ago that the beluga does warrant listing as an endangered species. We are now waiting for the proposed ruling to be made.

Does the panel have any comments to make about the importance of restoration and a more comprehensive plan for the Caspian?

Halton: I don't disagree with anything you said and I don't think BP would either. I think your aims are good and that you are right: the region's environment does need rebuilding if it's going to be a viable socioeconomic resource. Last week I was listening to a talk by a gentleman from the Caspian Environment Programme and he was saying that one of the fundamental problems of the Caspian is a lack of good data. Nobody really knows what is going on even now because so much of the information is unreliable or hidden. Certainly for an investment program, the fisheries are an obvious one to look at and in fact we have looked at that and will continue to do so. But I guess the problem at the moment is whether or not we want to make such investments knowing that the good we may be doing is going to be eroded by continuing problems in the region. That becomes more of a governmental problem than an industry one.

As for dams, pollution in the Caspian has certain hot spots, particularly around industrial development and due in part to the legacy of old developments. Dams as an alternative source of energy is a matter for government policy. Our business is oil and gas although we are also heavily involved in renewables as a company. Maybe someday this could play into the overall equation.

Carey: I just want to clarify my pessimism. I certainly hope I'm wrong too. The general attitude is that the oil development process is a runaway freight train and there is nothing that is going to avert that. Of particular concern is increased development especially in the north Caspian, which is a very important feeding ground for all of the species there. Can that be done without a more profound negative environmental impact on the sturgeon? I fear not. Also, it's worth noting that the hatcheries that I visited in Azerbaijan were of historical significance. They were the first sturgeon hatcheries in the world, and it was there that we figured out how to spawn these fish, which is a very difficult process. But now those hatcheries are very sad to look at—woefully underfunded—and it enrages me to think of all the money that is coming into this society, so little of which is being filtered down to either plug the holes in the streets or fund the hatcheries. The hatcheries in Russia looked pretty good, but the dams are there. Sturgeon spawning grounds are still vastly reduced and growing even smaller as the populations decline. The key to me is having the people along the shoreline take a positive interest in the

long-term future of the fish. That, to me, is going to require a social transformation that is not going to move nearly as fast as oil development, and that's what disturbs me as I think about the future.

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Stanley Kober, Cato Institute: Mr. Halton, if this is such a commercially viable enterprise why can't I find any interest from Wall Street? I have yet to see a single analysis or comment from Wall Street that says, "Invest in BP, it stands to make a lot of money out of Baku-Ceyhan?" Have I just missed it?

Ambassador Mann, you said our policy is to block Iran and Russia. What I do read about in today's paper? Iran and Russia getting together on nuclear reactors. After September 11 one of the main criticisms was the government's inability to connect the dots. Is this just coincidence? Are we failing to connect dots? Implicit in your analysis was the idea that Russia and Iran are simply going to fall over and play dead. Where does this idea come from?

Halton: BTC is being built to develop offshore reserves in Azerbaijan. It's the most commercially and environmentally effective solution for developing Azerbaijan's reserves and possibly reserves in other places in the future. For the nine companies that have invested in the pipeline, the project is commercially viable because of the volumes of oil that are expected to be produced over the next 20 to 30 years. The reserves in the giant Azeri-Chirag-Gynashli offshore field are approximately 5.2 billion barrels. In addition, as Ambassador Mann pointed out, one of the main environmental advantages of BTC is that the oil will not have to be transported through the Bosphorus Straits.

As an investment, the BTC pipeline is a good one. In fact, one or two other companies have joined the BTC consortium and also think it's a good investment. But it isn't essentially a money-making vehicle; it's not a revenue maker in the same way as the development of an oil field. Its purpose is purely for product transit. So while the BTC project does provide a return for its investors it doesn't compare with the revenues that will be generated by oil development per se, the bulk of which goes to the host government in whose territory the oil lies. Some people are suggesting that there should be no gas and oil development, which is a viewpoint that we respect, but clearly differ from. Certainly for Azerbaijan the development of its oil and gas reserves is the key; it's the only major key to the future economic and social development of the country.

Remember that in Azerbaijan there are other priorities in addition to the environment—and I don't mean to push that down on the agenda—which the government has to balance as well. Azerbaijan has one million internally displaced people. There is broken and neglected infrastructure resulting from an era 10

years ago which has left the most ghastly legacy. The Soviet regime had the strictest environmental standards one could imagine and was enormously prescriptive about how one could or could not do things and what punishment one would receive. But the reality is that this doesn't work. It didn't work. I think when we look at pictures of Kazakhstan and Azerbaijan we see installations that are 40 years old that come from that Soviet era, not the industry that we are talking about now or the developments that we are proposing to undertake. We wouldn't be allowed to do that. We wouldn't dream of doing that. How would we recruit young people into our company to go and do that? It doesn't work. However, the problem at the moment is that there isn't enough of this new type of development actually in place for people to see and investigate. We have the first stages. We've got an early oil production system that isn't perfect because it was partly a legacy of the old regime. But it was something to get things going and it has been operating in accordance with modern standards. The next phase will be a completely different ballgame. So I ask that you please do not confuse the two.

Mann: Back to your question about Iran and Russia. I thought everything I said paralleled wonderfully with the thrust of your question. We are, as a matter of US law and policy, deeply opposed to investment in the Iranian energy sector and our pipeline policy is designed to strengthen that opposition. And it's working. In addition, we've said to the Turkmen many times that Iran is their competitor in gas; that they can expect nothing good if they try to install gas pipelines that are controlled by one of their major competitors.

Russia is more complicated. Do we expect Russia to roll over and play dead? That depends on which Russia we are referring to. I deal with three different Russias in my work. The first is political Russia, which I believe is increasingly appreciative of our multiple pipeline policy. For example, the Bush-Putin communique on energy that was signed in St. Petersburg expresses support for multiple pipelines. This agreement represents the attitude coming from the Kremlin and is an area where increasingly we want to look for cooperation with Russia. Then there is "marketizing" Russia—the Russian energy companies of Yukos and Lukoil, the producers of which are beginning to see that the way to profit is in western equity markets and are therefore also looking for cooperation. But the third Russia is old Soviet energy Russia—Transneft and Gazprom which are non-transparent monopolies and which use their position in a powerful way. US policy is anti-monopoly. We are encountering stiff opposition from the monopoly transport networks because our policy is clearly a challenge to Transneft and Gazprom. I believe it is very much in Russia's corporate interest to support multiple pipelines because competition among transport companies will lower the price of transport. This would be good for Russian energy producers because they will be able to retain more of their profit and will have more money for reinvestment in Russia instead of seeking foreign investment. It will be good for the government, which

will get more in terms of straightforward taxation from these revenues. Multiple pipelines are something that should work for everyone involved and are the direction of the future.

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Carol Welch, Friends of the Earth: The head of BP has been quoted as saying, “Free public money from the international financial institutions and export credit agencies is needed for BTC to be viable.” How is this a commercially viable project if support from the IFIs is needed to effectively subsidize it?

My second question refers to the issues of oil funds. These funds have often been billed as the panacea to the social development issue. In the case of Azerbaijan, however, the president appoints all the members of the oil fund and possesses sole authority to decide how the money is spent. One of his first proposals was to spend the money on SOCAR’s share of BTC, which is pretty much a direct contradiction to the point of the oil fund, which is to develop the non-oil sectors of the economy. Given some of these realities, how do you (to Mr. Halton) perceive the oil fund really can be used to actually lead to real social development for the people?

Mann: If there is no BTC, there is no oil fund. So I think that would be a very good use of the money.

Halton: It is not overstating things to say that BTC is the key to all of the possibilities that we have been discussing this afternoon. And keep in mind that none of the major revenues from the project will flow until about 2005 or 2006. You are right about the oil fund. The oil fund is supposed to use the interest on its investments for developments that will improve the socioeconomic conditions in the country. However, to make an exception for the enabling project (BTC) is what is being discussed at the moment and that is the proposition that is being debated.

Back to your first question, this unfortunate expression which our CEO used a few years ago and has come back to haunt us, “free public money.” What he meant when he said that back in 1998 was that it would require an incentive from somewhere to make BTC a reality, because at that time enthusiasm for the Caspian was rather low and there were a lot of doubts as to whether it would be viable to develop Azerbaijan’s reserves. What he meant was an incentive was required. This has been interpreted as money from international institutions. In fact what has happened is that the incentives have been provided, but it’s been in a different way. Azerbaijan, Georgia and Turkey want the project to go ahead and have made various concessions to encourage private investment in the project that will in turn enable the project to happen. Particularly in Turkey, which would very much

like to see the development of an East-West energy corridor, the government has offered to build its section of the pipeline for a fixed price—a lump-sum contract with a guarantee by the Turkish government. That is a major incentive for commercial investors because they know where they stand on that piece of the project. There have been other concessions as well in terms of tax relief on imports and other things, but when you add them up they tip the project over the threshold into being a viable and commercial project. I have to be diplomatic about the other part of the answer because some of the partners in the group are more creditworthy than others. BP is able to fund its part of the project itself, some of the others partners are less able to do so, and therefore we are looking for financing to complete the project. The incentives are there. The project is fully viable.

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Doug Norlen, Pacific Environment: Ambassador Mann, you said that this oil development is going to happen with or without the US, but then we hear that actually it can't happen without public financial institution support, which the US is very much behind. We also hear there are already existing funds, but of course then you said that there won't be a fund unless this project moves forward. These statements are contradictory and in a sense sound less like a promise than a threat that the US government is going make things happen and everyone else better get with it and better get with the US or they are not going to like the result.

You spoke quite a bit about democracy, transparency and rule of law. But we've seen around the world a lot of these large oil projects develop out of a framework agreement between a private company and a government. Often times that framework agreement supercedes national law. Often times that agreement ensures environmental standards that are weaker than existing law. We've seen this play out in Russia with the Sakhalin-II project where the company allowed the dumping of oil drilling wastes into the sea, an act that was previously banned by Russian national law. These framework agreements are typically not public documents; they are not transparent and they are supported by international financial institutions, which themselves are not subject to the rule of law. How can the US government support transparency and the rule of law using such framework agreements for projects that often times do their best to skirt this rule of law?

Mann: That last point is one that is provocative for me. It was my belief that the intergovernmental and host-governmental agreements were public in all of our Caspian projects. If not, they should be. Let me check into that.

Halton: They are public documents. The fact is that they can be very actually difficult to get a hold of partly because of logistics and the public library system, etc. At the moment, we are in the process of posting these documents on to a

website (www.caspiandevlopmentandexport.com) that we have developed for our projects.

Norlen: Does this include the Production Sharing Agreement (PSA) for BTC?

Halton: We will be putting the PSAs and intergovernmental host-governmental agreements onto our site. That is our intention because they should be there.

Mann: On the issue of whether the Caspian will be developed or not, I think it's less a threat than a fact. The resources are there, they will be developed, they'll be developed in a sub-optimal fashion if the international majors are not in there. I think we will find "Soviet Development Part Two" unless the international majors are participating in Caspian development. Also, I am convinced that this development will take place at a much lower economic level. The Transcaspian gas pipeline is an example of this. The Transcaspian had some serious international firms invested in it. However, it could not be financially sustainable under the conditions that the Turkmen government placed on it. So what happened? The international firms backed out. And now Turkmenistan and other, lesser Eurasian firms are developing Turkmen gas resources and it is happening in a completely different and less desirable way than if Shell or GE or Bechtel were players. So the answer is that development is going to happen; the question is how to shape it. Unless there are companies like BP involved to attract major capital, including IFIs and Ex-Im funds, development is going to happen at a much lower level that is going to effect the oil funds.

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Professor Peter Sinnott, Columbia University Caspian Project: I thought conspicuous by its absence was any talk of the Caspian Environmental Programme (CEP), which has been touted by the World Bank and some UN agencies. Where do things currently stand with that organization and do any of the panel speakers have any feelings as to whether that is the road to go, if the CEP grows some teeth, versus dealing more with national units?

Halton: At the end of last week, Tim Turner from the CEP spoke at the Embassy of Azerbaijan in London and shared the results of completion of the program's first phase. The CEP has identified the most significant environmental issues and has made recommendations to the individual governments. He offered the general impression that rightly or wrongly things are not as bad as people may perceive, not to say that they are good and there aren't some serious problems that need to be addressed. Overall, he identified the same issues that we have talked about today, including: decline in fish stocks, degradation of habitat, threats to biodiversity, overall decline in environmental quality, decline in human health, damage to coastal infrastructure by varying wave heights, the damaging effects of

the introduced species, and oil and gas development, especially risks posed from old Soviet-era developments which are an issue particularly in Kazakhstan.

Sinnott: Does the CEP supercede the Caspian legal regime?

Halton: I think that is something the CEP sees as a major problem because they perceive that the different governments around the coast of the Caspian have different priorities and they find that to be an obstacle at the moment.

Berkeliev: From an NGO point of view the program has become less transparent and even closed to the public. The CEP website has not been updated for the past year and a half. Formerly, I worked with the CEP as a biodiversity expert and I know that all our last reports still have not been made available to the general public. Their system of public relations is very ineffective; the CEP makes no real contacts with local NGOs.

Kinman: ISAR exchanges information with the CEP on a regular basis and considers it very important that we continue to do so. We have also been working with them over the past couple of years to ensure that there is public participation in their regularly scheduled meetings. But I would say that overall this has been a slow-going process. Especially in working with the CEP to ensure that not only ISAR representatives, but also local groups from each of the countries participate in their meetings, as ISAR cannot fully represent local NGO concerns. We hope that participation on behalf of the local groups will continue to grow in the future; but at this point the public participation coordinators in each of the countries has had varying degrees of interaction with the local communities; some better and some worse. We are hoping that in the future we can work together with the CEP to include local communities in different aspects of the program because for the most part the CEP's work has taken place at the governmental level.

Safar-Zade: A few years ago, ISAR-Azerbaijan and the CEP began to incorporate one another in their programming. We distribute CEP documents and information and they do the same for ISAR. However, I agree with my colleagues that the CEP should do a better job of involving the NGO sector in their work, just as NGOs should continue to involve the government in their work. Currently, the CEP is working almost entirely with government structures, but I feel that there is a lot of opportunity for cooperation between our organizations.

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