



## **Is The Baku-Tbilisi-Ceyhan Pipeline The Best Deal Around, Or Are Taxpayers Subsidizing A Financial Boondoggle?**

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline has long been dogged by controversy regarding its social, environmental, and development impacts<sup>1</sup>. There has also been considerable skepticism surrounding its financial viability. The head of BP, the lead company in the consortium behind the pipeline, once said that “free public money” would be needed to make the project a reality. This “free public money” would come from publicly backed international financial institutions (IFIs).

The US government, which wants an east-west pipeline route that would transport Caspian oil free of Russian control, has made it clear that BTC is a major foreign policy priority, and is working to ensure that BP and the project participants get the “free public money” that they need.

Currently taxpayer-backed public financial institutions like the World Bank, the European Bank for Reconstruction and Development, and export credit agencies (ECAs) from at least six countries, including both US export credit agencies, are considering supporting the project. As public institutions, the Banks and ECAs have a duty to show that this project is financially beneficial or at least serves a compelling public interest that warrants these agencies’ involvement. To date, however, none of these public institutions has committed to making public the economic analyses that underpin their reviews of the project.

The secrecy surrounding these economic analyses is particularly serious since external financial analyses of BTC make it appear that BTC is NOT the least cost option available to the companies or international financial institutions. These analyses suggest that taxpayers will be footing a hefty bill.

### *Southern Route Is Cheaper*

A March 17, 2003 article in the *Oil & Gas Journal* finds that Iranian options- either oil swaps or pipelines- are the most economic options for exporting Caspian oil. The author conducted three scenarios, utilizing different tariff rates, and found in all scenarios that from an economic cost-benefit perspective BTC fell into the bottom half of the various potential routes. Political issues surrounding Iran clearly are large obstacles preventing serious considerations of Iranian routes at this time.

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<sup>1</sup> For more information about the pipeline, see <http://www.foe.org/camps/intl/institutions/bakuceyhan.html>

### *BTC Is Not the Cheapest East-West Route*

However, other studies, including one that looked at alternative east-west pipeline routes that avoid the Bosphorus Straits, a key feature advertised by the BTC Company as an attraction of BTC, also cast doubt on BTC's financial viability. An April 1998 study out of Rice University, "The Economics of Pipeline Routes: The Conundrum of Oil Exports from the Caspian Basin", found that of the pipeline routes designed to bypass the Turkish straits, BTC is the most expensive, by more than US\$ 1/barrel. There are other, cheaper pipelines that also bypass the Bosphorus.

Two other bypass routes analyzed in the paper include a pipeline from the Turkish Black Sea port Samsun to Ceyhan, or a route in Turkish Thrace from Kiyikoy to Ibrikbana on the Aegean, and pipelines from Bourgas, Bulgaria to Alexandroupolis, Greece or Vlore, Albania.

Sample costs:

At cost of capital of 15% and capacity at 800K b/d:

Baku-Ceyhan \$2.44/b

Samsun-Ceyhan \$1.21/b

Kiyikoy-Ibrikbana (at 500K b/d) 0.55/b

The existence of these studies, which calls into question the BTC consortium's assertions of the financial viability of the project, makes it even more imperative that the International Finance Corporation and the European Bank for Reconstruction and Development release the economic analyses they perform of the project. Taxpayer monies should not be used to subsidize environmental destruction or financial boondoggles.

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