

# OIL AFFIRMATIVE

## OIL 1AC 1-19

### TOPICALITY

OCS IS MARINE NAT. RESOURCE 20

### INHERENCY

OCS DRILLING NOW 21-27

FEDERAL LAWS FAIL 28

STATUS QUO D/N REGULATE 29

MORATORIUM NOT EFFECTIVE 30

STATES HIJACK OIL 31

STATES = NO GOV'T ACTION 32

### OIL PRICE ADVANTAGE

LOW OIL PRICES CRASH WORLD ECON 33

LOW OIL PRICES HURT PEACE PROC. 34

A2 OIL SHORTAGES TURN 35

A2 OIL SHOCKS LINK TURN 36

### CASPIAN ADVANTAGE

LOTS OF OIL IN THE CASPIAN 37-39

CASPIAN OIL EXPORTS UP 40-41

CASPIAN OIL DEV'T → STABILITY 42

STABLE OIL PRICE KEY TO CASPIAN INVESTMENT 43-44

CASPIAN INFLUENCE ZERO SUM 45-47

US INFLUENCE IN THE CASPIAN UP 48-50

US INFLUENCE DETERS RUSSIA/IRAN 51-54

RUSSIA WON'T BACKLASH TO US INFLUENCE 55

RUSSIA IS A THREAT TO CASPIAN 56-57

CASPIAN STATES OPPOSE RUSSIA 58

IRAN IS A THREAT TO CASPIAN 59-60

MULTILATERALISM STABILIZES CASPIAN 61

TURKEY INFLUENCE UP 62

CASPIAN INSTABILITY → WAR/TERRORISM 63-66

### ANS TO: CASPIAN PIPELINE TURN

US INFLUENCE SECURES PIPELINE 67

US INFLUENCE WON'T CAUSE COMPETITION 68

BAKU-CEYHAN PIPELINE NOW 69

BAKU-CEYHAN PIPELINE GOOD 70-72

NO IRAN PIPELINE 73

IRAN PIPELINE BAD 74

ALL PIPELINE ROUTES UNSTABLE 75

**SAUDI ADVANTAGE**

OIL KEY TO SAUDI ECONOMY	76-80
US-SAUDI RLTHS KEY TO ECON.	81
US-SAUDI RLTHS KEY TO TERROR WAR	82-83
SAUDI OIL DEPENDENCE GOOD	84
OIL DEPENDENCE SOLVES IRAQ	85
US OIL DEPENDENCE HIGH	86-90

**RUSSIA ADVANTAGE**

RUSSIA OIL EXPORTS UP	91-97
INVESTORS FOR RUSSIA NEEDED	98-101
RUSSIA GOOD FOR INVESTORS	102-103
INVESTORS MOVING TO RUSSIA	104
LOW OIL PRICES BAD FOR RUSSIA	105-106
A2 RUSSIAN DEPENDENCY BAD	107-110
RUSSIA OIL MARKET KEY TO WORLD	111
RUSSIA ECONOMY I/L	112
RUSSIAN OIL GOOD	113-114
RUSSIA NEEDS FOREIGN MKTS	115
RUSSIAN ECONOMY UP	116-118
RUSSIAN ECONOMY DOWN	119-121
RUSSIA OIL TRANSPORT EFFICIENT	122
RUSSIA FIXING PIPELINE PROBLEMS	123
OIL KEY TO US/RUSSIA RLTHS	124-125

**ENVIRONMENT ADVANTAGE**

OIL SPILLS HURT ENV'T	126-127
OCS DRILLING HURTS ECOSYSTEMS	128-130

**ANSWERS TO...**

A2 STATES COUNTERPLAN	131-133
A2 FEDERALISM	134-135
A2 CHINA RELATIONS DA	136-138
A2 OPEC CREDIBILITY DA	139
A2 COASTGUARDS DA	140
A2 RUSSIA-OPEC RELATIONS DA	141
A2 CAPITAL FLIGHT TURN	142
A2 TOTAL BAN CP	143

IAC

1/19

OBSERVATION 1: INHERENCY

BUSH IS TROLLING-BACK OFFSHORE OIL  
PULLING REGULATIONS

**Graham and Feinstein**- June 25<sup>th</sup> 2003;( Bob-Dem. Senator from florida, Dianne- Dem. Senator from California—commentary @ The L.A. Times; “ Commentary; Energy Bill’s Slick Language Could Usher In Offshore Drilling; Benefits would be nil. And risks could be grave: Just ask Santa Barbara about the disastrous gunk onslaught of 1969”)plexis

This long-established position of the federal government is threatened by provisions in the Senate's current energy bill that require a new survey.

An amendment that would strike that section of the bill -- thus preserving both the drilling moratoriums and the U.S. coastline -- was voted down in the Senate. The House of Representatives, however, has its own version of the bill, and it removed the survey provision -- offering hope that the provision will stay out of the final legislation after the Senate and House versions of the bill are reconciled in negotiations.

The language in the survey provision is little more than a backhanded effort to create political momentum to lift the moratoriums. Over the last 30 years, the Interior Department's Minerals Management Service has conducted assessments on the outer continental shelf every five years or so, issuing the latest report in 2000. If the current surveys are so flawed, why order additional surveys by precisely the same agency?

11

IAC

2/19

## OFFSHORE DRILLING IS SET TO EXPLODE AS A RESULT

**Businessweek 6/30/03**

(Kartsonas, John, June 30, 2003 HEADLINE: Focus Stock, L/N)

LAND BEFORE SEA. With natural gas prices remaining at historically high levels, and with gas inventories about 20% below their five-year average, we expect offshore drilling activity to accelerate. Historically, it takes about six to eight months for higher natural gas prices to translate into higher rig utilization rates, and later, to higher dayrates.

Natural gas prices averaged above the \$4 per million BTU mark last November for the first time since the spring of 2001. Since then, U.S. land rig counts have increased more than 30%, as land drilling is the first market to benefit from the energy producers that contract for drilling rigs.

## THIS DRILLING THREATENS MARINE RESOURCES AND OCEAN ECOSYSTEMS

Steve **Kretzmann**, of the Sustainable Energy and Environment Network, 1-1-2003, Multinational Monitor, p. 11. Another cause for alarm is the practice of drilling and piping oil below sea ice. Oil-spill exercises conducted in the spring and fall of 2000 by the industry, the Coast Guard, the Interior Department's Mineral Management Service (MMS), and the state of Alaska found that existing oil-spill response equipment is inadequate, and that booms (which are used to skim oil off the surface of water) and other gear fail to function effectively in conditions exceeding 10 to 30 percent ice coverage – less than the typical coverage for the area. Nonetheless, energy giant BP and other companies are continuing to develop offshore oil fields, such as "North Star" on Alaska's North Slope. Drilling platforms also operate in winter ice conditions in Alaska's Cook Inlet, one of the most pristine marine wildlife areas in the United States. These operations have resulted in widespread, documented oil leakage from aging pipelines and onshore refineries. The U.S. Environmental Protection Agency (EPA), MMS, and state agencies have all denied responsibility for oversight and cleanup of this problem, which continues to grow. Oil carriers entering and leaving Cook Inlet, which has some of the most extreme tidal shifts in North America, also lack the escort vessels, standby oil-spill response equipment, and other safety measures that have been in effect in Prince Williams Sound since the Exxon Valdez spill 14 years ago. Deep drilling in the Gulf of Mexico, at depths of 1,000 to 10,000 feet, now accounts for more than 50 percent of the region's oil and gas production -- and almost half of all U.S. offshore production. The government provides subsidies (in the form of royalty holidays) for this deep-ocean drilling, but largely ignores the risk of deep-ocean spills. In 1998, the oil industry and MMS began studying the likely effects of a deep-ocean spill; conclusions from their test releases of oil in the North Sea suggest that the oil plume from a deep-water blow-out would surface hours after the disaster and miles away from the site, and would be so widespread at that point as to be uncontainable.

2

1AC

3/19

## OBSERVATION II : OIL WARS

1ST - OFFSHORE OIL BOOM CREATES OVER -  
CAPACITY AND MASSIVE PRICE INSTABILITY

SUROWIEKI 1997 (JAMES, OIL ANALYST, "TECHNOLOGY

AND FUTURES TRADERS - HAVE FREED WORLD SUPPLIES,"

(2/17, <SLATE.MSN.COM/ID/2632>)

Actually, that analogy doesn't really capture just how momentous the technological transformation of the oil industry has been. The last decade and a half has witnessed a steady decline in the cost of finding and producing oil. Three-dimensional seismic computer modeling now allows engineers to discern previously undiscoverable oil and gas deposits. The development of horizontal drilling, where drill bits actually go sideways from a vertical hole in order to extract more oil, has also helped make the exploitation of smaller and less accessible fields cost-effective. All this has meant that the world's "proven oil reserves" (fields ready for production) are 60 percent larger now than in 1980. The latest craze is even more astounding: Thanks in part to federal tax breaks, U.S. companies are embarking on deep-water drilling projects in the Gulf of Mexico that involve taking oil from fields that lie as much as a mile underwater. It's got to the point where the chief economist of Venezuela's state oil company can say with a straight face, "Our reserves are--for all intents and purposes--infinite."

The infiniteness, of course, is imaginary. Although oil is a commodity, it's still not a commodity like coffee, which, thank God, we will have with us always.

\* At some point the oil *will* run out. But that point now seems so far in the future that oil countries are acting as if it will never arrive, and that has had a major impact on their attitudes toward production. If your reserves are finite, after all, you need steady price increases over time to justify leaving any oil

\* at all in the ground. (Otherwise, every producer has an incentive to drain all its reserves, take the money, and reinvest it in a more profitable enterprise.)

\* That means restricting supply. If your reserves are infinite, though, it makes sense to worry less about price and more about maximizing output, since your source of cash is never going to dry up and force you into another line of business.

The problem, of course, is that--as with overcapacity everywhere else--if everyone maximizes output, everyone loses, because the price falls precipitously. The oil market is especially sensitive even to a hint of expansion or contraction in supply. When Saudi Arabia killed the market in 1986, sending oil prices down by two-thirds, it did so while expanding the world's oil supply by just 3 percent. Oil-futures traders may not look like sheep, but those were baaas I heard the last time I walked by the New York

3

IAC

4/19

Mercantile Exchange, where the futures are swapped. And that helps explain why OPEC continues to struggle to keep its members in order and maintain a public production quota. It wants to keep prices high enough to ensure profits but low enough to deter the development of (new fields). But the instruments it has to do this with are blunt compared with the authority it wielded two decades ago.

Mocking futures traders may be fun--actually, it is fun--but they have been crucial figures in the eradication of OPEC's ability to dictate prices. Before the 1980s, there was no futures market in oil, nor even a real spot market for

crude oil. (A spot price is the price for one cargo of oil, generally delivered within a month.) That made it difficult for consumers to compare prices and locked them into relationships with producers. It also meant that there was no way to hedge against future price increases, which obviously gave producers tremendous leverage. The rise of the futures market and the broadening of the spot market brought price competition to the world of oil. Now, it's still rather difficult to put a rig in the middle of the Gulf of Mexico, and the largest producers do still exert a disproportionate impact on the market as a whole. But, for the first time in history, there is now a relatively open market for oil. And that undoubtedly has something to do with the dramatic expansion of the industry's productivity.

2ND - AN UNREGULATED BOOM IN OFFSHORE DRILLING  
WILL SHOCK THE GLOBAL OIL MARKET -  
US MUST SET A GOOD MODEL TO SAVE THE  
GLOBAL ECONOMY

GRAMBLING, PROFESSOR OF SOCIOLOGY @ UNIVERSITY  
OF LOUISIANA, LAFAYETTE, 1996 (ROBERT, OFFSHORE  
OIL AT THE EDGE: OFFSHORE OIL DEVELOPMENT  
AND CONFLICT, P. 165-6)

A second reasonable focus of an Outer Continental Shelf management program would be the preservation of the existing infrastructure in the Gulf of Mexico through a much more carefully targeted leasing program, integrated with a monitoring program like the one required under the Outer Continental Shelf Lands Act Amendments. The offshore infrastructure in the Gulf is the most developed in the world and as such represents an important national resource. As Figure 5.1 (chapter 5) shows, increasingly offshore oil is becoming the dominant source of new production worldwide. The huge continental shelves off China, Korea, and

4

IAC

5/19

northern Russia are largely unexplored because those countries lack the technological expertise to explore them and cold war tensions have denied U.S. and European access. We can allow other nations to develop this potential, as some are already doing, or we can export technology and skills from the United States to support offshore development worldwide. The scheduling of offshore work makes it possible for skilled labor from the Gulf to work virtually anywhere in the world, while continuing to reside in communities in the United States (Gramling 1989), and the deeper waters of the Gulf of Mexico have the potential to provide a proving ground for future offshore technology.

While the potential is there, the offshore sector in the Gulf has been rocked by the boom associated with global events and an aggressive Federal leasing program and the (inevitable) bust that followed it. Many of the businesses that were started under the unrealistic economic environment of the boom years are gone. Those that remain are recovering from the 1986-1987 bust (Krapf 1994), and today the infrastructure appears to be more in line with the current level of development worldwide. The Gulf infrastructure does not need another uncontrolled boom nor does it need a drastic curtailment of activities if it is to remain viable and in a competitive position in an increasingly global market. As Freudenburg and Gramling (1994a) have noted, there are few hidden agendas with regard to positions toward offshore development in the United States. Development is supported as strongly in the central and western Gulf as it is opposed elsewhere. Given that support in the Gulf, an opportunity exists to maintain a viable national expertise through a carefully designed leasing and monitoring program, one that may become increasingly important from a world economic perspective.

165-166

5

IAC

6/19

NEXT - THIS CRASH PROGRAM FOR ENERGY  
INDEPENDENCE WILL COLLAPSE OR PRICE  
STABILITY - CAUSING OIL SHOCKS AND  
A SAUDI BACKLASH

GEORGIA, FELLOW @ COMPETITIVE ENTERPRISE INSTITUTE, 2001

(Paul J. Georgia is a policy analyst with the Competitive Enterprise Institute in Washington, Atlanta Journal Constitution "US Shouldn't Seek Energy Independence" November 5, 2001)

The Sept. 11 attacks have raised an old idea: By reducing America's dependence on foreign oil, can we reduce America's vulnerability to oil shocks that arise from OPEC manipulations, political instability and war?

\* There are certain benefits to developing domestic energy supplies, but energy independence, per se, is not achievable or even desirable. There is simply no way to insulate the United States from foreign oil shocks without totally isolating our energy markets from the rest of the world.

\* President Jimmy Carter tried to do it by imposing price controls on gasoline, but only succeeded in causing severe gasoline shortages and long lines at the pump. Events that lead to higher oil prices on world markets have the same effect on oil prices in America, whether we produce all or none of the oil we consume.

\* Furthermore, it simply doesn't make sense to rely on domestic oil when it can be purchased (less) expensively abroad. Lower energy costs allow consumers to spend more on health care, nutrition, housing, transportation and other things that enhance quality of life.

Unfortunately, every energy policy proposed these days, both good and bad, is sold on the basis of reducing our dependence on foreign oil. Yet many of these policies actually have the opposite effect.

IAC  
SYLF

\* The Corporate Average Fuel Economy (CAFE) standard, for instance, which requires automobile manufacturers to meet a fixed average fuel economy standard, was established in 1975 to reduce U.S. dependence on foreign oil. Since then, the United States has become more dependent on foreign oil, not less.

\* Because America is such a large user of oil, policies that suppress U.S. energy use lower the world price for oil. And high-cost producers of oil, such as those here, are hurt more by lower prices than low cost producers, such as those in the Middle East and Latin America. Yet environmentalists and their cohorts in Congress, support raising CAFE standards even further, partly in the name of energy independence.

\* Of course, environmentalists have a whole list of misguided energy policies, such as the development of wind and solar power, which they wish to foist upon the American people.

Wind and solar power are not economically viable on a large scale. Tens of billions of federal research dollars have already been wasted on alternative-energy boondoggles that have yielded little to nothing in return. But the special interests that benefit from alternative energy subsidies are likely to use the fears of oil dependency sparked by the terrorist attacks to justify further subsidies.

There are a lot of sensible steps that the United States should take with regard to energy policy. The Bush administration's national energy plan provides some sound remedies for many energy problems that stem largely from lack of supply and lack of adequate infrastructure, such as transmission and refining capacity.

\* Opening up the Alaska National Wildlife Refuge to oil exploration, for example, or removing the ban on offshore-oil drilling, make sense for a lot of reasons - none of them having anything to do with energy independence. The Energy Department estimates there are 16 billion barrels of oil available in

ANWR. This valuable resource would greatly benefit the U.S economy by creating additional wealth.

Let's not fool ourselves though, Opening domestic oil exploration will not end U.S. dependence on oil from the Middle East. Moreover, a crash program to achieve energy independence would sour an already tenuous relationship with Middle Eastern countries, some of which are assisting the U.S. against terrorism.

6

IAC

7/19

FINALLY, THIS DISRUPTION WILL CAUSE THE SAUDIS TO FLOOD THE MARKET - LEADING TO SUSTAINED LOW PRICES

GAUSE, PROF. OF POLITICAL SCIENCE @ VERMONT, 2000  
(GEORGE, FOREIGN AFFAIRS, MAY (JUNE,))

SAUDI ARABIA'S looming fiscal crisis has led it to rethink its oil policy. Since the price increases that followed the 1973 Arab-Israeli war, Saudi Arabia has generally been one of OPEC's moderates on oil prices. As OPEC's largest oil producer, with reserves that will last more than a century at current production rates, Saudi Arabia has no desire to push prices too high. At a certain point, it learned bitterly in the 1980s, consumers will switch to alternative sources of energy. As that decade began, consistently high demand for oil and the disruptions of the Iranian Revolution temporarily pushed prices over \$40 per barrel. By the middle of the decade, demand fell, new sources of oil were discovered, and prices collapsed. When both Kuwaiti and Iraqi oil were taken off the world market after Saddam Hussein's August 1990 invasion of Kuwait, oil prices spiked to around \$30 per barrel, but the Saudis quickly raised production to push prices back down to around \$20 per barrel. That decision was not simply a bow to American desires; it was also in the long-term interests of the Saudis themselves.

On the other hand, the Saudis do not want oil prices to fall so far that their oil revenues do not meet their budgetary needs. In the early 1980s, Riyadh played the role of "swing producer" in OPEC, lowering its production to prop up prices. Average Saudi production fell drastically from nearly 10 mbd in 1981 to a low of 3.5 mbd in 1985, with a concomitant fall in revenue from \$3 billion in 1981 to \$25.9 billion in 1985. But these cuts failed to slow the drop in prices as world demand for oil fell, non-OPEC producers brought more oil onto the market, and other OPEC members produced more than their quotas permitted. In an effort to discipline overproducers inside and outside of OPEC, the Saudis increased production in the first half of 1986. Prices plunged. Saudi oil revenues also fell, despite the increase in production. Ahmad Zaki Yamani, the long-serving Saudi oil minister and the architect of the 1986 production increase, was fired, and the kingdom cut back on its production. Other OPEC members, chastened, promised to stick closer to their quotas. World demand for oil began to pick up in the late 1980s, and prices rebounded toward the mid-teens.

The Saudis emerged from the roller coaster of the 1980s determined not to play the role of swing producer again. Their loss of market share and revenue in the mid-1980s had been a painful lesson. The Saudis' ability to quickly increase production during the Persian Gulf crisis in 1990 regained most of the market share lost in the 1980s, and they were not about to sacrifice that to support some nominal OPEC price target. Even as oil prices fell in 1993 and 1994 from \$20 per barrel to below \$15 per barrel, the Saudis refused to cut production, pumping out between 8.5 and 9 mbd. But they also learned from the debacle of 1986 that opening up the spigots to discipline others could backfire. Theoretically, given their low production costs and enormous reserves, the Saudis could pump as much oil as possible as prices fell, drive competing producers out of the market, and gain a stranglehold on world production. But such a strategy would mean riding out a long period of low revenues—a luxury the Saudis can no longer afford, as they quickly realized in 1986. As alternative sources of financing their budget deficits (drawing down reserves, borrowing domestically) became less viable, the need to maintain a certain level of revenue from oil sales became increasingly important to the Saudi leadership. Managing these two divergent if not downright contradictory goals—price and market share—defined Saudi oil policy in the late 1990s.

7

The desire to hold on to Saudi Arabia's slice of the market drove Abdallah to hold a Washington meeting in September 1998 with representatives of the major American oil companies. Other countries, particularly those in the Caspian Basin but also some in the Middle East, were inviting oil multinationals back by promising equity stakes in their oil fields. This return to the multinationals, after decades of nationalization and proud self reliance in the oil sphere, has been driven by the need for capital, technology, and marketing outlets that only the biggest oil companies can provide. Here, Saudi Arabia is better off than most other oil producers. In the 1990s, Saudi Aramco developed the huge Shayba field, near the Saudi-UAE border, with its own resources. But production costs for Saudi oil are rising at a time when production costs elsewhere are falling (although, to be fair, Saudi oil is still the cheapest in the world to produce). If the major multinational oil companies regain equity stakes in Middle Eastern and Caspian countries, they will look first to their hosts for additional supply. The Saudis want to be the major source of supply particularly for the growing energy markets of East Asia, which are served by the major multinationals and want the technological advancements that the multinationals can provide. They would also like to involve international investors in other energy sectors, like developing natural gas and generating electric power for the Saudi domestic market. Abdallah's Washington meeting was meant both to remind the major oil companies that Saudi Arabia remains the big prize for oil development in the future and to solicit these firms' participation today in energy sectors other than oil.

If worries about market share led to the September 1998 meeting, concerns about price have driven Saudi Arabia's production policy and oil diplomacy both inside and outside of OPEC in recent years. In late 1997, OPEC producers, including Saudi Arabia, made a fundamental mistake. Even as Asia's economic crisis worsened, OPEC countries decided to increase production. The combination of more OPEC oil and less Asian demand drove prices on the world market down to around \$12 per barrel. In March 1998, Saudi Arabia, Venezuela, and Mexico (a major non-OPEC producer) agreed to produce less oil; the Saudis cut 300,000 barrels per day. This agreement was then adopted by OPEC as a whole and by some non-OPEC states, including Norway and Oman, for a total cut of 1.5 mbd. Oil prices immediately rallied but then fell back as the Asian crisis took its toll on world oil demand and as other producers, most notably Iran, balked at joining the proposed cuts. By December 1998, oil prices were hovering below \$10 per barrel and the Saudis were facing a serious fiscal crisis.

In response, Saudi Arabia began negotiations with Iran about more drastic production cuts. Relations between Riyadh and Tehran had improved considerably since the May 1997 election of Iran's reform-minded president, Muhammad Khatami. Both countries wanted to see prices go up, and the Saudis were willing to pay a certain price for the geopolitical gain of a friendlier Iran. In March 1999, those negotiations led to a new agreement on deeper production cuts among OPEC and non-OPEC producers, including Iran. This pact involved taking a further a mbd off the world market, with Saudi Arabia absorbing more than 25 percent of that amount. Iran was brought on board through a Saudi concession: letting Iran calculate its reduction from its "official" production level, which was higher than its actual production. These deeper cuts, coupled with the unexpectedly early rebound in Asian demand, did the trick for the Saudis and the other oil producers. Prices skyrocketed, and all the oil producers, even with their reduced production levels, netted substantially more revenue. Last September's OPEC meeting reaffirmed the production cuts, and members have largely abided by their quotas.

Saudi oil diplomacy in the past year successfully squared the circle between market share and price concerns. The price increases of 1999 staved off the looming fiscal crisis. The Saudis managed to push prices up without sacrificing market share. But how long Riyadh will be able to pull off this balancing act is anyone's guess. Its success so far has depended on a favorable conjunction of circumstances: rising East Asian demand, a galloping American economy, and other producers' willingness to stick to their production quotas. But if prices stay up, new oil will find its way onto the market, and demand might not grow at forecast rates. Further price increases could mean a drop in demand. If prices soften, OPEC and non-OPEC members alike will be tempted to cheat on their quota agreements—a replay of the scenario of the early and mid-1980s. The Saudis are unlikely to act over the long term the way they did in the 1980s, sacrificing market share to accommodate quotacheating by others. "No playing the swing producer" and "no loss of market share" are now guiding principles of Saudi strategic thinking. But in the short term, price considerations will loom large in any Saudi oil policy—simply because the Saudi government needs the money.



IAC

9/19

THIS RISKS SEVERAL SCENARIOS FOR EXTENSION  
1ST - CASPIAN SEA

### LOW OIL PRICES WOULD END US INVESTMENT IN THE CASPIAN

Robert Ebel, Director of Energy & Nat'l Security at CSIS, 2000. Energy & Conflict in Central Asia and the Caucasus; Ebel ed. pg. 3

The future of Caspian energy is hostage to many unknowns. Much of the Caspian Sea remains unexplored, and while there are many sites that could contain oil and gas, the sheer statistical probability of large finds in areas that have yet to be explored are low as a general rule, even with the dramatic improvements in prospecting technology. Furthermore, there needs to be a great deal of investment (in drilling rigs, pipelines, pumping stations, etc.) to drill for hydrocarbons and to transport them to distant markets from what is a landlocked region. Only three drilling rigs are operating in the Caspian at present—a major constraint on increases in future production. World oil prices will determine whether the investment needed to cope with these problems materializes. Sooner or later a prolonged downward trend could make the Caspian unattractive to investors, particularly as the costs of extracting oil and transporting it from this region is high relative to other oil-producing areas. There are several conditions (some already at play) that could, in combination, make for persistently low oil prices—a possibility that should not be obscured by the steep rise in prices that began in the latter half of 1999. Among these conditions are the increasing energy efficiency in the manufacturing sectors of the major consuming countries; the development of transportation technologies that may eventually reduce sharply the need for gasoline; the discovery of new and easily accessible reserves that, to boot, stay outside the OPEC cartel; and the ending of sanctions on Iran and Iraq, which would permit these countries, aided by foreign investment, to increase oil production and exports

AND

### US INFLUENCE IN THE CASPIAN IS KEY TO CHECKING RUSSIAN AGGRESSION.

Nuriyev, Director of Center for Int'l Studies in Baku, 1999. (Washington Times. July 10. I/n.) For Azeris, there are two basic questions. What do Russians want in return for providing Armenia with a large-scale military assistance and why does Armenia need so many weapons? Russia, they believe, benefits from the state of "frozen instability" in the Caucasus, which effectively denies independence and economic development to the states in the region and hinders viable exporting routes to the oil consortiums in the area. Azerbaijan has signed 16 contracts with major oil companies from around the world. The United States has already become one of its main economic partners. Baku sees Washington's objectives in the region as promoting economic independence and ensuring that Caspian oil does not come under the sole control of Russia. A secure energy supply is vital to the economic and geostrategic interests of the United States. Economic and political involvement in the region will allow the United States to protect its multibillion-dollar investments in energy resources.

9

IAC

10/19

# RUSSIAN AGGRESSION IN THE CASPIAN CAUSES NUCLEAR CONFLICT

Dr. Ariel Cohen January 25, 1996

"The New "Great Game": Oil Politics in the Caucasus and Central Asia" The Heritage Foundation Jan. 1996 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

Much is at stake in Eurasia for the U.S. and its allies. Attempts to restore its empire will doom Russia's transition to a democracy and free-market economy. The ongoing war in Chechnya alone has cost Russia \$5 billion to date (equal to Russia's IMF and World Bank loans for 1995). Moreover, it has extracted a tremendous price from Russian society. The wars which would be required to restore the Russian empire would prove much more costly not just for Russia and the region, but for peace, (world stability) and security.

As the former Soviet arsenals are spread throughout the NIS, these conflicts may escalate to include the use of (weapons of mass destruction) Scenarios including unauthorized missile launches are especially threatening. Moreover, if successful, a reconstituted Russian empire would become a major destabilizing influence both in Eurasia and throughout the world. It would endanger not only Russia's neighbors, but also the U.S. and its allies in Europe and the Middle East. And, of course, a neo-imperialist Russia could imperil the oil reserves of the Persian Gulf.<sup>15</sup>

Domination of the Caucasus would bring Russia closer to the Balkans, the Mediterranean Sea, and the Middle East. Russian imperialists, such as radical

nationalist Vladimir Zhirinovsky, have resurrected the old dream of obtaining a warm port on the Indian Ocean. If Russia succeeds in establishing its domination in the south, the threat to Ukraine, Turkey, Iran, and Afganistan will increase. The independence of pro-Western Georgia and Azerbaijan already has been undermined by pressures from the Russian armed forces and covert actions by the intelligence and security services, in addition to which Russian hegemony would make (Western political) and economic efforts to stave off (Islamic militancy) more difficult.

Eurasian oil resources are pivotal to economic development in the early 21st century. The supply of Middle Eastern oil would become precarious if Saudi Arabia became unstable, or if Iran or Iraq provoked another military conflict in the area. Eurasian oil is also key to the economic development of the southern NIS. Only with oil revenues can these countries sever their dependence on Moscow and develop modern market economies and free societies. Moreover, if these vast oil reserves were tapped and developed, tens of thousands of U.S. and Western jobs would be created. The U.S. should ensure free access to these reserves for the benefit of both Western and local economies.

10

IAC

11/19

2ND SCENARIO - RUSSIAN ECONOMY

LOW PRICES WILL COLLAPSE THE RUSSIAN ECONOMY

Victor. Victor G., Director of the Program on Energy and Sustainable Development 4/2003  
( Foreign Affairs, April 2003, Axis of oil, Page 50-51)

It is neither wise nor effective to use strategic reserves to manage prices, but the likely result of these actions would be much lower prices that will expose a rift between consuming nations and producers such as Russia. Every \$1 shift in world oil prices translates into about \$1 billion for the Russian state budget. Russia ran a surplus of \$5 billion in 2002, and the 2003 state budget (which forecast a price for Urals crude of \$21.50 per barrel) calls for saving \$17 billion of oil revenue for the future by paying down the current external debt. Contingency plans predict red ink if oil prices fall below about \$18 per barrel. Low prices would be a disaster for Russia. If they also trigger disarray in OPEC, then a sustained period of cheap oil could spread fiscal pain across the oil-producing world. In the past, however, U.S. policy has not changed in response to collapses in world oil prices; U.S. energy firms generally fare poorly in that environment, but consumers gain when they can guzzle more at lower cost and the economy is freer to soar when prices are low.)

11

1 AC

12/19

## RUSSIAN COLLAPSE CAUSES NUCLEAR CONFLICT

David, Poli Sci Prof at Johns Hopkins, 1999. (Stephen. Foreign Affairs. Jan/Feb. I/n.)

If internal war does strike Russia, economic deterioration will be a prime cause. From 1989 to the present, the GDP has fallen by 50 percent. In a society where, ten years ago, unemployment scarcely existed, it reached 9.5 percent in 1997 with many economists declaring the true figure to be much higher. Twenty-two percent of Russians live below the official poverty line (earning less than \$ 70 a month). Modern Russia can neither collect taxes (it gathers only half the revenue it is due) nor significantly cut spending. Reformers tout privatization as the country's cure-all, but in a land without well-defined property rights or contract law and where subsidies remain a way of life, the prospects for transition to an American-style capitalist economy look remote at best. As the massive devaluation of the ruble and the current political crisis show, Russia's condition is even worse than most analysts feared. If conditions get worse, even the stoic Russian people will soon run out of patience. A future conflict would quickly draw in Russia's military. In the Soviet days civilian rule kept the powerful armed forces in check. But with the Communist Party out of office, what little civilian control remains relies on an exceedingly fragile foundation – personal friendships between government leaders and military commanders. Meanwhile, the morale of Russian soldiers has fallen to a dangerous low. Drastic cuts in spending mean inadequate pay, housing, and medical care. A new emphasis on domestic missions has created an ideological split between the old and new guard in the military leadership, increasing the risk that disgruntled generals may enter the political fray and feeding the resentment of soldiers who dislike being used as a national police force. Newly enhanced ties between military units and local authorities pose another danger. Soldiers grow ever more dependent on local governments for housing, food, and wages. Draftees serve closer to home, and new laws have increased local control over the armed forces. Were a conflict to emerge between a regional power and Moscow, it is not at all clear which side the military would support. Divining the military's allegiance is crucial, however, since the structure of the Russian Federation makes it virtually certain that regional conflicts will continue to erupt. Russia's 89 republics, krais, and oblasts grow ever more independent in a system that does little to keep them together. As the central government finds itself unable to force its will beyond Moscow (if even that far), power devolves to the periphery. With the economy collapsing, republics feel less and less incentive to pay taxes to Moscow when they receive so little in return. Three-quarters of them already have their own constitutions, nearly all of which make some claim to sovereignty. Strong ethnic bonds promoted by shortsighted Soviet policies may motivate non-Russians to secede from the Federation. Chechnya's successful revolt against Russian control inspired similar movements for autonomy and independence throughout the country. If these rebellions spread and Moscow responds with force, civil war is likely. Should Russia succumb to internal war, the consequences for the United States and Europe will be severe. A major power like Russia -- even though in decline -- does not suffer civil war quietly or alone. An embattled Russian Federation might provoke opportunistic attacks from enemies such as China. Massive flows of refugees would pour into central and western Europe. Armed struggles in Russia could easily spill into its neighbors. Damage from the fighting, particularly attacks on nuclear plants, would poison the environment of much of Europe and Asia. Within Russia, the consequences would be even worse. Just as the sheer brutality of the last Russian civil war laid the basis for the privations of Soviet communism, a second civil war might produce another horrific regime. Most alarming is the real possibility that the violent disintegration of Russia could lead to loss of control over its nuclear arsenal. No nuclear state has ever fallen victim to civil war, but even without a clear precedent the grim consequences can be foreseen. Russia retains some 20,000 nuclear weapons and the raw material for tens of thousands more, in scores of sites scattered throughout the country. So far, the government has managed to prevent the loss of any weapons or much material. If war erupts, however, Moscow's already weak grip on nuclear sites will slacken, making weapons and supplies available to a wide range of anti-American groups and states. Such dispersal of nuclear weapons represents the greatest physical threat America now faces. And it is hard to think of anything that would increase this threat more than the chaos that would follow a Russian civil war.

12

LAC

13/19

### 3RD SCENARIO - SAUDI ECONOMY

## SUSTAINED OIL GLUT WOULD CRIPPLE WORLD ECONOMIES RISKING CIVIL WAR, AND US NATIONAL SECURITY

.....  
Amy Myers Jaffe, senior economics for Petroleum Intelligence Weekly, directs the Energy Research Program at the James A. Baker III Institute for Public Policy at Rice University, and Robert A. Manning, Senior Fellow and Director of Asian Studies at the Council of Foreign Relations. "The Shocks of a World of Cheap Oil." *Foreign Affairs* January/February 2000 Volume 79 pages 17-18.)

Neither, frankly, is Washington. The political reverberations of a sustained oil glut should not be underestimated. Several important regimes—in the Gulf states, Russia, the former Soviet republics, and such key Latin American countries as Venezuela, Mexico, and Colombia—count on healthy oil revenues for calming restive populations, assuaging social tensions, and in some cases, nation-building writ large. Without the salve of rising oil revenues, many of these nations can expect to see heightened political instability, social unrest, or even civil wars, which could be grimly reminiscent of recent Balkan slaughters. In the Gulf, such instability could trigger the next oil shocks in the form of short-term disruptions. The 1991 Gulf War demonstrated the West's capacity to defend important oil regions from traditional external threats like the Iraqi invasion of Kuwait. But America's painful experiences with revolutionary Iran in the late 1970s and the Balkans in the 1990s are grim reminders of how hard it can be to cope with internal instability. The new dynamics of the global oil market have profound implications for U.S. national security policy. Washington had better gird itself.

high health oil revenues are key to key oil producing states to avoid civil wars & oil shock

13

IAC

14/13

ALSO,

**SAUDI ECONOMIC DECLINE WILL SPARK PROTRACTED CIVIL WARS AND A GLOBAL DEPRESSION.**

David, Poli Sci Prof at Johns Hopkins, 1999. (Stephen. Foreign Affairs. Jan/Feb. 1/n.)

As the above suggests, Saudi Arabia suffers from the fact that the various threats to domestic peace all reinforce one another. The bad economy intensifies religious extremism, which in turn exacerbates divisions in the armed forces. The catalyst for civil war can therefore come from one of several different sources. A power struggle in the royal family over succession to the throne, squabbles over shares of an ever-shrinking economic pie, or disenchantment in the military with the royal family's selfish behavior could all set off a major conflagration. In a Saudi civil war, the oil fields will be a likely battle site, as belligerents seek the revenue and international recognition that come with control of petroleum. For either side to cripple oil production would not be difficult. The real risk lies not with the onshore oil wells themselves, which are spread over a 100-by-300 mile area, but in the country's dependence on only a few critical processing sites. Destruction of these facilities would paralyze production and take at least six months to repair. If unconventional weapons such as biological agents were used in the oil fields, production could be delayed for several more months until workers were convinced it was safe to return. Stanching the flow of Saudi oil would devastate the United States and much of the world community. Global demand for oil (especially in Asia) will increase in the coming decades, while non-Persian Gulf supplies are expected to diminish. A crisis in the planet's largest oil producer, with reserves estimated at 25 percent of the world's total, would have a massive and protracted impact on the price and availability of oil worldwide. As the disruptions of 1973 and 1979 showed, the mere threat of diminished oil supply can cause panic buying, national hysteria, gas lines, and infighting. Prices for oil shot up 400 percent in 1973, 150 percent in 1979, and 50 percent (in just 15 days) in 1990. The oil shocks of the 1970s threw the United States into recession, causing spiraling inflation and a decline in savings rates that plagues the U.S. economy even now. Trillions of dollars were lost worldwide. And all this occurred at a time when the United States was less dependent on foreign petroleum than it is now. Cutting the Saudi pipeline today would cause a severe worldwide recession or depression. Short of physical attack, it is the gravest threat imaginable to American interests.

THIS WILL COLLAPSE GLOBAL CIVILIZATION

LEWIS '98

114

IAC

15/19

OBSERVATION III: SOLVENCY

Status quo policies fail to adequately resolve major environmental problems associated with local control of offshore drilling projects. The Department of Interior is in a privileged position to create five-year leasing programs that establish regulatory mechanisms to control offshore drilling. This program enables congress to prohibit leasing in sensitive environmental areas, controlling rampant extraction of oil, and short-circuiting state and local agencies that hamstring current federal regulations. \*\*\*

Weaver, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

<As discussed above, the current offshore energy extraction system fails to take proper account of environmental concerns at the national level. This failure leaves major environmental concerns primarily in the hands of local governments and activists, divorcing them from the offshore development system itself. To mend this broken system and encourage comprehensive management of the OCS, the federal leasing program must seriously consider environmental and other state and local concerns at the outset of leasing decisions. In particular, Interior must prepare five-year leasing programs that comply with the statutory mandate to best meet national energy needs, consider environmental sensitivity and marine productivity, and equitably share the benefits and environmental risks of OCS development.<sup>112</sup> In taking the competing values of the OCS seriously, Congress should simply forbid leasing in areas that meet a certain level of environmental sensitivity or purity. This baseline determination would equalize the priorities of OCS management, allowing respect for the different purposes of different areas of the ocean, rather than presuming extraction wherever resources exist.

Beyond the leasing decision, federal agencies and courts must enforce existing environmental laws without compromise, respecting the full intent of the laws and resolving that oil development must not be given special privileges. Only by making environmental concerns a top priority can the federal government implement a national energy policy that truly considers all relevant factors. Moreover, the federal government would then be able to regain control of a system that must be run at the federal level in order to best deal with the nation's energy and environmental needs.

To resolve the problems of the existing federal minerals leasing system, we must first address Interior's and the courts' failure to heed OCSLA's mandate that Interior consider the economic, environmental, and social consequences of OCS development, especially on the immediate communities, when making initial leasing decisions. Since the initial decision to grant a lease affords the greatest single opportunity for states and local communities to influence offshore drilling projects, the requirements [\*256] of OCSLA's Section 18 must be made a top priority and truly allow for grass-roots level input. While the Secretary of the Interior has the authority to cancel or modify leases for environmental reasons,<sup>113</sup> this has proven to be an unreliable form of environmental protection. The Secretary has rarely used this power<sup>114</sup> and it is generally discouraged on account of the government's legal duty to compensate oil companies for such breaches.<sup>115</sup>

In seeking to refocus attention on the initial leasing decision, Section 18 affords a significant

15

16/19

1 AC

opportunity for meaningful reform. Specifically, Section 18(a) provides that leasing programs shall be consistent with the following principles:

(1) Management of the [OCS] shall be conducted in a manner which considers economic, social and environmental values of the renewable and nonrenewable resources contained in the [OCS], and the potential impact of oil and gas exploration on other resource values of the [OCS] and the marine, coastal, and human environments.

(2) Timing and location of exploration, development, and production of oil and gas among the oil- and gas-bearing physiographic regions of the outer [OCS] shall be based on consideration of--

(A) existing information concerning the geographical, geological, and ecological characteristics of such regions;

(B) an equitable sharing of developmental benefits and environmental risks among the various regions;

(C) the location of such regions with respect to, and the relative needs of, regional and national energy markets;

(D) the location of such regions with respect to other uses of the sea and seabed, including fisheries, navigation, existing or proposed sealanes, potential sites of deepwater ports, and other anticipated uses of the resources and space of the [OCS];

(E) the interest of potential oil and gas producers in the development of oil and gas resources as indicated by exploration or nomination;

[\*257] (F) laws, goals, and policies of affected States which have been specifically identified by the Governors of such States as relevant matters for the Secretary's consideration;

(G) the relative environmental sensitivity and marine productivity of different areas of the [OCS]; and

(H) relevant environmental and predictive information for different areas of the [OCS].

(3) The Secretary shall select the timing and location of leasing, to the maximum extent practicable, so as to obtain a proper balance between the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse impact on the coastal zone. <sup>116</sup>

As seen here and throughout this Note, the original language and intent of OCSLA has the potential to direct OCS development in a way that respects the competing resources of the OCS, the environment, and the local communities that host offshore oil and gas development. These principles will undoubtedly come into conflict at times, but it is the federal agency's responsibility and its statutory mandate to balance, respect, and reconcile these principles to the greatest extent possible. The original intent of the statute simply does not give Interior the power to universally subordinate environmental interests to those of oil extraction.

This mandate to reconcile the competing resources of the OCS is quite sensible given the current

16

IAC

17/19

state of affairs at the local level. As this Note illustrates, that which people are unable to achieve through one tier of government, they will seek to achieve through other means. Given the demonstrated tenacity and significant success of local, state, and other non-oil interests in achieving their desired regulation and obstruction of development through nonfederal legal mechanisms, the federal government is, in effect, allowing national energy policy to be hamstrung by forcing these interests outside the federal system. If the federal government hopes to regain control of OCS management, finding a way to incorporate substantive local and state input is imperative. >

2. **Section 18(a) sets up a balancing test for offshore leasing with environmental baseline requirements—this does away with the current political and economic system that determines offshore drilling at whim.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Env'tl. L. Re. 231)

<In order to simplify and make more transparent the balancing process inherent in Section 18(a)'s competing principles, the first and most fundamental element to the offshore leasing program must be an environmental baseline. With an environmental baseline, drilling would be prohibited in areas with significant environmental value, as determined through a process of scientific evaluation by federal, state, and local management experts. The purpose of this approach is to identify the competing public interests of the OCS at the outset and draw a bright line when this public interest passes a threshold level, precluding any further balancing in favor of energy development. Thus, instead of the current [\*258] limits to drilling, which are based on what interest groups have the most political power or the greatest economic interest at stake, future impediments to offshore energy development would be based on the preservation of competing national natural resources.

Additionally, the environmental baseline recognizes that offshore drilling is different in kind from onshore drilling and raises unique environmental concerns. Specifically, it is more difficult to control and regulate offshore drilling on a day-to-day basis, and the difficulty compounds exponentially in the case of a spill or other major disaster. The risk of major environmental damage is much higher for offshore drilling, including damage to fisheries, marine mammals, and water quality. In places such as California's Central Coast, a single oil spill could wipe out an entire endangered species, such as the vulnerable southern sea otter. This type of catastrophic risk to endangered species, fisheries, coral reefs, and sensitive coastal ecosystems simply should not be accepted. When faced with a conflict between a substitutable resource (energy that can be obtained through other oil and gas sources on- or offshore, or through non-extractive means) and a non-substitutable and potentially non-renewable resource (endangered species or fragile ecosystems), the environmental baseline would tell policy-makers that there is only one possible decision--keep oil out.

17

IAC

18/19

FINALLY, THE PLAN LEADS TO RESPONSIBLE STEWARDSHIP  
OF DOMESTIC OIL RESOURCES

FITZGERALD, PROF. OF POLITICAL SCIENCE, WRIGHT  
STATE UNIVERSITY, 2001

(EDWARD, THE SEAWEEED REBELLION: FEDERAL-STATE  
CONFLICTS OVER OFFSHORE ENERGY DEVELOPMENT,  
P. 274-6)

Despite the critical applause, judicial support of Interior's OCS policy in the face of active coastal state and congressional opposition has caused a breakdown in the OCS program. During OCSLA oversight hearings in 1989, the chair, Representative Dyson (D-Md.), commented, "the Subcommittee will proceed today from the presumption that the objectives of the OCSLA are not being met . . . the OCSLA program is essentially shut down." The OCSLA is "not guiding the orderly and timely development of the OCS while providing for the protection of the marine and coastal environment." Representative Panetta (D-Cal.) testified that "there is a universal sense that the OCSLA (does not work)." In 1993, the OCS Policy Committee concluded that the OCSLA "represents an antiquated hierarchical approach to decisionmaking by the executive branch of the federal government." The existing framework "does not provide for a predictable governing/planning process, an equitable sharing of OCS benefits and costs, an effective decision-making process that meaningfully involves all who are affected parties, or taking a comprehensive approach in managing our resources in light of other ocean uses and resources concerns." While it provides "the opportunities to make OCS

decisions based on consultation and cooperation, in practice it has led to protracted controversies and conflict."

OCS resources are an important part of the (U.S. energy supply). OCS development is currently providing 25 percent of the domestic natural gas and 25 percent of the domestic oil production. The U.S. is importing half of the petroleum necessary to meet domestic needs. This dependency may increase in the future. Petroleum imports affect the U.S. balance of payments and national security. OCS energy resources will play an important role in meeting future energy needs.

The current statutory framework has not provided the federal-state partnership, which is necessary for orderly development and environmental protection. Paul Sabatier points out that successful policy implementation requires the statute to present "policy objectives that are clear and consistent or at least provide substantive criteria for resolving policy conflicts." The implementation process must be structured to maximize the probability that the implementing agency will carry out the statutory goals. This requires the assignment of the implementation to an agency supportive of statutory goals, the minimization of veto points, and the provision of incentives to the implementing agency.

The OCSLA calls for an OCS program that balances energy development, environmental protection, and coastal state concerns, but does not indicate how the balancing is to occur. This has allowed the Secretary to follow the President's policy directions and stress OCS energy development at the expense of other enumerated goals. The OCSLA delegates authority to Interior, which has been development oriented. The coastal states are granted authority to participate in the program through sections 18 and 19, but the Secretary ignored their concerns. The courts failed to enforce the statutory mandates.<sup>7</sup>

18

IAC

19/19

The statutory framework governing OCS development must be changed to achieve peace in the Seaweed Rebellion. The role of the coastal states must be expanded to provide for the cooperative development of OCS resources. The SLA, OCSLA, and CZMA should be amended to provide clear directions regarding the role of the coastal states. Most importantly, Interior should be required to accept coastal state comments or bear the burden of proof in subsequent litigation to justify any refusal. The burden of proof defines the role of the parties in the litigation, establishes the order of the evidence presented, and influences the settlement position of the parties and their willingness to compromise.<sup>8</sup> The Supreme Court has noted that the burden of proof is "rarely without consequence and frequently may be dispositive to the outcome of the litigation."<sup>9</sup> Congress possesses authority over evidentiary rules and can establish the burden of proof.<sup>10</sup>

The SLA should be amended to clarify that federal-state boundary decisions resolve domestic conflicts, but do not establish international boundaries. The SLA should define inland waters and stress that historic claims are to be the basis of state inland water claims. Alternatively, international law should be employed to interpret the SLA. This will allow the coastal states to utilize straight baselines to

establish inland waters and permit the invocation of the less rigorous standard of proof to appraise the coastal states' assertion of historic title.

Section 18 of the OCSLA, which deals with development of the five-year OCS leasing schedule, should be amended. First, the meaning of "oil and gas bearing physiographic regions" in section 18(a)(2) should be defined. Congress should clarify whether the five-year OCS program should be based on small discrete areas suspected of containing petroleum or large planning areas of diverse physiographic composition.<sup>11</sup> Second, section 18(a)(3) requires that the timing and location of lease sales in the five-year OCS program reflect "a proper balance between the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse impact on the coastal zone." Section 18 should specify that equal weight be given to each of the three factors in the five-year program. Congress should also decide whether cost/benefit analysis is the appropriate means for complying with section 18(a)(3).<sup>12</sup> Third, section 18 allows the governors of affected coastal states to submit comments, but the Secretary is only required to accept "appropriate" comments. The Secretary should be required to accept state comments or bear the burden of proof in subsequent litigation to show why the comments were rejected.<sup>13</sup> This will "lead to leasing programs which are far more specific and which, because of the increased role played by the states, are more free from controversy and thus easier to implement."<sup>14</sup> Section 18(f) should be re-examined and standards established regarding subarea deferrals.

19

(T) OCS = MARINE NATURAL RESOURCES

---

**OCS resources are marine natural resources.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, **2002**  
(Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. Lexus: 26 Harv. Envtl. L. Re. 231)

<Recently, the Seaweed Rebellion has engaged a new set of actors who are also fighting for jurisdictional control--city and county governments. While these local interests have long shaped the terms of political debate on this topic, during the past two decades they have gone on to influence not only the debate, but also the legal framework in which it occurs. This Note examines the various legal tools that local governments have used to carve out their own areas of control over the management of OCS resources. It also examines the desirability of inserting local interests into this debate, given the nationally important economic and social value of natural resources such as the nation's coastal vistas, marine fisheries, and offshore energy supply. Although this battle directly affects every coastal region in the United States, this Note focuses on the experiences of California's Central Coast and the tactics local residents have developed in response to the community's struggle. This region has had extensive experience with offshore drilling and the fight against it. Not only was Santa Barbara County, California, the site where offshore oil was first discovered in the United States, it was also the site of the country's first major oil disaster, the infamous blowout of Union Oil's Platform A in 1969. Some consider the Santa Barbara blowout to be one of the primary catalysts for resistance to offshore drilling in California in particular, and for the development of the modern environmental movement generally. Moreover, the [\*232] battle between California and the federal government over offshore control has been one of the most intense and publicized of all the coastal states. Simply the number of major offshore oil cases that feature California and national officials as opposing parties indicates the extent of this tension. Localities in California have also taken an active role in attempting to control development activities, and to this date the State has strongly supported and encouraged their efforts. The California example may go beyond the average state's efforts to influence offshore drilling, but using it as the most extreme example of how the Seaweed Rebellion has played out will highlight the tensions in the current OCS resource management system. >

INHERENCY: OCS DRILLING Now

---

Bush's energy proposal ensures the opening  
up of offshore drilling

**Graham and Feinstein**- June 25<sup>th</sup> 2003; (Bob-Dem. Senator from Florida, Dianne- Dem. Senator from California—commentary @ The L.A. Times; “ Commentary; Energy Bill’s Slick Language Could Usher In Offshore Drilling; Benefits would be nil. And risks could be grave: Just ask Santa Barbara about the disastrous gunk onslaught of 1969”)plexis

“The Senate is debating an energy bill that is a bad piece of legislation.

The bill would do nothing to combat the growing problem of global warming, nothing to raise fuel economy standards for light trucks and sport utility vehicles to decrease our dependency on foreign oil, nothing to increase our use of renewable and alternative sources of energy and nothing to prevent another energy crisis like the one on the West Coast caused by the fraud and manipulation of Enron and other greedy corporations.

The basic philosophy behind this bill is to ignore alternative energy issues and drain the nation first -- to make it easier and less expensive to extract oil and gas from publicly owned lands, regardless of environmental costs.

And this bill just gets worse.

It includes a provision that would open the door to offshore oil drilling by requiring a survey of the oil and gas resources under the outer continental shelf. The language in the bill is little more than a thinly veiled attempt to disparage -- and even undermine -- long-standing, bipartisan moratoriums that protect our coastline from offshore drilling.

21

Inherency: OCS Drilling Now

---

**-Bush is laying the groundwork for the complete legalization of offshore drilling-**

Coile- June 13<sup>th</sup> 2003; ( Zachary- staff writer @ The San Francisco Chronicle; "Senate OKs survey of offshore oil; Drilling moratorium off California coast at risk, opponents say")

The Senate approved a major study of offshore oil and gas reserves Thursday, angering California officials and lawmakers from other coastal states who called it the first step toward ending a 20-year moratorium on offshore drilling in federal waters.

The inventory, backed by the Bush administration, is part of a Senate energy bill aimed at lessening America's dependence on foreign oil and natural gas by boosting development of domestic sources.

Opponents argued that creating the inventory will lay the groundwork for overturning the federal ban on oil drilling in most parts of the outer continental shelf, including waters off the California coast. But a measure to strip the inventory from the energy bill was defeated Thursday on a 44-54 vote.

"This is a slap in the face to the people of California, who have already expressed their strong and unwavering support for the protection of our oceans and coastlines," said Sen. Barbara Boxer, D-Calif., after the vote.)

Bush has already started the process of off-shore oil drilling in Alaska.

LA Times 4/22/03

(Simon, Richard, April 22, 2003 HEADLINE: Bush Pursues Offshore Drilling in Alaska, L/N)

WASHINGTON — Blocked by stiff congressional opposition to opening the Arctic National Wildlife Refuge to oil drilling, the Bush administration is moving on its own to promote energy exploration in the icy waters off Alaska.

Government officials are inviting oil companies to bid later this year on the rights to drill in the Beaufort Sea off northern Alaska, an area unaffected by a moratorium on new offshore exploration in much of the rest of the country.

22

Inherency: OCS Drilling Now

---

Off-shore drilling is fate accompli

LA Times, July 5, 2003

(Saturday, SECTION: California Metro, Part 2, Pg. 24; Editorial Pages Desk HEADLINE: Oily Doings Off the Coast; Allowing offshore oil and gas reserves to be inventoried could open the way to environmental harm. /n)

Despite a 20-year-old federal ban on offshore drilling, the Senate passed a bill last month to let energy producers inventory the oil and gas supplies under coastal waters. The legislation's language is telling as to its goal: The Interior Department is required to report back to Congress on the "impediments" to restarting offshore oil and gas production.

The inventory is far from the worst provision in the Senate version of the energy bill, which now heads to a conference committee. But it is a prime example of the current fixation on resource extraction rather than sounder -- and cheaper -- conservation. 7

23

INHERENCY = BUSH DRILLS OCS

DESPITE BUSH'S RHETORIC OCS DRILLING IS A REALITY

Tampa Tribune 43/12/03

(April 12 2003, Saturday, Section :Nation/World, page 18 Headline: Renewed Drilling Threat to Florida.

1/n) Florida's U.S. Sens. Bob Graham and Bill Nelson and Hillsborough's Congressman Jim Davis deserve credit for fighting to protect the state's coast from offshore drilling.

Their efforts and those of Gov. Jeb Bush prompted President George W. Bush to pledge to maintain a moratorium on oil and natural gas drilling within 100 miles of Florida's Gulf Coast. The president's promise is important but is unlikely discourage drilling proponents.

The senators ferreted out what looked to be a sly attempt to open the state's coast to offshore drilling. They were alarmed by language in the Senate's pending energy bill, which is currently being debated. Similarly, Jim Davis highlighted a more direct attack on coastal protections.

The Senate measure directed the interior secretary to submit a report to Congress and the president on "restrictions and impediments" to oil production in the Gulf of Mexico.

This appeared to be an effort to slip offshore drilling back onto the national agenda, which would be disastrous to Florida's environment and economy.

is self from off-shore drilling

24

Off shore oil drilling increasing now

Some off-shore oil is banned in the status-quo but new technology is changing that.

**The Heritage Foundation 4/24/2002**

(April 24, 2003 Thursday SECTION: Backgrounder HEADLINE: Strengthening National Energy Security by Reducing Dependence on Imported Oil; Charli E. Coon, J.D., and James Phillips, I/n.)

(Charli E. Coon, J.D., is Senior Policy Analyst for Energy and the Environment in the Thomas A. Roe Institute for Economic Policy Studies, and James Phillips is Research Fellow in Middle Eastern Affairs in the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.)

◀ Promising areas of oil and natural gas discoveries are also located offshore in the Gulf of Mexico, in the Eastern Gulf of Mexico, and on the Atlantic and Pacific Outer Continental Shelves (OCS). However, federal law prohibits exploration on the OCS and in the Eastern Gulf of Mexico. A recent comprehensive assessment by the Department of Interior's Minerals Management Service (MMS) estimates that the total amount of undiscovered, conventionally recoverable resources in the U.S. OCS is 75 billion barrels of oil. n32

n32 Testimony of Carolita Kallaur, Associate Director, Offshore Minerals Management, Minerals Management Service, Department of the Interior, before the Subcommittee on Energy and Mineral Resources, Committee on Resources, U.S. House of Representatives, March 22, 2001, p. 6.

Advanced technologies allow industry to pinpoint resources more accurately, extract them more efficiently and with less surface disturbance, minimize associated wastes, and restore sites to their original or even better condition. n33 Congress and the White House need to lift the leasing restrictions and allow responsible exploration in these areas to enhance U.S. energy security. ▶

-Offshore drilling accounts for one-fourth of US oil production, and is growing.

Pravda.ru, '02

[http://english.pravda.ru/comp/2002/07/02/31588\\_.html](http://english.pravda.ru/comp/2002/07/02/31588_.html)

Minerals Management Service's 5-Year Program Approved

Interior Secretary Gale Norton has approved the Minerals Management Service's 5-Year Program for oil and natural gas lease sales on the Outer Continental Shelf for 2002-2007. The program schedules 20 lease sales in eight OCS planning areas in the Gulf of Mexico and off Alaska.

"The Secretary's approval of the new program is the culmination of an 18-month process during which MMS and the Department of the Interior consulted with coastal states, the public at large, the environmental community and the natural gas and oil industry," said MMS Director Johnnie Burton. "The new program supports the President's National Energy Policy and will help meet the future energy needs of our country in an environmentally sound manner."

Oil and gas produced from the OCS currently provides about one-fourth of the total produced in the United States. New technology has opened up new areas for offshore drilling in the past decade, with 35 rigs currently exploring in water depths of more than 1,000 feet. The MMS estimates the new 5-year program will make available from 10 to 21 billion barrels of oil and 40 to 60 trillion cubic feet of natural gas. This is enough oil to meet the nation's transportation needs - fuel for every commercial and private vehicle in America - for two to five years. It is enough natural gas to heat, cool and run appliances for every home in America for two to three years. In addition, the program will generate thousands of jobs, produce billions of dollars in revenue for the federal and state governments, and provide oil to fill the Strategic Petroleum Reserve.

The first lease sale scheduled under the new program is Western Gulf of Mexico Sale 184, which is slated for August 21, 2002 in New Orleans.

25

Off shore oil drilling increasing now

-Bush will inevitably increase drilling off Florida.

Herald Tribune, July 6, 2003

(Constructive NIMBYism: Act now keep oil rigs away, URL:

<http://heraltribune.com/apps/pbcs.dll/article?AID=/20030706/columnist4> )

*Bush will inevitably increase drilling off Florida.*  
The offshore oil drilling fight appears to be entering a new and more active phase. Lobbyists, legislators and bureaucrats favoring are pressing for a comprehensive inventory of potential oil and gas fields under waters off coastal states, including Florida. They also want to weaken some of the requirements imposed by states in efforts to prevent or delay drilling.

Floridians have been relying on the Bush Brothers, president and governor, to help us fend off the drillers, but, as a recent editorial on this page pointed out, President Bush has been acting mighty friendly toward congressional supporters of drilling, and we need to examine very closely what he has said on the subject. Which was, as reported by the Herald-Tribune, "I'm going to work with your governor on offshore drilling here in Florida," and which could be a pledge to work either for or against it. In this and in many other matters, we are learning the necessity to parse our president's sentences word by word and phrase by phrase.

That said, let me point out that the most damaging impact of offshore drilling is not at the drilling site but at on-shore facilities built to move or process whatever oil or gas may be brought to the surface.

If you have any doubt of that, take a drive along the coast of Louisiana, if you can find the coast amidst the pipelines and dredges.

On-shore impacts can be controlled or mitigated by zoning and land use regulations, and we need to pay close attention to what our county commissioners and state legislators have done or plan to do to protect our beaches and harbors from environmental atrocities. Why don't you ask them?

Now, I am obliged also to point out that Florida's resistance to offshore drilling is Nimbyism on a grand scale. There is a place for constructive Nimbyism. If you don't look out for your back yard, nobody will.

But, while you are pounding the table and saying, "Not in my back yard," you must be willing to recognize that something which is not good for your neighborhood, probably is not good for the other guy's neighborhood either.

And that leads me to the following assertion: When some proposal is put forward for a new road, subdivision, high-rise or any undertaking which opponents say would hurt their neighborhood, officials responsible for approving or disapproving it must be able to make a very strong case that the proposed facility is necessary to promote the public welfare and that there is only one place to put it.

But, back to oil drilling. Floridians who oppose drilling in waters off our beaches

need to understand that, barring major change in national energy policy, they are going to lose. If not in this decade, then in the next.

If we reach a point at which the nation sorely needs whatever oil or gas underlies the Gulf of Mexico off Florida, the president will not be able to resist -- indeed will enthusiastically back -- bringing in the drilling rigs.

The only way to avoid such an outcome is to reduce, dramatically reduce, our dependence on fossil fuels. In both our nation and our state.

26

Off shore oil drilling increasing how

**-Bush's environmental policy on oil drilling is unsound-he is pushing for more drilling which will harm the environment-**

**Star Tribune- June 4<sup>th</sup> 2002;** (Minneapolis Metro Edition; "Oil policy; Florida aside, U.S. needs one") plexis

To the extent that President Bush and Vice President Cheney have framed a national strategy for oil and gas development, it can be summarized thus: Drill everywhere the Congress, the courts or local politics can't prevent it. This is the problem that underlies the administration's approach to sinking wells off the Florida panhandle, on the Arctic coast of Alaska, along the eastern slope of the Rocky Mountains, and everywhere else.

If oil and gas were limitless in supply, or benign to produce and consume, such a policy might make sense. But Americans are now into their fourth decade of understanding at least vaguely that our use of energy in general, and oil in particular, is economically unsustainable and environmentally unsound.

### US Seeks to Survey Offshore Drilling Potential

ENS News (6/12/03)

(Pegg, J.R., June 6, 2003 HEADLINE: Senate Approves Offshore Oil and Gas Exploration, L/N)

WASHINGTON, DC, June 12, 2003 (ENS) - The Senate voted today to keep a provision within its version of the Energy bill that calls for a comprehensive inventory of the nation's offshore oil and gas resources. Critics of the measure fear it is the first step toward lifting a 20 year ban on offshore drilling in many of the nation's coastal waters and could harm the environment and the economies of affected coastal states.

### Offshore Drilling Will Increase

Businessweek 6/30/03

(Kartsonas, John, June 30, 2003 HEADLINE: Focus Stock, L/N)

ENSCO: A Gas Driller That's Cooking

Given today's natural gas shortage and ENSCO's fleet of premium rigs, S&P sees plenty of heat under the 5-STARs-rated shares

We at Standard & Poor's expect domestic oil and gas contract-drilling outfits to enjoy a good second half in 2003, especially in light of lofty prices for natural gas. And we believe ENSCO International (ESV), with one the largest fleets of premium drilling rigs in the Gulf of Mexico, is particularly well-positioned to benefit from the improving conditions.

27

INHERENCY: FEDERAL LAWS FAIL (SQ)

**Inherency:**  
Current federal laws are ineffective for dealing with environmental and natural resource protection.

Weaver, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Env'tl. L. Re. 231)

<Several federal laws have recognized and incorporated local expertise in environmental protection and natural resources management, but this expertise has not been effectively incorporated into the management of the OCS. Local interests have accordingly suffered at two levels. At the most basic level, local interests have suffered from lack of control over offshore drilling itself. They have also suffered through lack of integration in the federal programs that have granted them the opportunity to [\*253] provide substantive input. For example, under the Clean Air Act the State of California has granted Local Air Quality Management Districts jurisdiction over offshore platforms in order to integrate such offshore air pollution sources into regional air quality schemes.<sup>108</sup> The Magnuson-Stevens Act provides another example. Under this statutory scheme, Regional Fisheries Management Councils determine which fishing gear types are permissible, based on fishing needs and the negative impacts of certain fishing practices on other ocean resources.<sup>109</sup> OCSLA's lack of similar local control measures, however, undermines these avenues for real local input and relegates them to purely mitigatory measures-- helping local governments cope with other resource issues once the fundamental OCS development decisions have already been made.

The local control measures in the statutes just mentioned provide hope and direction for a reformation of OCSLA. Independently, they recognize the importance of local input in complex resource management decisions. Moreover, they provide avenues of local control that are sanctioned by statute, are guided by a national framework, and work in concert with societal interests in preserving and valuing clean air, endangered species, and the economic and recreational value of our fisheries resources. These examples of local, state, and federal cooperation have made apparent that local interests can advance the public interest in protecting the OCS's non-oil resources. OCSLA and the rest of the OCS management scheme, including the Clean Air Act and the Magnuson-Stevens Act, must now be integrated to truly incorporate the diverse values and interests at stake at each stage of the management decision-making process. >

28

EMERGENCY: SQ UNDERREGULATES OCS DRILLING

**Environmental statutes are under regulated and are not consistent—federal agency control is vital to applying effective statutes to the OCS leasing system.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002  
(Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

<Environmental statutes must be applied to the OCS leasing and drilling system vigorously and without exception. Federal agencies and [\*259] courts have made NEPA review of OCS development projects a special case, and have failed to follow general NEPA principles that require decision-makers to stop and think about the environmental consequences of the development at issue.<sup>119</sup> In particular, federal agencies and courts have allowed the bifurcation of NEPA review, thereby limiting the ability of agencies, the courts, and the public to analyze the effects of a development project as a whole. They have justified this allowance on the mistaken belief that the multiple opportunities for environmental review enabled by a multiple-stage process can provide the same level of sophistication and analysis as a single comprehensive document analysis.<sup>120</sup> This reasoning not only fails to respect the difficulties in reversing course after the initial leasing stage, but also undermines the fundamental purpose of NEPA--to force decision-makers to consider environmental impacts before resources are committed to a specific project. In order to truly protect the competing interests of the OCS, NEPA and other statutes must be given full effect. >

**Current model of OCS regulation hinders environmental, social and energy efficiency policies.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002  
(Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

<Ultimately, this Note seeks to demonstrate that the federal government's failure to address state and local concerns over offshore drilling has hindered the development of an environmentally sound and socially effective energy policy. By focusing on oil and gas extraction to the detriment of other OCS resources, the federal government has, in fact, hindered itself from gaining access to the energy supply it has so aggressively pursued. This ineffectiveness can be directly attributed to the innovation of state and local governments that have taken it upon themselves to assert their interests through a variety of nonfederal legal means. Thus, the system of "cooperative federalism" that Congress originally envisioned has devolved into one of intense competition, subordinating thoughtful energy and environmental policies to the power dynamics of a the moment. >

29

INHERENCY: MORATORIUM ≠ EFFECTIVE

EVEN IF THE MORATORIUM IS EFFECTIVE ALOT OF OCS  
LANDS ISNT COVERED.

THE SAN FRANCISCO CHRONICLE 4/1/03 (LEXIS)

Offshore oil has destroyed many places

Offshore oil drilling has been opposed by the vast majority of Californians, according to opinion polls, since an oil well blowout at a platform off the coast of Santa Barbara in 1969 sent crude oil gushing into the ocean, blackening almost 30 miles of the state's coastline. The spill spurred the passage of California's 1972 coastal protection initiative, creating the California Coastal Commission, and led to state and federal moratoriums on new coastal drilling.

New offshore oil leases are banned off the California coast, but the moratoriums don't apply to the 36 undeveloped leases that were issued by the federal government from 1968 to 1984.

While oil production continues in old leases in federal waters, no new platforms have been built in California since 1994 and no exploration for oil deposits has occurred since 1989.

30

A INHERENCY = STATES HIJACK OIL

---

STATES HOLD OIL HOSTAGE TO THEIR INTERESTS,

**Herald Tribune 6/26/03**

(Reiss, Cory, June 26, 2003 HEADLINE: New Rules Would Ease Offshore Oil, Gas Drilling, L/N)

WASHINGTON -- For two decades, coastal states have tied up offshore oil and gas drilling with endless red tape. Now, the Bush administration is pulling out scissors.

Federal regulators have proposed changing rules that states such as Florida, North Carolina and California have used in battles over drilling rights. The proposals are meant to close loopholes that have allowed states to hold projects in limbo until energy companies lost in court or gave up after long delays.

Environmentalists say the plans, which the National Oceanic and Atmospheric Administration quietly issued June 11, would weaken states' rights.

"It is part of a carefully orchestrated effort to open sensitive coastal waters around the country to offshore drilling," said Richard Charter, marine conservation advocate for Environmental Defense.

Energy companies, however, said the plans don't go far enough.

NOAA, which is part of the Commerce Department, proposed 23 changes to rules governing the Coastal Zone Management Act, a 1972 law that gives states considerable say in coastal and offshore development.

If approved, the rules would tighten deadlines during reviews, appeals and other proceedings that states have dragged out with demands for more information. The proposals also redefine federal activities subject to state review.

Coastal states could be in for a combination punch.

On June 12, the day after the NOAA proposals were published, the Senate approved 54-44 a comprehensive inventory of offshore oil and gas supplies as part of energy legislation. Democratic Sens. Bob Graham of Florida and Dianne Feinstein of California, joined by some Republicans, such as Sen. Elizabeth Dole of North Carolina, and others argued that the inventory is a step toward drilling near their shores.

Critics say NOAA's proposed changes and the inventory would ease exploration in waters where drilling is banned.

31

INHERENCY (STATES = NO GOV'T ACTION)

---

**-California proves- off shore oil drilling is a states right-**

**Weiss-** April 1<sup>st</sup> 2003; ( Kenneth R.- staff writer @ The L.A. Times; " The Nation; White House Pulls Back on Offshore Oil Drilling; The administration will drop a three-year lethargy legal dispute over the state's control of leases")plexis

!The Bush administration on Monday announced it will drop its legal fight with California over offshore oil leases and said it will try to buy back the leases, virtually ending the chance of new drilling off the state's coast.

In a sharp policy reversal, the administration is no longer contesting the state's role in controlling the expansion of **offshore oil drilling**.

"Our administration strongly supports environmental protection and understands the importance of this issue to the people of California," Interior Secretary Gale A. Norton said in a statement. The administration "respects the wishes of the people of California," Norton added. "We believe our efforts will be better spent in negotiation rather than in continued litigation with the state." ↓

**-California proves- Courts ruled in favor of states rights dealing with off shore drilling-**

**Booth-** April 1<sup>st</sup> 2003; ( William- staff writer @ The Washington Post; "Calif. Wins Legal Fight To Review Oil Leases; New Drilling on Coast Is Less Likely")plexis

!The Bush administration today ended its legal fight against California's right to review **offshore oil drilling** along its coast.

Facing a Tuesday deadline, Interior Secretary Gale A. Norton said the administration would not ask the Supreme Court to overturn two lower court decisions that upheld the state's position that it be allowed to assess, and perhaps halt, any future drilling.

The decision by the Bush administration makes it less likely that new oil wells will be developed along the coast, but it does not mean drilling is banned. ↓

32

LOW OIL PRICES [⊥] REGIONAL/WORLD ECONOMIES

LOW OIL PRICES CRIPPLE REGIONAL ECONOMIES WHICH  
SPILLOVER WORLDWIDE.

Amy Myers Jaffe, senior economics for Petroleum Intelligence Weekly, directs the Energy Research Program at the James A. Baker III Institute for Public Policy at Rice University, and Robert A. Manning, Senior Fellow and Director of Asian Studies at the Council of Foreign Relations. "The Shocks of a World of Cheap Oil." *Foreign Affairs* January/February 2000 Volume 79 page 22.)

Low oil  
prices  
lead to  
a horrible  
economy  
& civil  
unrest

Low oil prices did not inflict pain just in Central Asia and the Middle East. In 1998, they coincided with unprecedented political strains in key oil-producing countries like Russia, Indonesia, and even such Latin American nations as Venezuela, Mexico, Ecuador, and Colombia. Russia has historically relied heavily on oil and gas for its hard-currency earnings and still does today; its oil exports generated \$16.1 billion in 1996, some 20 percent of Russia's total export revenue. Russia's recent financial crisis was hastened and worsened by disheartening oil earnings. Low oil prices will complicate the country's troubled transformation and leave it prisoner to its cashless "virtual economy." Elsewhere, Venezuela's flagging economy in 1998 helped elect a military populist, usher in a period of political turmoil, and stymie the implementation of major constitutional reforms. Plunging oil revenues in 1998 also destabilized Mexico, whose traditional political system is groaning with strain. 1

LOW OIL PRICES I MIDDLE EAST PEACE

LOW OIL PRICES RESULT IN REPRESSIVE MIDDLE EAST GOVERNMENTS COLLAPSING THE MIDDLE EAST PEACE PLAN.

Amy Myers Jaffe, senior economics for Petroleum Intelligence Weekly, directs the Energy Research Program at the James A. Baker III Institute for Public Policy at Rice University, and Robert A. Manning, Senior Fellow and Director of Asian Studies at the Council of Foreign Relations. "The Shocks of A World of Cheap Oil." *Foreign Affairs* January/February 2000 Volume 79 page 23.)

Low oil prices could threaten the M.E. Peace process

Distributing economic spoils has been a major vehicle for the Gulf regimes to sustain their power base and legitimacy. In some Gulf countries, as many as 90 percent of the labor force work in government jobs. Political critics and potential opposition leaders are frequently bought off through subsidies, high offices, or other tokens of wealth and status. The regimes also build religious centers, medical facilities, and other services to placate the disgruntled. But economic stagnation has already strengthened local resentment over official corruption and greed and has widened disparities between rich and poor. Without healthy oil revenues to buy off restive populations, the Gulf leaders will be left with only repression to silence foes and quell public discontent, which could fuel even more violent opposition. Radicalized local populations could also threaten the Middle East peace process; disgruntled Gulf states might be tempted to placate Islamist movements by funding the terrorists of Hamas, for instance. 23

LOW OIL PRICES JACK MIDDLE EAST GOVERNMENTS — RISKING POLITICAL INSTABILITY, H<sub>2</sub>O, AND FOOD SUPPLIES.

Amy Myers Jaffe, senior economics for Petroleum Intelligence Weekly, directs the Energy Research Program at the James A. Baker III Institute for Public Policy at Rice University, and Robert A. Manning, Senior Fellow and Director of Asian Studies at the Council of Foreign Relations. "The Shocks of a World of Cheap Oil." *Foreign Affairs* January/February 2000 Volume 79 pages 22-23.)

Sustained low oil prices also mean tremors in the Persian Gulf—the site of a fundamental U.S. military commitment. The longer oil prices droop, the more daunting the political, social, and economic challenges that the Gulf countries will face. Social unrest already bubbles under the surface in most Gulf countries, and succession crises may erupt as a generation of aging leaders passes. Populations in the region are swelling at a rate of 4 percent or more per year—a pattern that foreshadows the worsening demographic bulges caused by large populations under the age of 25 throughout the Gulf. Already, half of the Gulf's inhabitants are under 15 years old, portending daunting problems in education and employment as well as increased strains on local infrastructure and resources such as food, water,

health, and electric power. Per capita incomes have plummeted; in Saudi Arabia, for example, real per capita GDP fell from \$11,450 in 1984 to \$6,725 a decade later. And oil is no panacea. Since 1982, Saudi Arabia has gone from \$140 billion in surplus revenues to run up a national debt of almost \$130 billion. 22-23

34

AZ: OIL SHORTAGES TURN

OPEC nations are able to balance out almost all crude deficiencies

32

Busch 3/31/03

(March 31, 2003 Monday Energy Intelligence Briefing, Energy Intelligence Group Inc, BYLINE: Axel Busch HEADLINE: Moscow pulling out all stops to boost crude exports DATELINE: London)

In theory, physical crude oil prices should be well-supported. Markets have been deprived of almost 2 million barrels per day of Iraqi crude because of the war as well as 800,000 b/d of Nigerian crude because of ethnic unrest in the Niger Delta.

While a nationwide general strike planned for Tuesday, Apr. 1, will apparently be limited to a three-day demonstrative action, unrest throughout the weekend has producers Royal Dutch/Shell and ChevronTexaco wary of resuming production before the government can guarantee safety.

There are, however, no signs of crude oil shortages anywhere. Opec producers, led by Saudi Arabia, increased output as early as last December to make up for a loss of strike-hit Venezuelan production and US traders are anticipating a tidal wave of crude about to hit American shores. European refiners are also extremely relaxed, pointing to a surfeit of Saudi, Iranian, and even Venezuelan oil. And the International Energy Agency said global oil demand can be met for the foreseeable future. Buying interest should be stimulated by some of the best refining margins for a long time. An incremental barrel of Russian Urals currently yields an appetizing \$5.15 in a simple Mediterranean refinery, and an even more mouth-watering \$7.47 in an upgraded cracking plant.

This is despite a sharp recovery in cash prices over the past 10 days. Crude oil futures cratered during the 24 hours following the outbreak of a war that most people had pre-judged would last days rather than weeks. Brent hit \$24 per barrel low on Mar. 21, a long way below its Mar.10 \$34.55 high. Since then, a change in admittedly highly volatile market sentiment, premised on largely negative press coverage of the war, has triggered a 12%-15% price rally with Brent last traded at \$27.16.

This will help sellers' cash flows, but the reality of the fundamental supply situation is preventing a similarly bullish sentiment from filtering into the physical market. On Mar. 31, Urals was assessed at dated Brent minus \$2.10 in the Mediterranean and minus \$3 in Northwest Europe. This imbalance between north and south indicates arbitrage possibilities into the Med. Some traders scoff at reports that Russian barrels have moved to Asia, but easing freight rates and a Brent-Dubai spread of close to \$1.10 favor exports to the Far East of Brent-related crudes. One unconfirmed deal had Urals sold to a Chinese trader at Dubai plus \$1.65, delivered.

35

AZ: OIL SHOX 4/T

NO (L) AND TURN: HIGH OIL PRICES NO LONGER  
POSE THE GREATEST THREAT TO THE OIL MARKET -  
LOW PRICES AND MASSIVE SURPLUS THREATEN US  
SECURITY.

Amy Myers Jaffe, senior economics for Petroleum Intelligence Weekly, directs the Energy Research Program at the James A. Baker III Institute for Public Policy at Rice University, and Robert A. Manning, Senior Fellow and Director of Asian Studies at the Council of Foreign Relations. "The Shocks of a World of Cheap Oil." *Foreign Affairs* January/February 2000 Volume 79 page 16.)

OIL PRICES have been flirting recently with \$25-\$30 per barrel, levels almost reminiscent of the oil shocks of the 1970s. Rising energy prices have been accompanied by the usual hysteria about dwindling supplies and potentially dangerous transfers of wealth, tempting policymakers to consider ways of dealing with a coming oil crisis. But contrary to much received wisdom, the energy problem looming in the early 21st century is neither skyrocketing prices nor shortages that herald the beginning of the end of the oil age. Instead, the danger is precisely the opposite; long-term trends point to a prolonged oil surplus and low oil prices over the next two decades.

Paradoxically, this scenario of plenty could destabilize oil-producing states, especially those in the ellipse stretching from the Persian Gulf to Russia. And although the economies of the United States and oil-importing developing nations would by and large benefit, the backfire of low oil prices could undermine U.S. policy assumptions and imperil U.S. interests.

expected  
low  
oil  
prices  
hurt  
US  
interests  
& destabilize  
oil producing  
nations

LOTS OF OIL IN THE CASPIAN

Caspian reserves are immense.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

The energy reserves of the Caspian Sea continental shelf have provided the largest oil find for the end of this millennium. Along the shores belonging to Azerbaijan, Kazakstan, Turkmenistan, and possibly Russia and Iran, are oil and natural gas reserves exceeding those of Iran or Iraq. Caspian Sea hydrocarbon resources are equal to those of Kuwait and represent two-thirds of Saudi Arabia's energy riches. The Central Asian supply is second only to the entire

supply of the Middle East and larger than those of either Alaska or the North Sea. At the current price of \$20 per barrel, this 200 billion-barrel potential ultimately could yield revenues of up to \$4 trillion.<sup>5</sup> Natural gas reserves are estimated at 7.9 trillion cubic meters, which places the region third behind Russia and the Middle East, and are greater than the reserves of the United States and Mexico combined.<sup>6</sup> Table 1 demonstrates the distribution of reserves in the Caspian region.<sup>7</sup>

The Caspian holds 75 billion barrels plus of oil.

Edward Morse and James Richard March/April, 2002

"The Battle for Energy Dominance" Foreign Affairs Vol. 81 No.2 pg. 23

(Edward Morse is Executive Adviser at Hess Energy Trading Company and was Deputy Assistant Secretary of State for International Energy Policy in 1979-1981. James Richard is a portfolio manager at Firebird Management, an investment fund active in Eastern Europe, Russia and Central Asia.)

But today, two advantages for the CIS are clear. First, its reserves are much larger than previously assumed. Second, oil production capacity in the Middle East has stagnated for 20 years. Indeed, overall OPEC production capacity is actually lower today than in 1980. The Middle East producers have no proven ability to exploit their resources beyond the levels that international companies achieved before they were nationalized in the 1970s. Meanwhile, as exploration and production advance in such places as Kazakhstan, the reserve potential of the CIS will enlarge substantially. ENI, ExxonMobil, and others are developing what may be a giant field at Kashagan, estimated to contain 50 billion barrels. Lukoil, Russia's largest oil producer, recently discovered a field of 5 billion barrels of proven reserves in the Russian part of the Caspian shelf; seismic data suggests that the field's vast size could triple the initial estimates inside the license area alone. The discovery rate in Azerbaijan has been, in any case, disappointing, but conservative forecasts show that the Caspian shelf holds 75 billion barrels of oil—115 percent of what BP Amoco credited to the entire CIS in 2000.)

LOTS OF OIL IN THE CASPIAN

**The Caspian Seas is the best new source of oil resources**

**Ambassador Stuart E. Eizenstat, June 20, 2002** Former Deputy Secretary of Treasury and Partner Covington and Burling, Statement to the house of international relations: OIL DIPLOMACY

< The best new source of oil reserves is located in the Caspian Sea. The Caspian Sea is located in northwest Asia, landlocked between Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Since the breakup of the Soviet Union in 1991, the Caspian Sea -- as well as the region surrounding it -- has become the focus of much international attention due to its huge oil and gas reserves. The Caspian Sea, which is 700 miles long, contains six separate hydrocarbon basins, and most of the oil and gas reserves in the Caspian region have not been developed yet. Ongoing legal wrangling over rights to the oil continues to stunt the development of the reserves.

To give some sense of the potential importance of the Caspian oil fields, I would note that, in May 2001, oil industry officials reported sizable oil deposits in an area known as East Kashagan, in the Caspian Sea off the Kazakhstan coast. Initial estimates indicate that that field alone could contain as much as 50 billion barrels, and at least 20 billion barrels, of crude oil. By comparison, the United States has known reserves of 21 billion barrels. 7

**The Caspian region contains about \$4 trillion in of oil reserves**

McGuinn, Ph.D and professor of international relations at Florida International University, and Mesbahi, associate Professor of International relations at Florida International University, '96  
(Bradford R. McGuinn, Ph.D. and professor of international relations at Florida International University, and Mohiaddin Mesbahi, associate Professor of International Relations at Florida University. Chapter 12: "America's Drive to the Caspian." *The Caspian Region at a Crossroad*, edited by Hooshang Amirahmadi, St. Martin's Press, 1996.) Pg. 188

[The scope of the Caspian's oil and natural gas deposits are unknown. The region's oil reserves are estimated to be near 200 billion barrels,<sup>6</sup> with an overall value of \$4 trillion. Worldwide, there are thought to be 1,036.9 billion barrels in proved oil reserves, with 261.3 billion in Saudi Arabia, 96.5 billion in Kuwait, 93 billion in Iran, and 112 billion in Iraq.<sup>7</sup> Therefore, if current estimates are reliable, the Caspian deposits will represent a major oil source,<sup>8</sup> making the region a focus for world markets for decades to come.]

38

## LOTS OF OIL IN THE CASPIAN

The Caspian will have 35 million barrels a day in 2010

**Rutland** associate professor of government 2000

(Peter, at Wesleyan University, *Paradigms for Russian Policy in the Caspian Region*, Can be found in *Energy and Conflict in Central Asia and the Caucasus* edited by Robert Ebel and Rajan Menon, pg 175-176)

The Caspian Sea has some 4 billion tons of proven oil reserves, and the Azerbaijan International Operating Company (AIOC) should be producing 35 million tons a year by 2010. However, as John Maynard Keynes noted, there is a difference between the short run and the long run ("in the long run, we are dead"). Due to the disruption following the Soviet collapse, Azerbaijani oil output actually fell from 12 million tons in 1991 to 9 million in 1996, recovering to 11 million in 1998.<sup>29</sup> Only in October 1997 did the first oil from the offshore Chirag field start to come ashore at Baku, and this will constitute a mere 5 million tons for the next couple of years. 175-176

**The Caspian region is the world's greatest unexplored oil province.**

**Müller**, Chair of a Research Committee at the Research Institute for International Politics and Security, '99.

(Friedemann Müller, Chair of the Research Committee on Non-Military Risks, International Regimes and Economic Affairs at the Research Institute for the Foundation for Science and Politics' Research Institute for International Politics and Security. "Policy Options in the Caspian Sea Region." In *A Great Game No More: Oil, Gas and Stability in the Caspian Region*, Policy Paper of the SPD Parliamentary Group in the German Bundestag." Online, <http://www.fes.de/pdf-files/bueros/washington/00743.pdf>, accessed 7/8/2003.)

Many analysts assume that the highest probability of actual oil resources lies in the range of 90 billion barrels. 1 It would, if proven, contribute 9% to currently proven world reserves. This puts the region's resources into the same order of magnitude as Iran's (93 billion barrels), Kuwait's (94 bb), and Iraq's (112 bb) proven reserves. Thus, the Caspian region is not comparable with the Persian Gulf (600 bb), it is, however, "the greatest unexplored and undeveloped oil province in the world" as John Browne, BP's chief executive, puts it. 2

**The Caspian has proven to have enough oil as Saudi Arabia.**

**Murphy**, PhD in computer science and staff writer at the Associated Press, **March 17, 2003.**

(Brian Murphy, PhD in computer science from Stanford, and staff writer at the Associated Press. "Caspian's Potential Could Rival Mideast." *Moscow Times*, March 17, 2003. Pg. Lexis.)

So how much oil and gas is really out there? Proven oil reserves are just 10 billion barrels, or roughly equal to Norway's. But possible levels -- considered at least 50 percent probable -- could reach 243 billion barrels of high quality crude comparable to the benchmark North Sea Brent, according to U.S. government and private estimates. That's close to Saudi Arabia's ocean of oil.

CASPIAN OIL EXPORTS UP

U.S. investments will improve in the Caspian. BORG - 2/13

**Federal News Service 4/30/2003**

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Anna Borg – Witness: Deputy Assistant Secretary for Energy Sanctions and Commodities, Bureau of Economic and Business Affairs of the State, l/n)

Similarly, in the Caspian, we expect about \$10 billion to \$12 billion in service and equipment opportunities in the next three to five years, and the figure could go as high as \$200 billion over the next 20 years. At the State Department, we are working very closely with American businesses to help them understand the Russian and Caspian Basin environments and energy sector opportunities. The State Department, for example, along with the Department of Commerce, organized a Caspian Basin energy development conference in New Orleans in January of this year that attracted 150 oil contractors and energy representatives. It was well received and we expect that we will do similar seminars in the future to maximize American companies' chances for success.

*US investment will improve in the Caspian*

In addition, our ambassadors in Russia, the Caspian Basin region, as well as Ambassador Steven Mann, our senior advisor for Caspian Basin energy diplomacy, are all working with U.S. energy providers and advocating on their behalf. >

**Caspian states want to export oil.**

**Petroleum Economist 2/10/2003**

(February 10, 2003 SECTION: Pg. 19 HEADLINE: Pipelines: Russia; Give Us More Capacity, l/n.)

It is easy to see why Transneft is unenthusiastic about the Murmansk proposal. The line would likely drain not only high-grade Siberian crudes, but also output from Timan Pechora from its system, leaving the sprawling network to handle less-attractive domestic blends from Tatarstan and Bashkortostan, and growing Caspian supplies.

Transneft transits around 20m t/y of Caspian oil, mostly from Kazakhstan. However, Caspian states are keen to diversify routes to world markets. Azerbaijan moves just 2.5m t/y of oil across Russia. And Kazakhstan is considering moving oil to the Turkish Mediterranean through the Baku-Tbilisi-Ceyhan system, which is scheduled to start up in 2005.

**Caspian projects are success stories.**

**Federal News Service 4/30/2003**

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Leonard L. Coburn – Director, Office of Newly Independent States, Russian and Middle Eastern Affairs, Department of Energy, l/n)

Let me turn to Central Asia and the Caspian, since the experience there is both different and similar. Most importantly, there have been substantial investment successes by Western and U.S. companies in the region. Following the breakup of the Soviet Union in 1991, this region attracted the interest of the international energy community because of the huge oil and natural gas reserves believed to lie both onshore and offshore beneath the Caspian Sea. With independence, both Azerbaijan and Kazakhstan welcomed international investors and big production sharing agreement contracts have been signed in both countries. >

40

CASPIAN OIL EXPORTS UP

With diminishing amounts of oil in the North Sea, companies are turning to the Caspian for there oil needs

**Mollazade Summer/2002**

(Summer 2002, US Azerbaijan Council, BYLINE: Dr. Jayhun Mollazade, President and editor in chief of the US-Azerbaijan Council SECTION: Caspian Crossroads HEADLINE: The evolution of the Caspian Sea as a geopolitical hub)

With  
dimin- In recent years oil and gas output from the North Sea has declined rapidly and it is  
ing estimated that by 2003 production from the North Sea could be substituted by oil  
amounts production from the Caspian Sea region.  
of oil The Caspian Sea countries are now positioned to take advantage of the decline of the  
in North Sea oil and gas output and to become suppliers to Western Europe and Asia.  
the N Countries like China with their huge demand for energy forecasted to grow  
Sea) exponentially in the coming decades are ready markets for oil and gas from this  
oil region.  
Caspian Under President Putin, Russia has softened its previous hard line position against the  
ies are predecessor has softened Russia's position towards the BTC pipeline. The Russian  
stiffening president has taken a much more nuanced and pragmatic approach to Russia's  
to dealings in the region. Instead of weaponry and stirring ethnic divisions Russia is  
the becoming involved in oil and gas projects and its actions demonstrate a more  
Caspian cooperative stance towards countries such as Azerbaijan and foreign powers involved  
in the region such as the US.

Many developers are investing in the Caspian.

**Pacific Environment, '99.**

("The Great Ecological Game: Will Caspian Sea Oil Lead to Environmental Disaster?" January 1999, online <http://www.pacificenvironment.org/infocenter/Reports/caspian.htm>, accessed 7/7/2003.)

[The Caspian spans the shores of Iran, Azerbaijan, Russia, Kazakhstan, and Turkmenistan. Development of the region has attracted a large influx of foreign investors, each with the speculation that the region will be a steady supplier of oil for at least the next 50 years. The area that seems the richest in underground reserves is that of the Azerbaijan offshore oil fields. According to the vice president of The State Oil Company Of The Azerbaijan Republic (SOCAR), as of May, 1998, 55 of the 67 oil and gas fields discovered thus far in Azerbaijan were under production.]

CASPIAN OIL DEVELOPMENT → REGIONAL STABILITY

Oil wealth helps ~~struggling companies~~ <sup>WEAK STATES</sup> keep their independence

Cohen, Senior Policy Analyst, of the Russian and Eurasian Studies, the Heritage Foundation, '99

(Ariel Cohen, PhD, Senior Policy Analyst, of the Russian and Eurasian Studies, the Heritage Foundation. "U.S. Interests in Central Asia." The Heritage Foundation, 1999.)

The elites of the region, having tasted independence, and lured by the prestige of their own flags, UN seats, and ministerial and ambassadorial titles, have no desire to revert to the status of provincial overseers for the Kremlin. Now, with expectations of oil wealth, they may fight tooth and nail to preserve their independence and access to their lands' natural resources. However, when states fail or are very weak, as in the case of Tajikistan or Kyrgystan, elites become more receptive to interference from outside powers.

Expanding the oil industry aids developing countries

Ebel, Director of the Energy Program for Strategic and International Studies, '03  
(Robert Ebel, Director of the Energy Program for Strategic and International Studies. "Comments on Oil Supply and Prices." Center for Strategic and International Studies, February 13<sup>th</sup>, 2003.)

Mr. Chairman, I wish that I could inform you that the future for oil exporters and oil importers alike looked promising. Unfortunately, I cannot. That judgment is formed by the recognition that energy demand in the developing countries of the world is likely to exceed energy demand in the developed countries by the end of the next decade, if not sooner. And, where will supplies to meet this growth in demand originate? The growth in demand will be met by expanded production in the developing world. These circumstances, to me, do not offer a comforting future.]

Central Asian economy relies on oil

Metz '02

(Robert E. Metz, Associate Director of the US-Azerbaijan Council, [www.usazerbaijancouncil.org/caspiancr.html](http://www.usazerbaijancouncil.org/caspiancr.html), Volume 6 Issue No. 2, Summer 2002, The US and the South Caucasus: quest for a gateway into Central Asia)

Of course, the independence the U.S. is hoping to influence in these states will not have any real political meaning unless they are economically viable as well. The main economic assets of the region are its oil and gas reserves. So while the U.S. hopes one day that the regional states will develop modern economies the reality of the situation is that they are almost entirely reliant on natural resource revenue. Also, along with oil and gas comes the interest of Western oil companies trying to supply the thirsty markets of the industrialized world. So as a means to aid in the economic

independence of Central Asia and the Caucasus, as well as to conveniently help diversify the all important oil and gas market (and the profits of the Western oil companies), the U.S. early on in the 1990s locked on to the idea of a pipeline from Baku, Azerbaijan, on the Caspian through Georgia on to the Turkish Mediterranean port of Ceyhan. This route is known as the Baku-Tbilisi-Ceyhan Main Export Pipeline (BTC MEP). The pipeline will be completed in 2005. Also, a natural gas pipeline would also be built along the MEP route. |

NO IMPACT TO CASPIAN POLLUTION

Since the Caspian Sea is enclosed, pollution and spills remain localized.

**Pacific Environment, '99.**

("The Great Ecological Game: Will Caspian Sea Oil Lead to Environmental Disaster?" January 1999, online <http://www.pacificenvironment.org/infocenter/Reports/caspian.htm>, accessed 7/7/2003.)

[Much of the modeling of impacts and recovery (clean up) rates from potential oil spills and discharges from the Azeri project is taken by example from the North Sea. However, unlike the open waters of the North Sea, the Caspian is an enclosed sea, which means pollutants in the water of the Caspian either biodegrade or accumulate within the Caspian ecosystem. Also, unlike the turbulent North Sea, the EIA documents that the Caspian is non-tidal, meaning that water currents primarily derive from wind action. The Caspian's non-tidal characteristics suggest that spills and drilling discharges may not disperse and may remain localized.]

## STABLE OIL PRICE KEY TO CASPIAN INVESTMENT

### ( ) STABLE OIL REVENUES ARE KEY TO ENSURING INVESTMENT IN THE CASPIAN

**Oil & Gas Journal**, 5-12-2003, pg. 18.

The Caspian Sea region still has some obstacles to overcome before becoming a major contributor of non-OPEC oil supply growth in coming years, panelists agreed. A US Energy Information Administration spokesman said the Caspian region currently produces 1.5 million b/d of total liquids. W. Calvin Kilgore, director of EIA's office of energy markets and end use, also cited estimates of proved reserves under the Caspian Sea and in the surrounding coastal areas, excluding Russia and Iran, of 17-33 billion bbl. Numbers vary widely depending upon the source, he said. Kilgore said his office predicts that Caspian production will reach 3.4-4 million b/d of total liquids by 2015. EIA recently forecast that the Organization of Petroleum Exporting Countries will produce nearly 56 million b/d by 2025, compared with current production of 27 million b/d. Meanwhile, Russia's oil production is expected to start falling off after 2015, while the Caspian Sea region is expected to show major incremental increases during 2020-25 in both oil and natural gas, Kilgore said. US energy policy Candy Green, international energy officer for the US Department of State, said US energy policy regarding the Caspian Sea region during the 1990s focused on transportation issues. Progress has been made on pipeline route issues, she said, adding, "That does not mean that all the problems have gone away." Regional challenges still include the need for respecting contracts, strengthening democracy, transparent management of oil and gas earnings, and the curtailment of corruption, Green said. "We all win when transparency and free markets prevail," Green said, adding that development of the Caspian Sea region's reserves and infrastructure hinges upon financing. The region needs \$ 10-12 billion in 3-5 years for oil field services alone, she said. Regarding Russia, Green said the US government sees "merit in involving the private sector in Russian pipeline development." Russia is expected to issue a report regarding its pipeline development later this month, she noted. "Russia will need to allow competition in gas transportation," Green said. "We continue to see room for improvement in the investment climate." Overall, billions upon billions of dollars worth of investments are needed to tap into Russia and the Caspian Sea region's energy potential, said Amy Jaffe, senior energy advisor to the James A. Baker III Institute for Public Policy of Rice University. "Companies that want to go to capital markets will have to exhibit transparency . . . It's the need for capital that will drive the end of corruption," Jaffe predicted. Corporate policy Thomas Knudson, ConocoPhillips senior vice-president of government affairs and communications, said the world needs the Caspian's resources, and in turn, the Caspian region needs more private investment. In the past 3-4 years, public oil and gas companies have shifted their primary focus from building production volumes to trying to ensure predictable earnings and quality returns for shareholders, Knudson said. Oil and gas companies are looking to create legacy assets while seeking stable, predictable, and transparent fiscal and tax regimes. This is true regardless of whether the project is in the Caspian Sea, the North Sea, or the Gulf of Mexico, he said.

### STABLE OIL PRICES ARE KEY TO INVESTMENT IN THE CASPIAN

**The Economist**, 9/14/2002.

Because OPEC's "price-defence" strategy has kept prices above \$18 a barrel for three years, argues the Petroleum Finance Company (PFC), an industry consultancy, projects in non-OPEC regions—the frozen wilds of Russia, the turbulent Caspian basin, the deep waters of the Gulf of Mexico—have attracted many billions of dollars in investment. High prices have already inspired the development of 2.6m barrels per day (bpd) of non-cartel oil, besides investment in projects that promise to deliver another 5.2m bpd from alternative sources by 2008. This new supply, says the PFC, "has and will continue to eat up all the increase in global demand, leaving OPEC no room to expand its own output and making the cartel's price-defence strategy increasingly difficult to maintain."

### HIGH OIL PRICES ARE KEY TO FUTURE OIL DEVELOPMENT

**Fortune**, 9/16/2002, pg. 115.

The sole way to make that happen is for oil prices to stay high (they were near \$30 a barrel at the end of August). Only then is it worth the oil companies' trouble to seek new sources of supply and new ways of pumping it to the surface. There is something distinctly perverse about this: To keep high oil prices from damaging our economy, we need high oil prices. But that's how energy economics works. High prices now lay the groundwork for lower prices in the future—and vice versa.

44

CASPIAN INFLUENCE ZERO SUM

CONTROL OF CASPIAN RESOURCES IS A ZERO SUM GAME

Johnson, 2001

(Lena Johnson is associate professor and senior fellow at the Swedish Institute of International Affairs, Gennady Chufirin, ed. and associate member of the Russian Academy of Sciences The Security of the Caspian Sea Region © Oxford University Press, 2001 pg. \_\_\_\_)

↳ The parallel drawn by many observers in Russia and in the West between the Russian-Western competition of today in the Caspian region and the 'Great Game' of the 19th century between Russia and Great Britain is an oversimplification. It reflects one important aspect of the new situation—a clash of interests between Russia and outside powers—but also distorts the picture and overlooks important differences between the centuries. First, this approach underestimates the fact that the main sources for change are to be found in the internal dynamics of the region rather than in the influence of external actors. Second, it overlooks the fact that there is a multiplicity of non-state actors which act independently from the state actors. Third, it represents a 'zero-sum' approach, which emphasizes rivalry and excludes the possibility of a 'win-win' outcome. As a result, signs of evolving international cooperation in the region may be dismissed and possibilities missed for joining forces to respond to common challenges. The zero-sum approach, whereby an advance for one actor is regarded a loss for the other, is strong in the Russian tradition of foreign policy thinking. It has also played a significant role in Western thinking. These aspects are discussed throughout this chapter and evaluated in the concluding section. >12-13

U.S. + RUSSIA VIEW CASPIAN CONTROL AS ZERO-SUM  
Chufirin, 2001

(Gennady Chufirin, associate member of the Russian Academy of Sciences, Gennady Chufirin, ed. and associate member of the Russian Academy of Sciences. The Security of the Caspian Sea Region. © Oxford University Press, 2001. pg. 343).

↳ Neither Russia nor the USA can play a dominant role in the region unilaterally. The USA is already firmly accepted in the region as its major economic partner and an important guarantor of the national sovereignty of the regional states, and it cannot be excluded from regional affairs. Nor can Russia be expected to turn its back on its fundamental political, economic and security interests in the Caspian or agree to be squeezed out from the region. On their part the Caspian states, taking into account these realities, favour the balancing presence of Russia and the USA in the region and do not wish either of them to play a dominant role there. In their turn Russia and the USA must avoid the very real possibility that unilateral involvement in regional affairs may adversely affect their overall bilateral relations.

The alternative to Russian-US cooperation on Caspian regional security may be a deepening of the already existing dividing lines in the region, which rivalry between Russia and the USA would further exacerbate. Undoubtedly, both in Russia and in the USA there are influential groups that would prefer to see the future Russian-US relationship in the Caspian region in terms of a 'zero-sum' game. In this they are encouraged by various regional actors who expect to obtain maximum gains by playing Moscow against Washington and vice versa. Such a scenario will run counter to the larger national interests not only of Russia and the USA and but also of the Caspian regional states. >343

4/5

CASPIAN INFLUENCE ZEPHYRUS

Geopolitics revolve around pipelines.

Blank, Professor at the Strategic Studies Institute, US Army War College in Carlisle Barracks, PA, '01.

(Stephen Blank, Professor at the Strategic Studies Institute, US Army War College in Carlisle Barracks, PA. "The Transcaspien Geopolitical Environment: An American View." *Caspian Crossroads*, June 2001: Volume 5, Issue 2. Online, <http://www.usazerbaijancouncil.org/caspiancrossroads/archive/2001/01.htm>, accessed 7/9/03.

Geopolitics revolves  
around pipelines

Consequently the Central Asian and Caucasian states or territories are also almost paradigmatic buffer states. They are situated between two or more conflicting spheres of influence whose primary function is to separate the conflicting sides. Buffer states could comprise a rather large zone of territory, as in this case. But what determines their status is their "vicinal location", i.e. their location in the vicinity of neighboring "spheres of influence". Here these buffer states' primary characteristic is the presence of strategically important transportation routes. The presence of such routes, e.g. pipelines, ensures these buffer zone's importance to its neighbors and virtually guarantees that all the contending rivals will strive for decisive influence over those pipelines and transportation routes or at least to see that nobody else gains decisive control over them.<sup>24</sup> This factor explains the inordinate amount of time and concern devoted to investments in infrastructure like pipelines, roads, airports, rail lines, and ports.

-The Caspian region is a high stakes competition for both the U.S. and Russia-  
Klare, 2001

(Michael T. is the director of the Five College Program in Peace and World Security Studies based at Hampshire College and author of numerous books; *Resource Wars* © Henry Holt & Company 2001)p89

Caspian region is a 'high stakes' competition for the US + Russia.

American officials are reluctant to embrace the "Great Game" analogy in their public statements, suggesting that all states involved can obtain substantial benefits from the development of Caspian Sea energy. There is no question, however, that leaders of both countries view the U.S.-Russian relationship in the Caspian as a high-stakes competition. "Already the United States is declaring that [this area] is in their zone of interest," President Boris Yeltsin observed in 1997. While Russian influence is waning, he added, "the Americans, on the contrary, are beginning to penetrate this zone, and, without reservation, declare this."<sup>27</sup> More recently, in May 2000, the head of the Caspian Sea working group in the Russian Ministry of Foreign Affairs, Andrei Y. Urnov, told an audience in Washington, "It hasn't been left unnoticed in Russia that certain outside forces are trying to weaken our position in the Caspian basin, to drive a wedge between us and other Caspian states."<sup>28</sup> As if to confirm these perceptions, Sheila Heslin of the U.S. National Security Council told a Senate investigating committee that the goal of American policy in the Caspian is "in essence to break Russia's monopoly of control over the transportation of oil from the region."<sup>29</sup>

CASPIAN INFLUENCE ZERO SUM

-Both the U.S. and Russia seek dominion over Caspian resources-  
Klare,2001

(Michael T. is the director of the Five College Program in Peace and World Security Studies based at Hampshire College and author of numerous books; Resource Wars © Henry Holt & Company 2001)p89-90

Both the U.S. + Russia seek dominion over Caspian resources.

As in any great-power contest, there are many dimensions to the U.S.-Russian rivalry in the Caspian area. To enhance their political influence, both sides have sought to establish close ties with local leaders by sending high-level delegations to promise various forms of aid and support; both sides have also sought to expand their trade and financial links with the region. At its core, however, this is a struggle for control over the distribution of energy resources: both Washington and Moscow seek to exercise ultimate dominion over the flow of Caspian oil and natural gas to markets in other areas of the world.

Caspian is strategically important.

**Plamen Tonchev** (Legal and Political expert of the EU mission) Winter 1998  
<http://ourworld.compuserve.com/homepages/usazerb/336.htm> accessed 7/9/03  
"Rising Asian Oil Demand and Caspian Reserves." The Economic Debate.

It is clear that quantities of the indicated magnitude will hardly constitute more than 1% to 1.5% of world demand for oil during the projected period, Caspian reserves could well prove strategically important at times of a Middle East supply or price crisis. Indeed, Asian countries has not been late in demonstrating their interest in Caspian oil deposits. In doing so, they have had to get involved in the so-called "Great Game" on an equal footing with European and American actors, and it is reported that \$16 billion worth of oil services contracts in Azerbaijan are awaiting Japanese, U.S. and French firms. Since 1994, private companies from America, Europe and Japan have invested in Azerbaijan \$700 million alone in oil-driven projects<sup>24</sup>.

The Caspian area could be an important alternative source of oil and, especially, gas for China, Japan, and Korea, reducing their dependence on and increasing their leverage with the Middle East and Russia. In September 1997, China and Kazakhstan signed a deal envisaging the construction of a \$9.5 billion 3,000-kilometer pipeline from the western oilfields of the former Soviet republic to the Chinese province of Xinjiang. According to the clauses of this agreement, the China National Petroleum Corporation will revitalise production at the Uzenskoye oilfield, Kazakhstan's second largest after Tengiz. At present, Kazakh crude oil is delivered to China by train, on the basis of another bilateral agreement reached in June 1997.

U.S INFLUENCE IN THE CASPIAN UP

**THE US IS FUNDING CASPIAN OIL AND INFRASTRUCTURE DEVELOPMENT.**

Donald J Evans, Senior Research Fellow International Strategic Studies Association,  
6/13/2002. Defense & Foreign Affairs Daily. Vol. XX. No. 105.

Private Investment Corporation (OPIC) in the United States. The mission of OPIC is to facilitate the investment of private capital from the US to emerging markets as part of US foreign policy. It carries out this mission by selling political risk insurance and long-term financing to US businesses. It invests in projects in over 140 developing countries. OPIC claims to operate on a self-sustaining basis with no net cost to the taxpayer. Over its thirty-year history, OPIC has supported US\$138-billion worth of investments. Interestingly, OPIC insurance is backed by the full faith and credit of the US Government.<41> Oil and gas coverage is one of eight special insurance programs of the agency. Political violence coverage compensates for property and income losses caused by violence undertaken for political purposes.<42> OPIC also can provide financing for construction, ownership and operation of oil and gas pipeline, and other large and small energy and non-energy related projects. The Caspian Office of OPIC has facilitated development of energy projects such as the Baku-Ceyhan main export oil pipeline and the Trans-Caspian gas pipeline. To date, OPIC has provided more than US\$2-billion in project finance and political risk insurance support in Turkey, the Caucasus, and Central Asia.<43>

**US INFLUENCE IN THE CASPIAN IS ON THE RISE—HUGE KAZAKHSTAN RESERVES WILL BE PUMPED THROUGH THE BTC PIPELINE.**

Petroleum Economist. 6/25/2002. pg. 43.

Hopes that Lukoil might join a team of foreign companies building the Baku-Ceyhan pipeline have died. Nonetheless, it looks more likely that the project to build the \$2.9bn, 1m barrels a day crude export line from the Caspian to the Turkish Mediterranean will go ahead, despite initial concerns that there is not enough oil in the Caspian to justify the expense. Seven foreign companies have joined a sponsor group to conduct a detailed study of the Baku-Tbilisi-Ceyhan (BTC) route. They are expected to reach a conclusion on whether or not the project is feasible by July this year. If all goes well, first oil could be delivered through the line in 2005. No significant oil finds have been made offshore Azerbaijan in recent years. However, huge reserves have been discovered in the northeast, offshore Kazakhstan. The US government, an ardent supporter of BTC, has encouraged Kazakhstan to commit to moving oil south to join the line at Baku. At the moment, the country's only direct pipeline routes to world markets cross Russia. The republic is studying BTC among other export options, including a pipeline south to Iran.

**US INVESTMENT IN THE NORTH CASPIAN IS INCREASING.**

Petroleum Economist. 6/25/2002. pg. 43.

Opportunities for foreign oil investors are likely to expand now that the north Caspian has been divided. Lukoil plans to present its north Caspian projects to international companies in Houston this Autumn. Kazakhstan has been talking about an offshore tender for years, which might now proceed. There will be plenty of openings for companies interested in building up oil infrastructure and services round the north Caspian. Russia's Krasniye Barrikadnaya shipyard, at Astrakhan, and Kazakhstan's Prommontazh, at Atyrau, have recently set up a joint venture to build rigs and vessels for use in the area. The north Caspian, particularly the Kazakhstani sector, is probably more prospective than other areas of the offshore. So far, Azerbaijan is the only Caspian state with significant offshore production. Russia and Azerbaijan have drafted an offshore boundary accord, which, it is hoped, will be finalised in June.

48

## U.S. INFLUENCE IN CASPIAN UP

### **The United States is looking to expand into the Caspian oil resources**

Ebel, Director of the Energy Program for Strategic and International Studies, '02  
(Robert Ebel, Director of the Energy Program for Strategic and International Studies. "The Geopolitics of Caspian Oil." *Caspian Energy Project*, June 20<sup>th</sup>, 2002.)

[Current U.S. energy policy toward the Caspian states is responsive to pipeline politics, especially regarding Russia's role in the region. A principal objective of U.S. policy is to expand the nation's access to energy supplies outside the Persian Gulf. Toward this end, the United States has supported efforts to develop a reliable means of transporting Caspian oil and gas to the world market. In doing so, the United States has been largely sensitive to Russia's interests in the Caspian region for the simple reason that Russian consent for future pipeline routes is critical for their viability. This willingness to compromise can be seen in U.S. support for the dual-pipeline approach for Azeri oil, an approach which made winners out of all the players, including Russia. In contrast, a glaring exception to this compromising approach is the U.S. policy toward Iran; preventing Iran from becoming a transit country has worked to the detriment of most of countries in the Caspian region as well as to the world oil market.]

### **-The US is already heavily involved in the Caspian region**

**Caspian Sea Oil Study Group, 2000**

(Caspian Energy Update "U.S. Caspian pipeline policy: Substance or Spin" August 24, 2000  
<http://www.csis.org/turkey/CEU000824.htm>)

[As "point men" for Caspian pipelines, the Special Advisors undertook innumerable costly trips to Turkey, Georgia, Azerbaijan, Turkmenistan, and Kazakhstan. They have been particularly active in efforts to facilitate a multilateral legal framework between Turkey, Georgia, and Azerbaijan that would provide the foundation for the Baku-Ceyhan pipeline. The Intergovernmental and Host Government Agreements are of little value, however, in the absence of sufficient volumes and financing from the oil companies active in the region. Moreover, the unrealistically and unfailingly optimistic rhetoric of the Special Advisors have apparently convinced Turkish officials that the United States would somehow "deliver" Baku-Ceyhan, thus setting the stage for great disappointment and serious negative consequences for U.S.-Turkish relations in the likely event that the pipeline does not materialize on schedule. In addition, it has also been rightly argued that the Special Advisors has raised exaggerated expectations in the entire Caspian region about the political and military benefits of closer ties to the United States on this issue, as well as the mistaken belief that the United States would downplay concerns on corruption, human rights abuses and other undemocratic behavior.]

U.S INFLUENCE IN CASPIAN UP

-US companies are going at all cost to get Caspian oil

Jaffe, 2001

(Amy Jaffe is senior energy advisor and program coordinator for the energy forum of at Rice University, Gennady Chufirin, ed. and associate member of the Russian Academy of Sciences The Security of the Caspian Sea Region © Oxford University Press, 2001 pg.\_\_\_\_)

US companies want Caspian oil  
& oil  
Western oil companies can be expected to continue to lobby the new US Administration to take a lower profile on questions of export routes and regional geo-politics in the coming years and to reverse the four-year-old plan to move 'early oil' through Iran by means of swap arrangements or by pipeline. The companies would like to see US diplomatic activity on the Eurasia energy corridor move closer in line to commercial realities and the economic and logistical practicalities of exporting oil profitably from the landlocked, distant area. The new presidency with its strong ties to the US petroleum industry will be more inclined to do this. The attraction of the Baku-Ceyhan route may also wane as the administration listens to the concerns of the US Armenian community, which backed the Republican election campaign. Such policies will, however, be tempered by Republican conservatives who concern themselves with big-power relations. A Republican administration will be less likely to indulge diplomatically any Russian military adventurism in its 'near abroad' and to deal more 'resolutely and decisively' with 'rogue elements'.<sup>52</sup> Thus, if Iran's support for international terrorism becomes a policy problem for the new

US leadership, any hopes of activating Iranian routes for oil produced by US companies will be dashed.<sup>53</sup> 148-149

-The U.S. is beginning to increase diplomatic and military presence in the Caspian region-

Klare, 2001

(Michael T. is the director of the Five College Program in Peace and World Security Studies based at Hampshire College and author of numerous books; Resource Wars © Henry Holt & Company 2001)p95

The U.S. is beginning to increase diplomatic

The United States does not, of course, enjoy the same sort of access to military facilities in the Caspian Sea area as does Russia. There are no American bases in the region, nor are any U.S. troops deployed there on a regular basis. Nevertheless, Washington has begun to establish a significant presence in the Caspian through a combination of diplomatic efforts, military exercises, and military aid agreements.]

50

U.S INFLUENCE DETERS RUSSIA/IRAN

**( ) CASPIAN STATES ARE REACHING OUT TO THE US TO PROTECT AGAINST RUSSIAN EXPANSIONISM**

Richard Sokolsky & Tanya Charlick-Paley, Rand Analysts for Project Air Force, 1999, NATO and Caspian Security: A Mission Too Far? Pg. X-XI.

The countries of the Caspian region and Central Asia have likewise reached out to NATO to bolster their security and reduce their dependence on Russia. In particular, Azerbaijan and Georgia have launched a major campaign to expand their military and security relationships with the Alliance. Azerbaijan has invited the United States, NATO, or Turkey to establish a military base on Azeri territory and has hinted that Azerbaijan should be considered for NATO membership for its role as a bulwark against Russian expansionism. Baku has also offered to assign a small contingent of forces under Turkish command for NATO peacekeeping forces in Bosnia. Both Azerbaijan and Georgia have expanded military contacts, training, and exercises with Turkey, and have proposed cooperation with NATO in protecting oil pipelines. In fact, Georgia has requested NATO technical assistance in the protection of these pipelines. Finally, the Georgian parliament recently passed two resolutions

endorsing Georgian membership in NATO while at the same time requesting Russia to withdraw its forces from Georgian military bases. Together, these developments have stirred fears in Moscow and elsewhere that NATO seeks to extend its military hegemony over the Caspian and that the Alliance will eventually deploy forces there, given the huge energy resources of the Caspian region and its location in the heart of Eurasia. X-XI

U.S. influence prevents aggressive Russian imperialism.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

Other factors, however, may impede this growth. Russia and Iran historically have dominated the Caspian Sea region. Preventing the resurgence of aggressive Russian imperialism, especially in what used to be Russia's backyard in the 19th and 20th centuries, is strategically important to the United States. Russia may remain reasonably friendly and cooperative as a democracy, but this is unlikely to be the case if Russia chooses to reoccupy the southern Caucasus and Central Asia and coerce their peoples. Moscow, not Tbilisi or Baku, would gain control of the area's impressive energy resources. Tehran appears interested in turning Uzbekistan, Kazakstan, and other countries in the region into a market for both its goods and its ideology. Iranian domination would be likely to prevent the successful flow of oil to the West as well as the involvement of American companies in the economic development of

the new Silk Road. An Iranian presence, like a Russian presence, would hinder the development of democracy and free markets throughout the Caucasus and Central Asia.



U.S. INFLUENCE DETERS RUSSIA/IRAN

US influence in the Caspian is key to stopping Russian aggression in the Caspian.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

Of the many foreign policy challenges the United States faces during this post-Cold War era, one in particular is gaining importance with the passage of time: how best to secure adequate access to oil and natural gas reserves in the first half of the 21st century.<sup>1</sup> The oil and gas reserves of Eurasia's Caspian Sea region could provide the United States with a solution to this challenge: They are an abundant resource, second in size only to those in the unstable Middle East. The Caspian Sea reserves have been estimated to hold 100 billion to 200 billion barrels of oil worth between \$2 trillion and \$4 trillion at current market prices.<sup>2</sup> The region's reserves of natural gas are similarly enormous--larger than those in all of North America.

But the issue of access to the oil and natural gas of the Caspian Sea region is not an isolated one; it is linked to other important U.S. geostrategic interests in Eurasia. For example, U.S. policymakers are becoming increasingly concerned about the possible re-emergence of a new Russian empire, and they realize that ready access to the rich oil and gas resources of this region could fuel such an expansion. A new Russian empire conceivably might seek to gain exclusive control over the region's pipelines and limit U.S. access. Furthermore, the radical Islamic regime in Iran could move to turn Central Asia into its strategic rear, viewing the Islamic states of Central Asia as a potential sphere of influence. Even China has the potential to become involved.

The United States has an overarching interest in encouraging the economic prosperity of the southern Caucasus and Central Asia. Economic growth would secure the sovereignty of the New Independent States (NIS); it would be effective in countering the radical Iranian influence; and it would provide lucrative markets for U.S. goods and services. Without broad-based economic development, the NIS will remain susceptible to political instability. A large number of policymaking elites in the NIS look to the United States not only for examples of economic success, but also for leadership--despite ideological and political competition from Asia and Iran.

52

U.S. INFLUENCE DETERS RUSSIA/IRAN

U.S. INFLUENCE STOPS RUSSIAN MONOPOLY OVER  
THE CASPIAN

Dr. Ariel Cohen January 25, 1996

"The New "Great Game": Oil Politics in the Caucasus and Central Asia" The Heritage Foundation Jan. 1996 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

The world now faces a choice between the cooperative exploitation by the East and West of natural resources or a wasteful struggle that could cost a fortune in blood and treasure. Regional conflicts in the Caucasus and Central Asia threaten to deny Western access to the vital oil and gas reserves the world will need in the 21st century. The wars in Chechnya, between Armenia and Azerbaijan, and in Georgia were started or exacerbated by the Russian military, and the outcome of these wars may determine who controls future pipeline routes. Moscow hopes that Russia will. Powerful interests in Moscow are attempting to ensure that the only route for exporting the energy resources of Eurasia will pass through Russia.

The U.S. needs to ensure free and fair access for all interested parties to the oil fields of the Caucasus and Central Asia. These resources are crucial to ensuring prosperity in the first half of the 21st century and beyond. Access to Eurasian energy reserves could reduce the West's dependence on Middle East oil and ensure lower oil and gas prices for decades to come. Moreover, oil revenues can boost the independence and prosperity of such Newly Independent States (NIS) as Azerbaijan and Georgia. For example, through production royalties, Azerbaijan could generate over \$2 billion a year in revenue from its oil fields, while Georgia could get over \$500 million annually from transit fees. With these new-found oil riches, non-Russian republics in the region would depend less on

Russia, both economically and militarily. Independent and self-sufficient former Soviet states, bolstered by their oil revenues, would deny Russia the option of establishing a de facto sphere of influence in the Caucasus and Central Asia.

Two pipeline routes in Central Asia are under consideration. The first would allow oil to flow from the Azerbaijani Caspian Sea shelf to the Black Sea coast. The second would transport oil from the giant Tengiz oil field, developed by the U.S.-based Chevron corporation in Kazakhstan, in a westerly direction toward Europe and the Mediterranean. Western governments and oil companies participating in the Azerbaijani and Kazakhstani pipeline projects<sup>1</sup> face a choice: Will a neo-imperialist Russia (aided and abetted by Iran) dominate the development of Eurasian oil and its exports, or will Russia be an equal and fair player in the region with Turkey, the three Caucasian states (Georgia, Armenia, Azerbaijan), and possibly Iran? The U.S. should respect the right of Russian companies to bid for the exploration and transport of oil and gas in the region. However, the West has a paramount interest in assuring that the Caucasian and Central Asian states maintain their independence and remain open to the West. Otherwise, Moscow will capture almost monopolistic control over this vital energy resource, thus increasing Western dependence upon Russian-dominated oil reserves and export routes.

53

U.S. INFLUENCE DETERS RUSSIA/IRAN

U.S. influence blocks Russian attempts to destabilize to Caspian.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

Ongoing local ethnic conflicts, without adequate political intervention from the United States and other Western countries, keep the Russians involved in the region without bringing peace. They justify the involvement of Russian military and foreign intelligence services, which destabilize governments in the region through such tactics as staging coups,<sup>17</sup> launching separatist movements,<sup>18</sup> and attempting to assassinate heads of state like Eduard Shevardnadze of Georgia and Heydar Aliyev of Azerbaijan.<sup>19</sup> Such conflicts weakened the Caucasus countries and allowed Russia to obtain agreements to build four military bases in Georgia and two in Armenia and put the borders of Armenia and Georgia under the partial control of Russian guards. Azerbaijan also is under continuous pressure to permit the stationing of Russian troops and border guards. ↘

U.S. influence offsets Russian meddling between Armenia and Azerbaijan.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

**Maintain a balanced approach to Armenia and Azerbaijan**

Armenia and Azerbaijan became involved in a bloody war over the enclave of Nagorno-Karabakh in 1988. Even though a cease-fire has been observed since 1994, the conflict must be settled to allow economic development to benefit both countries. The United States co-chairs the OSCE-sponsored Minsk Group, a committee of countries working on a peace settlement in Nagorno-Karabakh. As a leading mediator, the United States must balance its relations with Baku, the capital of Azerbaijan, and Yerevan, the capital of Armenia. This balance should include equalizing the levels of assistance to both countries, encouraging the opening of the Turkish-Armenian border as part of a final settlement, and cooperating militarily with Azerbaijan to offset the Russian military support of Armenia. ↘

RUSSIA WONT BACKLASH TO U.S. INFLUENCE

**RUSSIA DOESN'T OPPOSE US INFLUENCE IN THE CASPIAN ANYMORE.**

**Petroleum Economist. 7/4/2002. pg. 6.**

But the partnership with Russia has not dimmed US support for projects that will diminish Russian dominance over Caspian export routes. At the end of June, a BP-led group is expected to sanction the Baku-Ceyhan pipeline, which should, by 2005, be carrying up to 1m barrels a day (b/d) of Caspian crude to the Turkey without crossing Russia. The US government is also encouraging Kazakhstan to diversify export routes by committing oil to the Baku-Ceyhan line. Although attempts to lure Lukoil into the Baku-Ceyhan group have not yet been successful, US officials detect a softening in Russian opposition to the project. The agreement signed by Bush and Putin contains a reference to both countries' support for multiple export routes - a breakthrough in the view of Steven Mann, US ambassador for Caspian region energy developments. Mann denies the US government plans to use US troops - recently deployed to control insurgents in Georgia's Pankisi Gorge - to guard oil and gas lines crossing the Caucasus to the Black Sea and Turkey. Russian acceptance of the arrival of the US army in Georgia points to the more pragmatic approach in Moscow to Caspian geopolitics.

**RUSSIA SUPPORTS MULTIPLE CASPIAN PIPELINES—THEY THINK US COMPANIES ARE MORE EFFECTIVE.**

**Edward L Morse &, Former Deputy Asst. Secretary of State for Energy & James Richard,** portfolio manager at Firebird, March/April 2002, Foreign Affairs, pg. 16

UNTIL SEPTEMBER 11, the United States pursued two often conflicting goals: encouraging Russia to better protect U.S. corporate investments in the Russian energy sector, and assisting the Caspian countries in developing and exporting their own hydrocarbons, thereby avoiding pipeline routes through Russia. Events are now squaring the circle. Russian companies and the Russian government are moving rapidly on improving the rule of law, but they are not providing significant advantages to U.S. and other foreign direct investors in the oil sector; Russian firms want to keep the "crown jewels" to themselves. Yet these same firms, intent on expanding abroad, are becoming more open to joint ventures with international firms when they require Western technology, particularly in the offshore areas of the Arctic Ocean. Meanwhile, the new environment of cooperation and Russian corporate interests in the Caspian countries have moved Moscow to support the independent export pipelines that expedite development schemes in Azerbaijan and Kazakhstan.

**RUSSIA ISN'T AFRAID OF US INFLUENCE IN THE CASPIAN.**

**Ebel, '97 (Director Energy and National Security Program Center for Strategic and International Studies, March 26, 1997. "The Geopolitics of Caspian Oil.") pg. online**

<http://www.csis.org/ruseura/cs970326.html>

Current U.S. energy policy toward the Caspian states is responsive to pipeline politics, especially regarding Russia's role in the region. A principal objective of U.S. policy is to expand the nation's access to energy supplies outside the Persian Gulf. Toward this end, the United States has supported efforts to develop a reliable means of transporting Caspian oil and gas to the world market. In doing so, the United States has been largely sensitive to Russia's interests in the Caspian region for the simple reason that Russian consent for future pipeline routes is critical for their viability. This willingness to compromise can be seen in U.S. support for the dual-pipeline approach for Azeri oil, an approach which made winners out of all the players, including Russia.

**THE US AND RUSSIA ARE COOPERATIVELY DEVELOPING CASPIAN OIL IN THE STATUS QUO**

**Hill – Brookings Institute Research Fellow – 2002. Fiona. Russia: The 21<sup>st</sup> Century's Energy Superpower? The Brookings Review.**

Russia's oil reserves in the Caspian are smaller than those of three other former Soviet regional entities, Azerbaijan, Kazakhstan, and Turkmenistan. During the 1990s, Russia and the three smaller countries squabbled over dividing the spoils of the Caspian Sea and over the direction of new export pipeline routes. For most of the decade, Russia tried to preserve the old Soviet-era legal regime, which would have precluded the division of Caspian resources. It also fiercely resisted U.S.-backed plans to break its monopoly over existing pipelines and to transport Caspian oil across the Caucasus to Turkey. With the discovery of larger oil reserves than anticipated in the Russian sector of the Caspian and the sudden increase in world oil prices, the Russian government became more amenable to the delimitation of the Caspian Sea. As Russian oil companies prospered, became international players, and searched for new export opportunities, they began to advocate engagement with the United States rather than confrontation in developing the Caspian Basin. In October 2001, a new pipeline to transport oil from a Chevron-led consortium in Kazakhstan to Russia's port of Novorossiisk finally began full operation. At the end of 2001, after years of dissent, LUKoil and YUKOS indicated an interest in the U.S. government's pet project, the Baku-Tbilisi-Ceyhan pipeline from Azerbaijan's fields.

SS

RUSSIA IS A THREAT TO CASPIAN

Russia dominates the Caspian.

Dr. Ariel Cohen January 25, 1996

"The New "Great Game": Oil Politics in the Caucasus and Central Asia" The Heritage Foundation Jan. 1996 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

The main threat to the equitable development of Eurasian oil is the Russian attempt to dominate the region in a de facto alliance with the radical Islamic regime in Tehran. Russia benefits from instability in the Caucasus, where wars and conflicts undermine independence and economic development while hindering the export of oil from the region's states.

Moscow has gone beyond words to establish its power in the Caucasus. The Russians are setting up military bases in the region in order to gain exclusive control over all future pipelines. Georgia now has four Russian bases and Armenia has three, while Azerbaijan is still holding out under severe pressure from Moscow. In addition, members of the Commonwealth of Independent States are required to police their borders jointly with Russian border guards, and thus are denied effective control over their own territory.

**Attempts to Reintegrate the South**

The struggle to reestablish a Russian sphere of influence in the Caucasus and Central Asia started in early 1992. While not a full-scale war, this struggle employs a broad spectrum of military, covert, diplomatic, and economic measures. The southern tier of the former Soviet Union is a zone of feverish Russian activity aimed at tightening Moscow's grip in the aftermath of the Soviet collapse. The entire southern rim of Russia is a turbulent frontier, a highly unstable environment in which metropolitan civilian and military elites, local players, and mid-level officers and bureaucrats drive the process of reintegration.

Russia will fan the flames of regional conflicts to secure control.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

In the Caucasus, Russia played a key role in fanning the flames of war in Abkhazia and Nagorno-Karabakh as well as in the Georgian breakaway republic of South Ossetia. The Russian peacekeeping operation in Abkhazia (in place since 1992) and efforts in Nagorno-Karabakh have done little to bring peace. Instead, these situations have been turned into frozen conflicts that allow Russia to play one side against the other while threatening the oil export routes. Russia's debacle in Chechnya and the expensive and prolonged involvement in Tajikistan clearly indicate that the lofty rhetoric about integrating the Commonwealth of Independent States (CIS) will remain just that. The human and economic resources and the willingness to sacrifice that would be needed to cobble an empire back together again are simply lacking.

56

RUSSIA IS A THREAT TO CASPIAN

Russian remains a threat in the Caspian.

RUSSIA = WEAK

Lt. General William E. Odom Winter, 1998

"The Caspian Sea Littoral States: The Object of a New Great Game?" Views and Visions  
<http://ourworld.compuserve.com/homepages/usazerb/332.htm> accessed 7/9/03

Lt. General William E. Odom is the Director of National Security Studies at the Hudson Institute in Washington D.C. He served as a Director of the US National Security Agency

First, Russia remains a threat. Yet it has proven far less effective in asserting its grip on Central Asia and the Caucasus than many observers, including myself, would have believed. The reasons are twofold. First, Russian reformers, especially economic reformers, recognized that hanging on to these regions would seriously impede a transition to a market economy in Russia. The neo-imperialists in the Ministry of Defense and some of the old economic central planning bureaucrats and managers of state owned enterprises want to reclaim control of both Central Asia and the Caucasus. Until the summer and fall of 1993, the liberal reformers seemed to be winning, and then the tide seemed to shift as Russia pushed its way into the Tajik civil war and into Georgia and Azerbaijan. Still, the liberal reformers occasionally succeed in blocking the neo-imperialists. For example, they simply do not provide funds to the army even when it has been appropriated, and the cost of keeping troops on the Afghan border, in Dushanbe, and Georgia and Armenia is not small.

The second reason is that the Russian regime has proven far weaker than most observers expected. It proved capable of making trouble inside states in both regions, but it has not been able to reassert control. Partested or against it. Even the plight of Russian minorities in both regions stirs little sympathy, and Moscow's policies toward Russian's returning to the Russian Federation range from cool to downright hostile. >

### Russia Wants Military Dominance over Caspian Oil

**Askarov '99**

(Gorkhmaz Askarov, free-lance political commentator for the Azeri media based in Baku, "Border Games in the Caspian Sea: Newly Independent States vs. Russia and Iran Co." Winter 1999,  
<http://ourworld.compuserve.com/homepages/usazerb/423.htm>)

*Russia wants military dominance over Caspian oil*

4. The disputes on the Caspian should be kept in the sphere of international law. Any kind of ad hoc decisions contradicting basic principles of international law can put the problem beyond that sphere and bring it to confrontations on a political or even military level. Taking advantage of their military power Russia from time to time undertakes actions aimed at intimidating the Newly Independent States. Just a month ago Russia made a decision to create a Military Navy Basis in the Russian town, Caspiysk. The natural location for a Russian navy basis in that area is Astrakhan and it has always been used for that purpose. The only reason of establishing that basis in Caspiysk is to be nearer to oilfields. Reinforcing Russian military presence in the Caspian, while declaring the principle of demilitarization obviously serves as an act of pressure over the countries of the region. Taking into account the military weakness of Newly Independent States in front of Russia and Iran, demilitarization of the Caspian is the only guarantee that can secure these countries from forced unfair agreements on Caspian problems.

57

## CASPIAN STATES OPPOSE RUSSIAN INFLUENCE

Caspian states will backlash to Russian attempts to control the region.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

<sup>1</sup> Thus, despite the rhetoric of Russian Foreign Minister Evgenii Primakov about Russia's "multi-vectored and multi-faceted policy," its great power status, and the "objective processes of integration,"<sup>15</sup> the southern NIS increasingly are looking toward the West (and East and South) to break the mold of post-imperial dependency. Russia would like to prevent the NIS from exporting energy resources and deny these countries the ensuing cash flow the local people so desperately need. In the event Russia cannot prevent these exports, Russian politicians and oil companies will try to direct all the routes and pipelines north to establish control over the lifelines of Western economies. Russian oil and gas companies certainly can play a role in developing the hydrocarbon resources and economies of the Caucasus and Central Asia, but the governments of both the West and the NIS share an interest in warding off any Russian attempts to impose hegemony. The policymaking elites of the NIS have tasted independence and the prestige of their own flags, seats at the United Nations, and ministerial and ambassadorial titles. They are not interested in reverting to the status of provincial overseers for the Kremlin. With oil wealth so near, they will fight to preserve their independence and access to the natural resources of their lands.

58

IRAN IS A THREAT TO CASPIAN

Any Caspian development is liable to face a nuclear threat from Iran

**Blank Winter/2001**

(Winter 2001, US Azerbaijan Council, BYLINE: Professor Stephen Blank, Prof. at the Strategic Studies Institute, US Army War College, SECTION: Caspian Crossroads HEADLINE: The Trans-Caspian Geopolitical Environment: An American View)

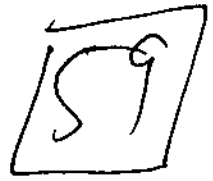
Any Caspian development is liable to face a nuclear threat from Iran

However, perhaps the most unpredictable risk factor facing the entire area is the unknowable future once Iran obtains its nuclear capability. In early 2000 the CIA reported that it could not guarantee that Iran did not have a nuclear capability. Subsequent testimony on nuclear proliferation by CIA director, George Tenet, emphasized that within a decade or so Iran would have a functioning nuclear weapon and delivery system. Meanwhile General Zinni stated that Iran would have a nuclear weapon and delivery system by 2005.71-64 Iran is reportedly working on developing IRBMs to extend its reach into Europe and Asia and even ICBMs for potential use against the United States itself.72-65

Almost all speculation and analysis concerning Iranian capabilities has focused on the Middle East and Europe and ignored the impact of Iranian nuclearization on Central Asia or the Caucasus. A nuclear Iran with unresolved but long-smoldering domestic struggles could well be tempted into foreign policy adventures, in the belief that it can deter resistance, to achieve domestic aims and aggrandize its influence abroad. While Russia and China have been among the main exporters to Iran in support of its nuclear program; quite possibly neither government might view Iranian and perhaps Pakistani nuclearization positively given the repercussions in Xinjiang and Central Asia. Such factors should give us a sense of how the rest of Asia might be affected by Iranian nuclearization.

Neglect of Central Asian threat scenarios if Iran gains nuclear capabilities can be explained in part by the fact that the pace, direction, and extent of Iran's overall rearmament and acquisition of weapons of mass destruction greatly depends upon foreign sales or transfers. Because of U.S. and other pressure that is constantly exerted upon Russia and other providers of weapons to Iran it will be difficult, if not impossible, to forecast what Iran's capabilities will be, how much of any single capability it will have, and when it gains those capabilities.

Iran's numerous and well-known difficulties in maintaining and servicing its existing weapons systems or in obtaining parts for aging U.S. systems also precludes an easy assumption as to the pace, direction, timing, and extent of future Iranian military power and strategy. Iran also may not have thought deeply about the strategic potentials and possible missions it will confront once it reaches the point of mastery of modern conventional systems and WMD. Nevertheless there can be little doubt that Iran wants to become a regional hegemon and to avail itself of a credible deterrent capability primarily against those states it now identifies as an actual or potential threat, Israel, Iraq, and the United States.



IRAN IS A THREAT TO CASPIAN

**An Iranian nuclear threat against the Caspian is viable**

**Blank Winter/2001**

(Winter 2001, US Azerbaijan Council, BYLINE: Professor Stephen Blank, Prof. at the Strategic Studies Institute, US Army War College, SECTION: Caspian Crossroads HEADLINE: The Trans-Caspian Geopolitical Environment: An American View)

An Iranian nuclear threat against the Caspian is viable

Will Iran use it to attempt nuclear blackmail against a Transcaucasian and/or Central Asian state? Will the United States or some other great power be able to extend its deterrence against Iran to that threatened state and, if so, how? After all in almost all of those states there are Islamic and actual or potentially secessionist ethnic or political minorities who can be used by Iran in a relationship of mutual benefit to destabilize the target state. If Lebanon is an example, the further away the target state is from Iran, the bolder Iran is in extending military, political, intelligence, and economic support to groups like Hezbollah. The unsettled situations throughout the Transcaspien present tempting opportunities for engaging in similar kinds of policies even now. Although Iran has been very circumspect until now; if it has a functioning and viable deterrent it might use one or more of these minorities as it has used Hezbollah and even threaten the state that seeks to undertake reprisals against them with extended deterrence on behalf of its "clients."

Will possession of usable nuclear weapons therefore lead Iran to support secessionist minorities elsewhere in the region in the belief that even other nuclear states are deterred by its capability? There are precedents for this that go beyond Lebanon. For example, a similar logic seems to operate for Pakistan in its incitement of conflicts in Kashmir. Undoubtedly, such concerns are warranted as no Central Asian state has truly secure borders or legitimacy. All these states face the real possibility of ethnic secessionist wars that could draw in larger powers. Indeed Iran constantly worries about Azerbaijani talk of reuniting with Iranian Azerbaijan. And we see this with regard to Russian writing against the United States' interest in Central Asia and the Transcaucasus. If one adds another nuclear power to the mix, the safest prediction is that regional security issues will become more complex and harder to resolve.

Indeed, Iran and Russia might part ways if Iran's nuclear capability comes to be seen as a threat to Russia or that Irano-Pakistani rivalry in Afghanistan might lead Iran to play a secessionist card against either Moscow or Islamabad in the belief of its essential invulnerability to serious retribution. If any of those rivalries grow over time, Iran's nuclear potential would exert considerable influence upon Central Asia. Inasmuch as many analysts concur that possession of nuclear weapons makes the world safe for conventional warfare, the temptation to use such weapons to assert Iranian objectives in Central Asia or the Transcaucasus might prove too strong to resist.

MULTILATERALISM STABILIZES CASPIAN

While both the US and Russia are involved, the likely hood of conflict is low

Mandelbaum director of American Foreign Policy 2000

(Michael, at the School of Advanced International Studies at Johns Hopkins, *The Caspian Region in the Twenty-first Century*, Can be found in *Energy and Conflict in Central Asia and the Caucasus* edited by Robert Ebel and Rajan Menon, pg 23-24)

Where the metaphor of the game is concerned, the differences are also pronounced. The players of today are different than the players of the nineteenth century. Then there were two more-or-less equal contestants, both present in full force in the stretch of Asia for which they were battling. They were like prizefighters glowering at each other from opposite corners of the ring. In today's game of Caspian energy, there are many sovereign states, not just two, and there are many private interests. Russia, of course, is still important for reasons of geography, but the United States cannot substitute for British India because it is not and will not be physically present. American interests are not substantial enough to justify the dispatch of an expeditionary force to the Caspian region. If the politics and economics of the region turn into a military contest, the United States will not wage it directly. But it is unlikely to be a military contest. 24-25

A multilateral agreement can help to pacify many fears in the Caspian

Ebel, director of the Energy and National Security Program and Menon, professor of International Relations 2000

(Robert Ebel, at the Center for Strategic and International Studies, Rajan Menon, at Lehigh University, *Energy and Conflict in Central Asia and the Caucasus*, pg 7)

A  
mu. it's  
agreement  
can  
help  
pacify  
many  
fears

In an effort to resist being marginalized in the South Caucasus and Central Asia, Russia could act in ways that sow instability. Stability in the Caspian can most likely be assured through a multilateral arrangement that enables the development of energy in ways that take account of the needs and fears of all players, including Russia. The calculation behind such a system would be that each state with interests in the region would avoid disruptive actions because the gains of cooperation outweigh the losses. Yet discussions about a cooperative regime for the Caspian notwithstanding, movement from talk to action has been conspicuously absent—and there is no sign that this pattern will change. Nevertheless, the principal requirements for any multilateral arrangement can be specified. States with the capacity to act as spoilers must be coopted by bringing them into production-sharing agreements and construction projects so that cooperation brings benefits and disruptive behavior entails tangible losses. Powerful domestic interests must benefit directly from inclusion or see that their broader interests are served by participation. Since upheaval within and among states harms all facets of energy development, a multilateral system must do more than create incentives for cooperation by offering commensurate and tangible gains. It must also provide for institutions with the capacity for early warning, mediation, conflict resolution, and peacekeeping. 7

61

TURKEY INFLUENCE IN THE CASPIAN UP

Turkey is struggling to establish itself as a dominate force in the Caspian region.

Chufrin, 2001

(Gennady Chufrin, associate member of the Russian Academy of Sciences, Gennady Chufrin, ed. and associate member of the Russian Academy of Sciences. The Security of the Caspian Sea Region. © Oxford University Press, 2001. pg. 332).

<sup>1</sup> The first among these international actors is Turkey, which enjoys long-standing historical, cultural and ethnic links with a number of regional countries and at one time (at the beginning of the 1990s) even considered using these links and affinities to establish a dominant political and ideological position in the region. Although this euphoria ended quite quickly, if only because Turkey was economically unable to sustain such an ambitious regional policy, Turkey's goals in the region clearly go beyond promoting its economic interests and include enhancing its political and security role there. For these purposes Turkey proposed a Stability Pact for the South Caucasus states<sup>19</sup> or the creation of a Caspian political group aligned on ethnic grounds and consisting of Azerbaijan, Turkey and the four Turkic-speaking states of Central Asia (Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan).<sup>20</sup>

Neither of these initiatives has much chance of being implemented, at least in its original form, as both met serious doubts and objections from such major players in the Caspian Sea basin as Armenia, Iran and Russia. Indeed, both initiatives excluded Iran from any active participation in regional security arrangements,<sup>21</sup> while Russia formally rejected as completely unacceptable Turkey's proposal that security in the region should be built on ethnic grounds.<sup>22</sup> Russia also saw Turkey's proposal that not only regional states but also the major world powers should sign the Caucasus Peace and Stability Pact<sup>23</sup> as a challenge to its own position in the region and an intention to increase Western, and particularly US, influence there. >

Turkey does not want Caspian oil to go through Russia

McGuinn, Ph.D and professor of international relations at Florida International University, and Mesbahi, associate Professor of International relations at Florida International University, '96

From Turkey's perspective, Russia remains both a threat and an opportunity. Russian statements critical of Turkey and its role in the Caspian are easily found. The depiction of Turkey as a "Trojan horse" of Western influence<sup>109</sup> is neither novel nor irrational. Russian officials have asserted, in one way or another, that "Turkey can have Azerbaijan, but the oil is ours."<sup>110</sup> For her part, Tansu Ciller warned that Turkey "will not allow Caspian oil to go through Russia, since in that case such an important source of energy would fall exclusively under its control and this would mean that the fate of the countries in the region would be in Russia's hands."<sup>111</sup> At another level, Turkey has complained of Russian military aid to Cyprus, Armenia, and the PKK.<sup>112</sup> Conversely, Russia claimed that Chechen guerrillas received assistance and training from Ankara.<sup>113</sup> But the Caspian question is neither the sole or even the most critical mechanism informing Turkish-Russian relations. Turkey's economic ties to Russia far exceed its economic involvement with its Turkic kinsmen in the Caucasus and Central Asia. Total trade with Russia is \$3.3 billion as compared with \$800 million for the Caspian region.<sup>114</sup> Much of the Turkish-Russian commerce centers on the energy sector, as Russia is Turkey's primary source of natural gas.<sup>115</sup>

Turkey does not want Caspian oil to go through Russia

(Bradford R. McGuinn, Ph.D. and professor of international relations at Florida International University, and Mohiaddin Mesbahi, associate Professor of International Relations at Florida University. Chapter 12: "America's Drive to the Caspian." The Caspian Region at a Crossroad, edited by Hooshang Amirahmadi, St. Martin's Press, 1996.) Pg. 197

62

CASPIAN INSTABILITY → WAR/TERRORISM

( ) CASPIAN INSTABILITY SPILLS OVER, RESULTING IN SEVERAL SCENARIOS FOR WAR

Richard Sokolsky & Tanya Charlick-Paley, Rand Analysts for Project Air Force, 1999, NATO and Caspian Security: A Mission Too Far? Pg. 5-7.

Primarily because of geopolitical and energy security reasons, the Caspian region is receiving increasing attention from the West. Extensive, but still largely unexplored, energy resources are concentrated in the Caspian Sea area and the countries of Kazakhstan, Azerbaijan, and Turkmenistan. Given the expected increase in world energy demand over the next 15 years, access to these supplies would benefit Western energy security. Moreover, the competition for control over these resources could have a major impact on the geopolitical landscape of Eurasia and the domestic evolution and foreign policies of such key states as Russia, China, Turkey, and Iran.

With an area roughly half the size of the United States and a population of nearly 72 million, the states of the Caspian region border on Russia, Turkey, China, Afghanistan, and Iran (see Figure 1), and their native populations have strong ethnic, cultural, and religious ties that transcend national borders. By 2010-2015, if current demographic trends continue, the population of the Caspian region could exceed 100 million. In light of its location in the heart of the Asian continent, instability, conflict, and crises in the region could have negative repercussions on a larger scale, including conflict between Russia and Caspian states; ethnic separatism in Afghanistan, Pakistan, Iran, and western China; conflict between Russia and China, Turkey, or Iran; and conflict between the Caspian states and Turkey, Iran, or China.

Although there are many possible alternative futures for the countries of Central Asia and the south Caucasus, it is not difficult to

describe the scenario that best serves Western interests: a stable, secure, and prosperous region of independent, sovereign, democratic, free-market countries that respect human rights, the rule of law, and the rights of minorities and are successfully meeting the basic economic and social needs of their populations.<sup>1</sup> Yet, for most Caspian states, this rosy scenario of the region's future is not realistic in the face of the myriad threats to stability and peace. Indeed, as one prominent specialist on Central Asia has observed, the possibility cannot be ruled out that the area will become a zone of instability and crisis and perhaps even descend into chaos.<sup>2</sup> Thus, the key

questions for NATO are whether, given the nature of the Alliance's security interests, these threats and challenges would require any changes in the Alliance's military missions, security responsibilities, plans, and force posture. Put simply, how important are Western security interests in the Caspian Basin, and to what extent might the use of NATO's military assets be required to prevent or respond to threats to these interests? 5-7

63

CASPIAN INSTABILITY → WAR/TERRORISM

( ) **CASPIAN INSTABILITY SPILLS OVER TO ALL OF EUROPE & ASIA**

Richard Sokolsky & Tanya Charlick-Paley, Rand Analysts for Project Air Force, 1999, NATO and Caspian Security: A Mission Too Far? Pg. XI.

☞ NATO's strategic transformation, the changing geopolitical environment in the Caspian Basin, and the desire of countries there to rely on NATO to counterbalance Russia raise the issue of whether Western security interests are of sufficient importance to warrant NATO's military engagement and what form, if any, this involvement should take. For both geopolitical reasons and energy security, the West has a tangible and growing stake in promoting the security of the Caspian region as well as the stability, sovereignty, and independence of the new states that emerged from the collapse of the Soviet Union earlier in the decade. Because of its location in the heart of Eurasia, conflict and disorder in the south Caucasus and Central Asia could threaten the security and stability of surrounding areas, including NATO member Turkey, and affect the domestic evolution and external geopolitical alignments of such key countries as Russia, China, Turkey, Iran, Pakistan, India, and Afghanistan. 3 xi

( ) **CASPIAN INSTABILITY CREATES INEVITABLE PRESSURE FOR NATO TO INTERVENE**

Richard Sokolsky & Tanya Charlick-Paley, Rand Analysts for Project Air Force, 1999, NATO and Caspian Security: A Mission Too Far? Pg. XII.

☞ Developments in the Caspian Basin are likely to present a severe test for the West's and NATO's ability to promote their larger security agenda. The newly independent republics along Russia's southern border are potentially weak and unstable. Over the next 10-15 years, the Caspian states will face serious internal and intraregional threats to their stability and security. These include regional, tribal, ethnic, and clan disputes; severe poverty and economic hardships; growing disparities in income distribution; immature political institutions, civil societies, and national identities; environmental degradation; political repression; lack of viable succession mechanisms for the orderly transfer of power; rapid population growth; mass urbanization; conflict over land, water, and energy and mineral resources; ethnic separatism; pervasive corruption, crime, and cronyism; and an almost complete breakdown in the delivery of basic social services.

In other words, the Caspian states generally suffer from the usual problems of "weak" or "failed" states. One or more of them could lose the capacity to govern effectively and maintain order. However, while the crises and instabilities resulting from the loss of national authority could threaten Western interests and perhaps engender pressure for NATO involvement in crisis management/peacekeeping, it is far from clear that these interests are "vital" or that the West and NATO would have the will, capabilities, and resources to exert significant influence. 3 xii

64

CASPIAN INSTABILITY -> WAR/TERRORISM

**( ) REGIONAL CONFLICTS IN THE CASPIAN WOULD CREATE PRESSURE FOR OUTSIDE INTERVENTION BY NATO, RUSSIA, & CHINA**

Richard Sokolsky & Tanya Charlick-Paley, Rand Analysts for Project Air Force, 1999, NATO and Caspian Security: A Mission Too Far? Pg. 2-3.

Moreover, the Caspian region is the object of an intense competition for influence and access to oil and gas resources among external powers that could threaten the security of states in the region, foment instability, and provoke military intervention. Because of the region's central geographic location and potential energy prospects, large-scale conflict and instability could threaten the stability and security of much of the Eurasian continent. As Graham Fuller has noted, particularly at stake are

- the future domestic evolution of Russia, Turkey, China, Afghanistan, India, and Pakistan,
- the prospects for cooperation or conflict among Turkey, Russia, China, Iran, Afghanistan, India, and Pakistan,
- the formation of new blocs, alliances, and coalitions among the states in and around central Eurasia, and
- Iran's position in the region and its relationships with the West, Russia, and other key neighboring countries.<sup>2</sup>

From NATO's standpoint, therefore, the independence of the Caspian states, as well as their internal evolution and external orientation, presents both opportunities and dangers that could have implications for the Alliance's security interests, tasks, and military requirements. Stability in the south Caucasus, in particular, is critically important because of its common border with Turkey and the

possibility that future rounds of NATO enlargement could include countries (e.g., Romania, Bulgaria, and possibly Ukraine) that would bring the south Caucasus even closer to NATO's borders. If conflict in the region draws Turkey in, the potential exists for wider NATO involvement. Moreover, chronic violence or instability could precipitate Russian, Chinese, or other outside military intervention. Under these circumstances, the West could perceive a growing challenge to important interests and perhaps even pressure for crisis management, peacekeeping, or military intervention. 2-3

**-Instability in Caspian spills over into its transparent borders**

Johnson, 2001

(Lena Johnson is associate professor and senior fellow at the Swedish Institute of International Affairs, Gennady Chufirin, ed. and associate member of the Russian Academy of Sciences The Security of the Caspian Sea Region © Oxford University Press, 2001 pg. \_\_\_)

China, Iran, Russia and Turkey have direct national security concerns in the region as they all have borders with states in the region and share national minorities with Caucasian and/or Central Asian states. Russia has a large diaspora in the countries of the region but fears most of all the effects on its own security of instability in the Caspian region spilling over its more or less transparent borders. The turmoil in Chechnya is perceived as closely connected with the growth of irredentism in other parts of the Caspian region, and most recently in Central Asia. Russia regards and will regard the Caspian region as a major concern for its national security. 17

Instability in Russia spills over to hurt Russia

65

CASPIAN INSTABILITY → WAR/TERRORISM

**( ) CASPIAN STATES ARE PRONE TO INSTABILITY WHICH CREATES A POWER VACUUM**

Richard Sokolsky & Tanya Charlick-Paley, Rand Analysts for Project Air Force, 1999, NATO and Caspian Security: A Mission Too Far? Pg. 1-2.

At the same time, however, the states of the former Soviet south are potentially weak and unstable, and the region is vulnerable to centrifugal forces. Over the next 10-15 years, the Caspian states will face serious internal and intraregional threats to their security and stability as they navigate the difficult transition to modern, post-independence nation-states. These challenges (to name but a few) include regional, tribal, ethnic, and clan disputes; severe poverty and economic hardships; growing disparities in income distribution; underdeveloped political institutions, civil societies, and national identities; environmental degradation; political repression; lack of viable succession mechanisms for the peaceful transfer of power; rapid population growth; mass urbanization; conflict over land, water, and energy and mineral resources; ethnic separatism; and pervasive corruption.' In short, the Caspian states generally suffer from the usual problems of "weak" or "failed" states that could lose the capacity to govern effectively and maintain order unless their governments are able to meet the basic expectations of their populaces. 1-2

There are many possibilities for war that include Russia, Iran, and Turkey

Ebel, director of the Energy and National Security Program and Menon, professor of International Relations 2000  
(Robert Ebel, at the Center for Strategic and International Studies, Rajan Menon, at Lehigh University, *Energy and Conflict in Central Asia and the Caucasus*, pg 13-14)

There are many scenarios for war between Russia, Iran, and Turkey  
Consider the effect that Azerbaijan's oil wealth could have on its relations with Armenia as an example of how wealth generated by energy sales could promote conflict between states. In one scenario, the shared benefits of transporting oil to global markets could usher in cooperative arrangements between the two foes that reduce the danger of war and prompt bold and creative solutions to the dispute over Nagorno-Karabakh. But there is another possibility: if a solution to the dispute over that contested region remains elusive, Azerbaijan could build up its arsenal using its oil wealth and decide to retake by force what it has been unable to regain by diplomacy. The Karabakh issue has such deep resonance in Azerbaijani politics that no leader can ignore this unfinished business. The risk of external powers—Russia, Iran, and Turkey—being drawn into the resulting conflict would be considerable. The Caspian is no longer part of the Soviet empire in which conflict is managed or suppressed by a robust central authority; it is a region in which the combination of Russian weakness and far-reaching change open up unprecedented opportunities for other states to make gains. 13-14

66

U.S. INFLUENCE SECURES PIPELINES

ONLY OUTSIDE INFLUENCE WILL SECURE  
PIPELINE ROUTES FROM LOCAL CONFLICTS

Klare, 2001

(Michael T. is the director of the Five College Program in Peace and World Security Studies based at Hampshire College and author of numerous books; Resource Wars © Henry Holt & Company 2001)

These proxy wars threaten oil & could easily escalate.

Even without the involvement of Russia and the United States, Caspian Sea basin would be prey to periodic upheavals and violence in the period ahead. The most likely outcome of such friction, as noted, is the outbreak of proxy conflicts involving local governments and insurgent groups backed by a major power. Such antagonisms could take the form of all-out combat but are more likely to involve persistent but low-grade warfare in border zones and embattled ethnic enclaves. To protect vital pipelines against recurring attack and sabotage, regional leaders may be forced to deploy their armies along vulnerable sections for an indefinite period. History suggests that low-grade conflicts of this sort can last for many years without producing dramatic change in the battlefield equation. But it is also possible for such contests to experience sudden escalation leading to deeper involvement by outside powers.

U.S. INFLUENCE WON'T CAUSE PIPELINE COMPETITION

U.S. INFLUENCE CAUSES COOPERATION WITH  
RUSSIA OVER EXPORT ROUTES

Edward Morse and James Richard March/April, 2002

"The Battle for Energy Dominance" Foreign Affairs Vol. 81 No.2 pg.27

(Edward Morse is Executive Adviser at Hess Energy Trading Company and was Deputy Assistant Secretary of State for International Energy Policy in 1979-1981. James Richard is a portfolio manager at Firebird Management, an investment fund active in Eastern Europe, Russia and Central Asia.)

In the oil and gas sector, Americans must help the Russians and the Kazakhs determine the most efficient export routes for Russian and Caspian oil and arrange financing for these capital-intensive projects. This move would be radically different from the policy pursued in the 1990s, when the United States pushed export routes that tried to free the Central Asian states from Russian and Iranian control rather than pursuing the most economically viable options. Moreover, Lukoil recently stated it would even consider participating in the U.S.-backed Baku-Ceyhan pipeline, which will bring oil from the Caspian to Turkey's Mediterranean coast. As elsewhere, global investors should be free to pick winners and demand corporate reform and increased production when economically justified. Investors remain the best positioned to make demands on those managers who still do not understand that the company's interests are aligned with the interests of its shareholders.

**Russians support Baku-Tbilisi-Ceyhan pipeline.**

**Federal News Service 4/30/2003**

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Leonard L. Coburn – Director, Office of Newly Independent States, Russian and Middle Eastern Affairs, Department of Energy, I/n)

← MR. COBURN: I think at this point the Russians have always said that pipelines need to be economically sound. If a pipeline is economically sound and will be supported by the private sector, then they have no objection to it and would certainly not get in the way of its development. As Baku-Tbilisi-Ceyhan has developed, it has developed into a pipeline that is now economically sound. It has now received the support of a large number of companies. They are out actually as we speak starting to construct the pipeline, and the Russians have basically said as long as the economics are there they have no objection to it. →

Russia supports Baku-Tbilisi-Ceyhan Pipeline

68

BAKU - CEYHAN PIPELINE NOW

-International politics will influence the final choice

**Roberts 2001**

(John Roberts is a consultant specializing in energy, the Middle East, and economic development, Gennady Chufirin, ed. And associate member of the Russian Academy of Sciences The Security of the Caspian Sea Region © Oxford University Press 2001, pg 54-55)

In 1997 two of the AIOC's most senior officials, Terry Adams (then president) and Greg Rich (then president of the pipeline group), declared, according to a rapporteur: 'International politics will influence the final choice of a main export pipeline. To the extent that political considerations contradict commercial considerations, a question arises as to who should pay the shortfall for a "sub-optimal solution"'.<sup>45</sup>

In 1997 two of the AIOC's most senior officials, Terry Adams (then president) and Greg Rich (then president of the pipeline group), declared, according to a rapporteur: 'International politics will influence the final choice of a main export pipeline. To the extent that political considerations contradict commercial considerations, a question arises as to who should pay the shortfall for a "sub-optimal solution"'.<sup>45</sup>

At that time the issue of whether Azerbaijan's MEP should terminate at Supsa or Ceyhan was finely poised. In 1998 it appeared to this author that the oil companies clearly preferred the Supsa option but that the US and Turkish governments wanted Ceyhan. Thus in November 1998 Adams' successor as AIOC President, John Leggate, commented on Baku-Ceyhan: 'We understand the importance of this route. Nevertheless, not a single company supporting it has suggested it would participate in financing the project'.<sup>46</sup> He was speaking, of course, at a time when oil prices were falling and the AIOC was slowing down its development programme. It now seems likely that the ACG complex will not be producing at its intended Phase One level of 400 000 b/d until 2004 at the earliest. The question is whether the existing early oil systems—as developed, modified or expanded between 1996 and 2004—will be able to handle this level. It looks as if they might so long as there is some real improvement of the Baku-Novorossiysk line to add to Baku-Supsa's increased capacity.

The weakness of the Baku-Ceyhan route is that it seems that it cannot be developed in phases—at least, this does not appear to make sense if the line is built directly between Baku and Ceyhan, with a crossing into Turkey from central-south Georgia. One possibility does still exist for a phased development—the construction of an initial line to Supsa, primarily to serve the AIOC, and an onward extension to Ceyhan as and when the next round of Azerbaijan joint ventures starts to yield results, or when output from the Kashagan field is such that the Kazakh authorities, and especially the companies actually developing Kashagan, feel capable of making a realistic throughput commitment to a Ceyhan line.

The Baku-Supsa route is not an ideal solution in the way, perhaps, that the Baku-Ceyhan route is, but it has one advantage: it would be a much easier project to implement in an era of low or volatile oil prices, since a 50 mt/y line to Supsa would probably cost approximately \$1.6 billion as against perhaps double that amount for a line to Ceyhan. In addition, a two-step solution provides an opportunity to test the demand for oil traffic through the Bosphorus, since rising oil demand within the Black Sea region itself may well diminish some of Turkey's worst fears. Moreover, the fact that oil development in both Azerbaijan and Kazakhstan is running somewhat slower than expected at the very least delays the need for a full-scale system to Ceyhan, with all the costs implied.

As of early 2001, it looks very much as if the oil companies have swung behind the US and Turkish governments and are serious in their attempts to probe and if possible prove the practicality of the Baku-Ceyhan line. However, senior officials in at least some of the AIOC member companies still hold to the Baku-Supsa route as a fallback position, to be brought into play should Baku-Ceyhan fail to materialize. 754-5

69

BAKU-CEYHAN PIPELINE GOOD

An East/West pipeline will prevent a Russian monopoly over export routes and avoids and entanglement in Armenia/Azerbaijan war.

Dr. Ariel Cohen June 24, 1997

"US Policy in the Caucasus and Central Asia: Building A New" The Heritage Foundation co 2003 (Dr. Ariel Cohen is a Research Fellow in the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation.)

Because of such roadblocks, a major pipeline for Caspian Sea oil has not been constructed. Kazakstan and Azerbaijan are using such intermediate solutions as transportation by barge and rail to Iran,<sup>11</sup> the Black Sea ports, Finland, and Ukraine. In the long term, the volume of oil transported will require the construction of up to four high-capacity (1 million barrels per day) pipelines from the Caspian Sea region via Turkey to the Mediterranean Sea.

Several pipelines in a north-south direction are feasible. Ultimately, pipelines may be built from Turkmenistan and Uzbekistan to Pakistan. Unocal (U.S.) and the Delta Oil Corporation (Saudi Arabia) were named as consortium leaders for a gas pipeline by the government of Turkmenistan in October 1996. Russia's natural gas monopoly (Gazprom) and a Turkmen-Russian government oil company (TurkmenRosGaz) also are part of the consortium. A natural gas pipeline running from the Dautetabad field in southern Turkmenistan to central Pakistan was proposed by the Turkmen government. An oil pipeline running the

same route also was suggested. These pipelines would benefit the people of Afghanistan, bringing jobs and infrastructure development like roads to that long-suffering country. Because of the ongoing war, however, prospects for both pipelines are grim.

The most ambitious project under consideration is a gas pipeline in the eastern direction, from Chardzhou in eastern Turkmenistan to the Pacific coast of China (see Table 2). If built, this would be the world's longest pipeline at 3,700 miles. It is being considered by a consortium that includes Esso China (Exxon), Mitsubishi (Japan), and the China National Petroleum Company. An oil pipeline from western Kazakstan along the same route is also being considered.

Turkey is desperate to diversify its sources of natural gas away from Russia, which currently supplies 85 percent of its fast-growing needs, and would like to import 10 billion cubic meters of natural gas per year over 23 years from Iran. The pipeline for this project is not being constructed or financed, however. As a part of its multi-route strategy, the United States supports Turkey in providing its territory with a pipeline that would terminate at the existing oil port of Ceyhan.<sup>12</sup> Turkmenistan could have been an alternative for Iranian gas. In general, the difficulties in building a pipeline under the Caspian Sea are considerable because of the ongoing conflicts over the legal status of that body of water.

## BAKU-CEYHAN PIPELINE GOOD

The Baku-Ceyhan project is crucial to the Caspian viability.

Dr. S. Frederick Starr, May 24, 2001 A Brookings Forum, The Caspian Basin and Asian energy Markets: Regional Instability in Eurasia. Brookings Institution.

→ The Baku-Ceyhan is crucial to the

[For years, United States involvement with the Caspian region has been dominated by the issue of the Baku-Ceyhan pipeline project. It seems to me this is rightly so. Whatever its value to investors and investor companies, it's crucial to the Caspian states themselves. By giving them greater control over their economic destiny, it undergirds their sovereignty and strengthens their viability. And for this reason, it seems to me that Baku-Ceyhan is good policy, promises to create sturdier economies in what is now a deeply impoverished region.]

The Baku-Ceyhan pipeline will work safely.

Karagiannis, Ph.D. student at the University of Hull's Department of Politics and Asian Studies, '98.

(Manos Karagiannis, Ph.D. student at the University of Hull's Department of Politics and Asian Studies. "The Turkish- Georgian Relationship and the Transportation of Azerbaijani Oil." *Caspian Crossroads*, Summer/ Fall 1998: Volume 4, Issue 1. Online, <http://ourworld.compuserve.com/homepages/usazerb/413.htm>, accessed 7/9/03.

Baku-Ceyhan will

[Indeed, the Baku-Tbilisi section of the Baku-Supsa line could constitute the first step of the Baku-Tbilisi-Ceyhan route. Georgia is keenly interested in the long term pipeline, seeing it as a means to foster its independence, alleviate its economic difficulties by ensuring tariff revenues and so stabilize the country. Moreover, Tbilisi and Ankara are even going to develop a common regional security system to maintain stable oil and cargo transits from the Caspian Sea and Central Asia. To this end Turkey will help Georgia equip a peacekeeping battalion which may serve as police force for TRASECA (Transport Corridor Europe-Caucasus-Central Asia).]

Russia will not interfere with the Baku-Ceyhan pipeline.

Karagiannis, Ph.D. student at the University of Hull's Department of Politics and Asian Studies, '98.

(Manos Karagiannis, Ph.D. student at the University of Hull's Department of Politics and Asian Studies. "The Turkish- Georgian Relationship and the Transportation of Azerbaijani Oil." *Caspian Crossroads*, Summer/ Fall 1998: Volume 4, Issue 1. Online, <http://ourworld.compuserve.com/homepages/usazerb/413.htm>, accessed 7/9/03.

Russia won't interfere pipeline will be fine

[In face of Russia's neo-imperial policy towards the newly- independent republics of South Caucasus, any future Georgian government is likely to consider its bilateral relations with Ankara as too important to be spoiled by such minority questions. On the other hand, Turkey will probably avoid involvement in these ethnic conflicts since there is little public interest in the fate of these Muslim minorities and Ankara is keen on maintaining good relations with Tbilisi. Moreover, the construction of the Baku-Georgia-Ceyhan pipeline and the development of the Eurasian Transport Corridor are seen as a means to undercut Russia's influence in the South Caucasus, to the benefit of peace and stability in the region. Therefore, the Baku-Ceyhan oil route would probably operate efficiently and hydrocarbons passing through Georgian territory would be subject only to tariffs calculated on a commercial basis and not to politically-motivated cut-offs.]

71

BAKU - CEYHAN PIPELINE GOOD

Russia's resistance to the Baku-Ceyhan pipeline is decreasing.

Swietochoowski, Professor of Russian and Middle Eastern History at Monmouth University, '01. (Tadeusz Swietochoowski, Professor of Russian and Middle Eastern History at Monmouth University and member of the Columbia University Caspian Project. "The Long Shadow of Russia." *Caspian Crossroads*, Summer 2001: Volume 5, Issue 4. Online, <http://www.usazerbajiancouncil.org/caspiancrossroads/archive/archive.htm>. accessed 7/10/03.

Putin's visit of January 2001 to Baku was perceived as an effort at improving relations between the two states. The fact that it coincided with the exercises of the Russian Caspian Sea flotilla provoked, however, acid comments about the gunboat diplomacy. More importantly, it was seen as the continuation of diverse policies that various government agencies followed with regard to South Caucasia. Still, Moscow appeared to recognize Azerbaijan's position in the region as the producer of oil and gas, the country with the largest population and territory, and last but not least, ethnic or cultural affinity with the neighboring countries of the Middle East. A tangible effect of the new atmosphere was the declaration of principles for dividing the seabed. Accordingly, the oil and gas resources would be considered as belonging to national sectors, while the water column would be for common use.

By this time, Moscow had begun to soften its stand on the Baku-Ceyhan pipeline, after Kazakhstan indicated willingness to use it for some of its exports. Gradually, the Russian officials, who believed that the US was promoting the pipeline to gain political influence in the Caspian region, as the pipeline is not quite viable economically, were coming around to the view that the Baku-Ceyhan route could be useful for Russia itself. The inalterable fact remained that the oil tankers from Novorossiysk have to pass through the clogged Bosphorus Strait, which could be closed in case of a likely accident. Moreover, the Black Sea port of Novorossiysk is frequently closed during winter storms. Once again, Lukoil was helpful in improving the climate of Moscow-Baku relations. The company's head, Vahid Alakbarov, an Azeri by origin, was instrumental in arranging for such an event as the visit to Azerbaijan of the Orthodox Patriarch of Moscow and All Russia, Aleksii II, a gesture of respect toward a country of Islamic tradition in the process of revival.

Russian resistance to Baku-Ceyhan lowering

NO IRAN PIPELINE

Strong domestic opposition to Iran mitigates any chance of an Iranian pipeline.

Chufrin, 2001

(Gennady Chufrin, associate member of the Russian Academy of Sciences, Gennady Chufrin, ed. and associate member of the Russian Academy of Sciences. The Security of the Caspian Sea Region. © Oxford University Press, 2001. pg. 330-31).

However, in spite of the seemingly obvious mutual economic and strategic advantages, this rapprochement will be rather difficult to achieve, at least in the near future, mainly because of strong domestic opposition among the radical sections of both the Iranian and the US political elites. A more likely scenario in Iranian-US relations will be a cautious probing amid continuing strains and mutual mistrust. In this situation Russia's readiness to actively assist Iran in its long-term economic development programme—and, what may be especially important, in the construction of nuclear power plants, as reflected in the first broad Iranian-Russian treaty since the Iranian Revolution, signed when President Mohammad Khatami visited Moscow in March 2001<sup>16</sup>—makes Russia a priority partner for Iran. Another important factor which further boosted Iranian-Russian relations was Russia's positive response to Iran's requests that sales of conventional arms, suspended in 1995 following an agreement between Russian Prime Minister Viktor Chernomyrdin and US Vice-President Al Gore, be resumed.<sup>17</sup>

No way to send Caspian pipeline through Iran

**Australian Financial Review 7/10/00**

( July 10 2000 SECTION: News, page 36 Healine: Caspian oil: A route To Conflict, Lexis Nexis)

Can't send through Iran

Tehran is close to completing a pipeline network running from the Caspian Sea down to its existing export terminals in the Persian Gulf. But relations between Washington and Tehran remain icy and the US threatens sanctions against US and foreign firms including BHP involved in Iran's petroleum industry. Nothing underlines the strategic tension in the race for Caspian oil more than the fact that the cheapest and most logical option for exporting the oil is virtually ruled out by the historic rift between the US and Iran.

**Sanctions prohibit the US from investing in an Iranian pipeline**

**Cohen, Senior Policy Analyst, of the Russian and Eurasian Studies, the Heritage Foundation, '99**

(Ariel Cohen, PhD, Senior Policy Analyst, of the Russian and Eurasian Studies, the Heritage Foundation. "U.S. Interests in Central Asia." The Heritage Foundation, 1999.)

The sanctions imposed by the Iran and Libya Sanctions Act, sponsored by Sen. Alfonse D'Amato (R- N.Y.) and Rep. Benjamin Gilman (R- N.Y.) forbid significant investment in projects which would either enhance the Iranian oil and gas system or benefit the current regime. It is in the interest of America and the West to deny Iran markets, revenues, and freedom of maneuver in Central Asia until such time as it abandons its anti-American and anti-Western position.

73

## IRAN PIPELINE BAD

---

### PIPELINE CONTROL GIVES IRAN TOO MUCH INFLUENCE

Middle East Policy October 1998

(October, 1998 Volume 6 Issue 2 ISSN10611924 Start Page 145, Proquest)

Fourth, the US. government steadfastly opposes the transit of Caspian oil and gas through Iran. We welcome signs of positive change in Iran, and we will seek to encourage future change. But when it comes to energy - a commodity on which our economies depend - we must look to our overriding security needs and remember that Iran is a competitor of the Caspian states, not a partner. On gas, for instance, Iran has set its sights on the growing markets of Turkey, Europe and Pakistan - the same markets sought by Turkmenistan. At the risk of stating the obvious, it does not strike me as a smart business decision to run pipelines through the territory of a major competitor. ↓

Iran pipeline not economically sound

Middle East Policy October 1998

(October, 1998 Volume 6 Issue 2 ISSN10611924 Start Page 145, Proquest)

As pipeline experts investigate the attractiveness of an oil pipeline running south from Kazakhstan to the Persian Gulf, they are discovering that it might even be more expensive, in terms of capital costs and per unit transportation costs, than a cross-Caspian pipeline running on to the Mediterranean. This is an important insight and indicates that the conventional wisdom regarding the economic attractiveness of the Iranian route may be off the mark. We can expect to learn more about this when the findings of the recent pipeline conference in Almaty are made public. ↓

ALL PIPELINE ROUTES UNSTABLE

- Any Caspian pipeline will be insecure due to regional violence-  
Klare, 2001

(Michael T. is the director of the Five College Program in Peace and World Security Studies based at Hampshire College and author of numerous books; Resource Wars © Henry Holt & Company 2001)p100

All Caspian pipeline  
will be vulnerable  
to violence.

Questions over the production and delivery of Caspian basin energy supplies invariably come back to the central dilemma of transportation. No matter which direction the pipelines may follow—north, south, east, or west—they must cross through one or more areas of instability. Some of these areas may be more unstable than others, and future developments may bring peace to areas now torn by violence. In all likelihood, however, whatever route is selected for the export of Caspian energy will encounter some form of friction or violence.<sup>60</sup>

Regional pipelines will be threatened by warring factions.

Pacific Environment, '99.

("The Great Ecological Game: Will Caspian Sea Oil Lead to Environmental Disaster?" January 1999, online <http://www.pacificenvironment.org/infocenter/Reports/caspian.htm>, accessed 7/7/2003.)

[Aside from military threats to oil facilities, the political instability of the region creates an opportunity for widespread breaches of measures needed to ensure pipeline protection. The Environmental Impact Assessment (EIA) for the Azeri Early Oil Project documented that over 400 "tapholes," or holes bored into pipeline segments to illegally extract oil, were found during an assessment of the WREP before reconstruction began. Leakage from such tapholes can lead to countless localized oil spills or worse: a recent explosion reportedly caused by tapholes in Nigeria led to a death toll of over 500 people. Proponents of the Early Oil project counter that the rebuilt portions of the WREP will be virtually all underground, decreasing the risk of individual and factional actions against the pipeline. But threats of violence still remains. In a recent New York Times Magazine feature about the Azeri Early Oil Project, author Jeffrey Goldberg reports from the border between Azerbaijan and Armenia on the potential for the latter to seize the pipeline: I ask the lieutenant (a military escort) if he believes the Armenians are capable of seizing the land through which the Early Oil pipeline will run. He looks confused. 'I don't know about a pipeline.' The pipeline, the one they're building a few kilometers from here. 'I don't know anything about it,' he says...just then, shots are fired over the hill.]

75

Oil is key to Saudi Economy  
Dependence on oil money has stifled Saudi  
Economic growth and reduced the standard of Living

World Affairs. Winter '03. pg.115.122

[http://vnweb.hwwilsonweb.com/hww/shared/shared\\_main.htm?jsessionid=02D4AWIIS4CPQA3DILSFF1?\\_request](http://vnweb.hwwilsonweb.com/hww/shared/shared_main.htm?jsessionid=02D4AWIIS4CPQA3DILSFF1?_request)

Second, although none is a full-fledged democracy, all of Saudi Arabia's monarchical Gulf neighbors have taken important steps to reform their political and economic systems. These include holding elections, granting some freedom of press and broadcasting and some rights to women, and establishing trade, financial, and commercial centers. Again, Riyadh lags behind. Some of the main flaws in the Saudi socioeconomic structure, with serious political ramifications, need to be underscored. First, despite attempts at diversification, the Saudi economy at the dawn of the twenty-first century still is heavily dependent on oil. Oil revenues make up around 90-95 percent of total Saudi export earnings, 70 percent of state revenues, and around 35-40 percent of the country's gross domestic product (GDP). (FN19) Consequently, Riyadh is seriously vulnerable to severe fluctuations in oil prices. Second, over the last two decades the Saudi economy has suffered from a very low level of economic growth. According to the World Bank, from 1980 to 1990 the Saudi GDP's growth rate was 0.0 percent (no growth at all) and in the following ten years (1990-2000) was 1.6 percent. (FN20) The economic stagnation has been worsened by an extremely high fertility rate. In the last two decades the Saudi population more than doubled. In other words, in the early 2000s the kingdom has fewer resources to meet the demands of more people. No wonder the standard of living has substantially declined. 1

Cheap oil prevents Western conservation and makes  
oil-producing nations economies too reliant on oil

Leonardo Maugeri July/August 2003

"Not in Oil's Name" Foreign Affairs Vol. 82 No. 4 July/Aug. 2003 pg.171

(Leonardo Maugeri is Group Senior Vice President for Corporate Strategies and Planning for the Italian energy company ENI)

CHEAP OIL has always been and remains a curse for industrialized countries and is the most elusive enemy of oil security. It constricts the development of expensive energy alternatives and new oil regions. It discourages conservation and perpetuates lax Western consumption habits. Finally, it increases dependence on the Persian Gulf countries with the lowest production costs. Cheap oil is harmful to the producing countries as well. Today less than 25 percent of global production but 65 percent of the world's proven oil reserves are concentrated in five countries: Saudi Arabia, Iraq, the United Arab Emirates, Kuwait, and Iran. All of these countries, as well as other OPEC members, need decent oil prices; since 1999, they have finally managed a certain degree of internal discipline in order to limit output and regulate prices. This policy leaves few alternatives for the Persian Gulf producers because their economies remain heavily based on oil while their demography has changed dramatically. 1

76

## Oil is key to Saudi economy

Even if the US imported much less oil, we would still defend Saudi Arabia.

Foreign Affairs November/December 2002  
(Cyrus H. Tahmassebi, "Refuting the Myths")  
(Cyrus H. Tahmassebi is President of Energy-Trend, Inc.)

As Morse and Richard explain, Saudi Arabia is eager to retain a dominant position in the United States because of the latter's market size, growth potential, and stability. The U.S. markets also provide diversity, and Riyadh has a political interest in remaining America's biggest oil supplier. Nevertheless, even if the United States imported no Saudi oil, it is difficult to

imagine a scenario in which an interruption of Saudi supply would not have an impact on U.S. markets. Given oil's fungibility and the integrated nature of world oil markets, a severe interruption in Saudi Arabia is likely to have virtually the same price impact whether or not America imports Saudi oil. The United States will therefore continue to defend Saudi Arabia and the flow of its oil to world markets, even if it one day imports much less Saudi oil. It might be much more difficult, however, to explain the U.S. intervention to the American public if little or no Saudi oil were imported.

## Oil Money is not enough to sustain Saudi Arabia

Foreign Affairs May/June 2000  
(F. Gregory Gause III; "Saudi Arabia Over a Barrel")  
(F. Gregory Gause is Associate Professor of Political Science at the University of Vermont and the author of *Oil Monarchies*.)

Meanwhile, oil prices slumped from their historic highs—briefly touching \$40 per barrel in 1981 before dropping below \$10 per barrel in 1986, and generally staying below \$20 per barrel until 1999. But these fluctuations did little to change Saudi spending habits. In effect, the Saudi government budget was not linked to the price of oil, even though oil has consistently supplied more than 75 percent of state revenue. Maintaining both high defense spending and far-reaching social services for a population growing at a whopping three percent per year has kept Saudi Arabia in the red since 1983. When they no longer had the cash reserves to fund these deficits, the Saudis began borrowing on the domestic market. Saudi Arabia's overall domestic debt in 2000 is expected to be \$133 billion, more than 100 percent of GDP—a level of domestic debt that approaches the limits set by the Organization for Economic Cooperation and Development and the Bank for International Settlements for fiscal soundness and makes using the domestic market to cover deficits a risky strategy indeed.

77

# Oil is key to Saudi economy

---

**Saudi Arabia needs revenue to survive.**

## **Foreign Affairs May/June 2000**

(F. Gregory Gause III; "Saudi Arabia Over a Barrel")

(F. Gregory Gause is Associate Professor of Political Science at the University of Vermont and the author of *Oil Monarchies*.)

¶ Avoiding such a crunch is in the interests of both countries. They must start with a fundamental readjustment of long-held American views about Saudi Arabia and the forces driving Saudi oil policy. Since the 1970s, Washington has seen Saudi Arabia as a fabulously rich country. Successive American administrations have looked to Riyadh to help finance American policies both within the Middle East (most notably, the 1991 Gulf War) and beyond it (the Afghan mujahideen, the Nicaraguan contras, the Gorbachev transition in the Soviet Union). Meanwhile, Saudi Arabia has continued to pay cash for the most sophisticated American weapons technology. Washington saw Saudi oil policies as driven more by strategic considerations—including inter-Arab, Arab-Israeli, and OPEC politics, to say nothing of the crucial U.S.-Saudi relationship—than the need for revenue at home. The kingdom, U.S. policymakers figured, had all the money it needed, and more. But that view is now badly outdated. Riyadh no

longer has the financial cushion needed to live beyond its yearly oil revenues. Saudi oil policy is now driven primarily by the immediate revenue needs of a government struggling to maintain a welfare state designed in the 1970s—when money seemed limitless and the population was small—for a society with one of the world's fastest-growing populations.

78

# Oil is key to Saudi Economy

---

-Saudi Arabia can't afford not to maintain US oil trade.

**Mackey, '02**

(Peg, Toronto Star, Mackey is with Reuters News Agency, August 25, 2002, Sunday, SECTION Business; Pg B03 HEADLINE: Saudi Say US Ties Remain Strong l/n)

Top Saudi decision-makers are well aware of the economic challenges facing the indebted kingdom, which is home to one-quarter of the world's oil reserves. Oil revenues make up about 90 per cent of Saudi Arabia's export earnings, 70 per cent of government revenue and nearly 40 per cent of its gross domestic product.

"Saudi Arabia's stated goal is to be the world's biggest oil exporter and they can't do it without the U.S. market," says Amy Jaffe of the James A. Baker III Institute for Public Policy.

"They are not selling oil as a favour to the United States. It's in their interest."

While little public comment has emerged about the issue from the secretive kingdom, a top Saudi diplomat has issued a reminder of the influence it wields on global markets.

"In the foreseeable future, oil market stability and global prosperity rests on the kingdom's oil policy," wrote Ghazi Algosaibi, Saudi ambassador to Britain, in a recent column in Saudi-owned newspaper al-Hayat.

79

# Oil Key to Saudi Economy

**Saudi government reliant on oil prices.**

**Foreign Affairs May/June 2000**

(F. Gregory Gause III; "Saudi Arabia Over a Barrel")

(F. Gregory Gause is Associate Professor of Political Science at the University of Vermont and the author of *Oil Monarchies*.)

It is not that the Saudis do not recognize their economic problems. Indeed, they are the major topic of conversation throughout the kingdom. The government consults more often these days with the business community, represented by the regional chambers of commerce and the national council of chambers. Many citizens say that they understand the need for fiscal discipline but pointedly argue that such discipline must extend to the top levels of the government and to the ruling family, rather than being borne solely by the Saudi middle class. Saudi leaders' speeches regularly echo the themes of belt-tightening set out by Abdallah in December 1998. The crown prince also appointed a "Supreme Economic Council" in August 1999, made up of the state's major economic officials, to formulate new policies. What is still lacking, however, is the will to face the politically difficult decisions about profound economic restructuring. And because that will is lacking, the Saudi government must rely on higher oil prices to keep the government budget and the economy afloat. 1

80

U.S. - SAUDI RELATIONS = KEY TO GLOBAL ECONOMY

US/SAUDI RELATIONS ARE KEY TO FAIR OIL PRICES  
AND THE GLOBAL ECONOMY

World Affairs. Winter '03. pg.115.122

[http://vnweb.hwwilsonweb.com/hww/shared/shared\\_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?\\_requestid=65749](http://vnweb.hwwilsonweb.com/hww/shared/shared_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?_requestid=65749)

Fourth, for several decades Saudi Arabia used its influence to encourage moderate oil prices. A close examination of the international oil market over the last three decades suggests two constant characteristics that shaped and guided the dramatic changes the industry has experienced. First, since the early 1970s oil prices have been highly volatile. In the last thirty years the price of a barrel of oil has fluctuated from a low of \$9 to a high of \$37. That volatility has contributed to political and economic instability in both consuming and producing countries. Second, in addition to economic factors, oil markets have always been driven by political forces. Put differently, the prices of oil do not merely reflect an equilibrium between supply and demand. Rather, they are equally determined by political developments in both producing and consuming countries. Thus, the global oil market has been rightly described as "guided laissez-faire."<sup>(FN10)</sup> Taking those two characteristics into consideration, the Saudi government has realized that high prices have potential long-term disadvantages, including the development of alternative or competing energy sources, which could undermine the importance of petroleum and investment exploration in the kingdom. Furthermore, high prices would encourage oil production in competing regions such as the Caspian Basin and the North Sea. Finally, excessively high prices could have a negative impact on the world economy, which in turn weakens demand for oil. Thus, Riyadh has always advocated stable prices at a "reasonable level." This Saudi stand has contributed to the stabilization of the global economy and substantial savings to U.S. consumers.]

U.S. / SAUDI RELATIONS = WOT

US Saudi Arabia relations key to the war on terror.

World Affairs. Winter '03. pg.115.122

[http://vnweb.hwwilsonweb.com/hww/shared/shared\\_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?\\_requestid=65749](http://vnweb.hwwilsonweb.com/hww/shared/shared_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?_requestid=65749)

di  
turns  
to  
on  
stop

Finally, in the war against terrorism the United States and the Saudi government need each other. President Bush has repeatedly and correctly stated that the United States is at war with terrorism, not Islam. The political support of major Muslim countries such as Saudi Arabia, Egypt, and Pakistan (and the silent support of Iran or at least its failure to object) is essential to legitimize the military campaign against terror. On the other hand, one of Osama bin Laden's chief goals is toppling the Saudi monarchy, which he regards as corrupt and un-Islamic because it is allied with the United States and has allowed American troops to be stationed there since the Gulf War. Militant Islam is a threat to the Saudi government just as it is to the United States. The two sides are together in the same fight against one enemy--militant Islam. Therefore, I argue, in spite of criticism of the kingdom in the U.S. Congress and American media, the Saudi government is a reliable partner to the United States in the effort to defeat terrorism. Riyadh's apparent reluctance is due to the attempt to reconcile the two contradictory pillars of its survival: a military alliance with Washington and the conservative Islam that dominates its society.

The US questions Saudi Arabia's relationship with terrorists

World Affairs. Winter '03. pg.115.122

[http://vnweb.hwwilsonweb.com/hww/shared/shared\\_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?\\_requestid=65749](http://vnweb.hwwilsonweb.com/hww/shared/shared_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?_requestid=65749)

Meanwhile, the Saudi government has had a hard time articulating its stand and responding to critics both in the U.S. Congress and in the media. To start with, the official Saudi cooperation in combating terrorism has always been shaky. American (and Israeli) officials have always accused Saudi Arabia of supporting Hamas. (Washington classifies Hamas as a terrorist organization, whereas Riyadh considers it a legitimate resistance movement against Israeli occupation of Palestinian land.) FBI agents repeatedly expressed their frustration at the lack of Saudi cooperation during the investigation of the truck-bomb attack in 1996 on the Khobar Towers housing complex in Dhahran, in which nineteen American servicemen were killed. In the aftermath of 11 September, the cooperation between Riyadh and Washington has proved, once again, questionable.]

82

# US - Saudi relations essential to war on terror

US-Saudi relations are key to our War on Terrorism.

Indyk, Senior Fellow at the Brookings Institute, '02.  
(Martin Indyk, Senior Fellow at the Brookings Institute, "Back to the Bazaar." *Foreign Affairs*, January/February 2002: Volume 81, Issue 1, pg. 87-88.)

But beyond that, the United States will have to persuade the Egyptian and Saudi governments to attend to its short-term needs in the continuing war on terrorism and to begin working on their own long-term need to address more effectively their people's basic requirements for greater political and economic progress. Persuading Arab leaders to stop financing terrorism, promote tolerance in their societies, and cooperate with the United States in shutting down terrorist safe havens in the Middle East are conditions that Washington

US - Saudi relations  
essential to war on terror

must insist on—the failure to do so will have a direct impact on U.S. national security. Persuading them to undertake difficult political and economic reforms, however, could have a direct impact on their own security, which would make them more resistant to U.S. arguments.

Saudi's making efforts to stop terrorism  
World Affairs. Winter '03. pg.115.122  
[http://vnweb.hwwilsonweb.com/hww/shared/shared\\_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?\\_requestid=65749](http://vnweb.hwwilsonweb.com/hww/shared/shared_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?_requestid=65749)

In the aftermath of the terrorist attacks, several U.S. officials have claimed that much of al-Qaeda's funding is funneled through organizations that provide humanitarian aid to Muslims around the world and that much of the money comes from wealthy Saudis, including prominent Saudi citizens and even some members of the Saudi royal family. Riyadh's response to the allegations is threefold. In mid-October 2001, representatives of the six Gulf monarchies agreed to freeze the assets of groups and individuals blacklisted by the U.S. Treasury. Since then the Saudi monetary authority has begun policing local charities and financial institutions more aggressively. Still, to regulate and inspect money transfers is a daunting task, given that the kingdom employs approximately six million foreign laborers, who send billions of dollars back to their home countries. A large proportion of the foreign laborers are Pakistani and Afghani, some of whom might sympathize with al-Qaeda. Finally, the Saudis assert that zakat (giving money to religious charities) is one of the five pillars of Islam, according to which all Muslims should donate 2.5 percent of their profit or income. The Saudis strongly stress that they have no evidence that money from any Saudi-based charity went to Osama bin Laden and his organization.

Saudi Arabia helped the US on the war against terrorism

World Affairs. Winter '03. pg.115.122  
[http://vnweb.hwwilsonweb.com/hww/shared/shared\\_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?\\_requestid=65749](http://vnweb.hwwilsonweb.com/hww/shared/shared_main.jhtml;jsessionid=O2D4AWIIS4CPQA3DILSFFI?_requestid=65749)

Despite disagreements between Washington and Riyadh regarding the nationality of the participants in the 11 September attacks and the source of funding for al-Qaeda, Saudi Arabia has quietly cooperated with the United States in sharing intelligence information and in allowing American commanders to coordinate the military campaign in Afghanistan from Prince Sultan Air Base southeast of Riyadh. In short, the Saudi record of cooperation with the United States in the war against terrorism is mixed. That can be explained by the necessity for the Saudi royal family to find the right balance between the demands of its domestic constituencies and the desire to maintain and strengthen ties with its traditional ally, the United States.

There are disagreements on terrorist support between the US & Saudi Arabia

83

(GOOD)  
US. DEPENDENCE ON SAUDI OIL

---

US/SAUDI RELATIONS ARE CRITICAL + REMAIN  
MUTUALLY BENEFICIAL TO BOTH

**BBC 7/4/2003**

(July 4, 2003 HEADLINE: Saudi Commentary Hails "Solid" Ties with US, L/N)

It's testimony to their rock-hard stability that Saudi-American relations have withstood the firestorm of the 11 September 2001, the terror attacks on the World Trade Centre in New York and the Pentagon in Washington, DC. Although 15 of the 19 hijackers were suspected to be Saudis, the US government and much of the US public have been able to separate the actions of these few misguided men from official Saudi government policy and the love of most things American that Saudis have.

#### History

The Saudi-US relationship has been solid ever since its inception in 1932 when American oil explorers discovered oil in the kingdom. The historic meeting between King Abd-al-Aziz Bin Sa'ud and US President Franklin D. Roosevelt, aboard a US warship in the Suez Canal in 1945, served to firmly cement the strategic relationship. Saudi Arabia has remained a bulwark of stability and moderation over decades of instability in the Middle East region, from the radicalisation of some Arab states in the 1950s, the attempted expansion into the region by the Soviet Union and its client states in the 1960s and 1970s, the threats from a revolutionary Iran in the 1980s, to the Iraqi invasion of Kuwait in 1990.

Although oil remains a large factor in the relationship, with Saudi Arabia providing the US with 17 per cent of its crude oil imports in 2002 alone, both sides have realized that the relationship must be expanded to remain mutually beneficial to both sides.

The recent withdrawal of US troops from the kingdom, originally deployed here in 1991 to protect the country from the Iraqi regime of Saddam Husayn following the first Gulf War, is testimony to the new and mature road embarked on by both sides.

The United States continues to be the single largest foreign investor in the kingdom, with billions of dollars invested in joint ventures. Thousands of Saudis have studied and worked in the US, and many more still hope to one day study there. ]

84

DEPENDENCY (S) IRAQI STABILIZATION

U.S. LEAVING THE IRAQI OIL FIELDS WILL OPEN  
UP THE GATES FOR MAJOR OIL COMPANIES TO WIN  
NEW TITLES.

Tom Cholmondeley. January 14, 2003 World Press Review "The mother of all legal rows."  
pg.7

MAJOR OIL COMPANIES WILL WIN THE RIGHTS

After a painful battle, the IPC finally signed the nationalization agreement on Feb. 28, 1973. Today, if "regime change" happens, we could see three of the world's largest public companies—BP, Shell, and ExxonMobil—fighting for their old IPC possessions. Back in the 1970s the IPC was compensated for its lost oil fields, and that would normally end any future rights they might have. However, they may well try to show that the compensation deal was signed under duress.

"If you argue there is something amounting to duress, then you could argue the compensation agreement is invalid," says professor Thomas Walde, formerly principal United Nations interregional adviser on oil and gas law. "If I were their (the companies') adviser, I would develop this into a bargaining chip with the new government. It would play a role in the race for getting new titles."

The US has a high oil dependence

**-The US has an extremely large oil dependency**

Wirth, president of the UN Foundation, Gray, Counsel of the President, and Podesta professor of law at Georgetown University 2003  
(Timothy E. Wirth is former US Senator, C. Boyden Gray served as Counsel to former President G. Bush, and John D. Podesta served as Chief Staff to former Pres. Clinton. "The Future of Energy Policy" Foreign Affairs Volume 82 Number 4, July/August 2003

Since October 1973, when Arab nations imposed a six-month embargo on oil exports to the United States, America has vowed to reduce its dependence on foreign oil. Each of the last seven U.S. presidents has pledged to steer the nation toward greater energy security, but the problem has only grown worse. Imports have passed 50 percent of total oil consumption and are projected to reach more than 60 percent by 2010. Of the one trillion barrels of world reserves, only four percent are to be found in the United States, and fully two-thirds are in the Persian Gulf. A quarter of U.S. imports are from that volatile region, and other key trading partners are substantially more dependent on the Persian Gulf: Japan, for example, buys 75 percent of its oil from that region. China's economic growth is also rapidly increasing its dependence on Persian Gulf oil. ] 134

The US has increased its oil dependence

**-The US heavily depends on foreign oil now**

Cothran, 2002  
(Helen Cothran Opposing Viewpoints: Energy Alternatives Green Haven Press, 2002 pg. 17)

The U.S. heavily depends on foreign oil  
The United States depends on foreign producers for more than half of the oil it consumes. Much of the world's oil is produced by OPEC—the Organization of Petroleum Exporting Countries—which has the ability to manipulate supplies and prices worldwide. Former U.S. president Bill Clinton argued, "The nation's growing reliance on imports of crude oil and refined petroleum products threaten (*sic*) the nation's security because they increase U.S. vulnerability to oil supply interruptions." Many Americans worry that energy shortages could seriously disrupt America's new high-tech economy. Moreover, concerns about energy dependency have only deepened in recent years—U.S. reliance on foreign oil has increased from 35 percent in the 1970s to 56 percent in 2000. ]

86

The US has a high Oil dependence

The US is dependent on Saudi Arabia's oil because they have the ability to quickly increase production

**Christison 03**

(Bill, Former Director of the CIA's Office of Regional and Political Analysis  
"Oil and the Middle East: Why U.S. Foreign Policy Has to Change"

<http://www.counterpunch.org/christison2.html>, accessed 7/8/03)

It's worth spending a minute to talk about why oil is so important to the United States. The world's total use of energy from all sources--from petroleum, natural gas, coal, wood, hydropower, nuclear, geothermal, solar, and wind power--has increased in recent years roughly as the global population has also increased. Petroleum contributes the greatest single amount--about two-fifths of the world's total energy output, and natural gas (which is in some ways related to oil) more than another one-fifth. The United States alone uses about one-quarter of the world's total energy output, but has less than five percent of the world's population. The U.S. itself does not produce anywhere near the amount of energy that it consumes. According to statistics of the U.S. Department of Energy, the United States used in the year 2000 almost 100 quadrillion Btu's--or British Thermal Units--of energy. But of those 100 quadrillion Btu's, the U.S. had to import close to 30 percent. The United States is, hands down, the most profligate user of energy, by far, on this whole globe.

US Oil Consumption and Imports

With respect to oil alone, the U.S. imported in the year 2000 almost two-thirds of the oil that it used. The importance of Saudi Arabia as a supplier of the U.S., needs to be emphasized, but not just because the Saudis hold the largest known but still untapped oil reserves in the world. What is even more important to the U.S. at the moment is that Saudi Arabia has the largest installed but unused rapid production capacity--that is, oil wells, pumping equipment and so forth already there but not used to meet current, or "normal," production needs. In any emergency that cut off oil supplies from anywhere else in the world, Saudi Arabia would one of very few, and maybe the only, nation that could easily and quickly increase its oil production without a waiting period measured in months rather than a few days. This obviously adds to what any general or admiral would call the strategic value of Saudi Arabia to the United States.

There is another characteristic of the global oil industry that we should all understand. It is an industry dominated by a half-dozen extremely large, global corporations--including ExxonMobil (these two firms merged in 1999), British Petroleum, Shell, Texaco, Gulf and Socal. Fifty to 75 years ago these companies might have been swashbuckling, unregulated corporations seeking to maximize profits and avoid the controls of *any* governments by all means fair or foul. Today, however, these companies by no means have the same personalities that they had years ago. In the Middle East, at least, the governments of the area have nationalized practically all oil production, and the companies or their subsidiaries have gradually worked out mutually supportive relationships with the local governments, under which the companies continue to *manage* most of the oil production and global oil trade, while the governments, and OPEC, make the basic decisions on how much oil to produce. The companies continue to make large profits, which keep them happy enough.

Continues... 1/2

87

The US has a high Oil dependence

Continues... 2/2

In their relations with the U.S. and other advanced nations, the companies no longer shun government regulation, because most of the regulations imposed on them are supportive of, and increase the profits of, the companies themselves. The regulations fall more into the area of corporate welfare than into the area of inducing the corporations to become better citizens. In the U.S., the ties of the oil companies with both of the major political parties are close and mutually profitable. Up to a few months ago, these same comments would have applied to Enron, which was clearly one of the world's largest *energy* companies, even though it was *not* one of the largest global oil companies. ]

-The need for oil will rise in the future-

Klare, 2001

(Michael T. is the director of the Five College Program in Peace and World Security @ Hampshire College & author of numerous books; Resource Wars; copyright- Henry Holt & Company 2001) p40

[It appears, then, that the global demand for oil will continue to rise in the years ahead, pushing daily consumption rates to ever higher levels. The big question thus becomes: will the oil industry be able to satisfy rising demand, or will significant shortages emerge? To answer this, we must turn to an examination of global supplies. ]

88

## U.S. OIL DEPENDENCY INCREASING

### **US Dependency On Middle Eastern Oil Growing**

**New York Times 12/26/2002**

(Dec 26, 2002 SECTION: A, Page 24 HEADLINE: Threats And Responses: Energy: Growing US Need for Oil from the Mideast Is Forecast, L/N)

As President Bush seeks to reduce American reliance on oil imported from the Persian Gulf, new government studies predict that in two decades the West will be even more dependent on oil from Saudi Arabia and other Middle Eastern producers.

Mr. Bush, asked a week ago on the ABC News program "20/20" about the importance of Saudi Arabian oil, said that "we must have an energy policy that diversifies away from **dependency**" on foreign sources of oil -- including some that "don't like America."

Late last month, the Department of Energy's Energy Information Administration forecast that in 2025 the majority -- 51 percent -- of world oil production would come from the Organization of the Petroleum Exporting Countries. About two-thirds of OPEC production, in turn, emanates from the Persian Gulf. The Energy Information Administration, or E.I.A., says OPEC now produces 38 percent of the world's oil.

The information administration projects that Saudi Arabia will need to produce 22 million barrels a day by 2020 to meet increased world demand, far in excess of its current production of about 8 million barrels.

"We're going to rely more and more on the Middle East markets for oil," said Fatih Birol, the chief economist for the Paris-based International Energy Agency, or I.E.A. The group's recent World Energy Outlook, which estimates energy markets through 2030, mirrors the forecast of the American energy agency.

Government and industry oil experts widely agree that it makes sense for the United

States to diversify its sources of energy. It is also possible that in the next decade increased oil from the Atlantic Basin and the Caspian Sea could make a short-term dent in American dependency on the Middle East.

"Our dependency on the Persian Gulf could take a slight dip before it goes up," said John Brodman, the deputy assistant secretary of energy for international energy policy. "But the basic geological fact of life is that 70 percent of the proven oil reserves are in the Middle East."

189

## U.S. OIL DEPENDENCY INCREASING

### **U.S. dependence on foreign oil is increasing.**

#### **The Heritage Foundation 4/24/2002**

(April 24, 2003 Thursday SECTION: Backgrounder HEADLINE: Strengthening National Energy Security by Reducing Dependence on Imported Oil; Charli E. Coon, J.D., and James Phillips, 1/n.)

(Charli E. Coon, J.D., is Senior Policy Analyst for Energy and the Environment in the Thomas A. Roe Institute for Economic Policy Studies, and James Phillips is Research Fellow in Middle Eastern Affairs in the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.)

U.S. dependence on foreign oil has increased steadily since the 1973 Arab oil embargo. Projections show the nation's dependence increasing to over 60 percent by 2020 if Congress fails to take necessary actions to enhance energy security. Both the White House and the House of Representatives have acted responsibly to reduce the nation's vulnerability to supply disruptions by proposing measures that would increase domestic production by opening up 2,000 acres in Section 1002 of ANWR to oil and gas exploration and filling the Strategic Petroleum Reserve to its maximum capacity. >

### **U.S. is dependent on Saudi oil.**

#### **Foreign Affairs November/December 2002**

(Shibley Telhami and Fiona Hill, "America's Vital Stakes in Saudi Arabia")

(Shibley Telhami is Anwar Sadat Professor for Peace and Development at the University of Maryland and Senior Fellow at the Saban Center at the Brookings Institution. Fiona Hill is a Fellow at the Brookings Institution and Adviser to the President of the Eurasia Foundation.)

It is true that long-term trends in oil pricing are driven less by political and military strategies and more by market supply and demand. Yet short-term spikes, which can have significant economic consequences, sometimes result from political calculation, and sometimes from unanticipated events. Only Saudi Arabia has the ability to affect these spikes, by either holding or increasing oil supply, and the United States greatly depends on Saudi cooperation to keep the oil market smooth.

90

Russia is ↑ Oil Exports

Russia is doing what ever it takes to increase it's oil exports

Busch 3/31/03

(March 31, 2003 Monday Energy Intelligence Briefing, Energy Intelligence Group Inc, BYLINE: Axel Busch HEADLINE: Moscow pulling out all stops to boost crude exports DATELINE: London)

Russia is doing what ever it takes to increase oil exports

Russia is ramping up crude shipments to nearly every pipeline destination possible in its second-quarter export schedule. Deputy Prime Minister Viktor Khristenko's governmental commission on access to export pipelines has penciled in crude exports of 2.692 million barrels per day via the Transneft pipeline system to non-CIS countries. This represents a neat 91,000 b/d increase over the first quarter's scheduled volumes and a whopping 195,000 b/d boost over the second-quarter program of 2002.

But how much Russian exports will actually rise is a much tougher question. In particular, the drastic boost planned for the Druzhba pipeline is unlikely to be realized, as Eastern and Central European buyers argue that they do not need all that additional crude. And 87,000 b/d allocated for Lithuania's Mazeikiu refinery looks a bit optimistic, given that the plant is scheduled to shut down for 43 days for maintenance and repairs next quarter. In a bid step up shipments, Khristenko's commission has taken on the politically thorny decision of mixing Urals blend crude into the better quality Siberian Light stream traditionally sent to Tuapse. This decision should allow Russia to significantly boost exports out of the Black Sea port, but it will mean the disappearance of Siberian Light blend crude from the market. Khristenko proclaimed that the move would boost Russia's overall export capacity by 200,000 b/d. In April, however, Tuapse loadings are set to fall as Transneft switches over to pumping heavier, sourer Urals crude to Tuapse. Three days of routine pipeline maintenance will also crimp loadings. Exports from Tuapse are scheduled to drop by 38,000 b/d from March allocations to 74,000 b/d.

Oil extraction is high on Russia's list of interests.

Swietochocki, Professor of Russian and Middle Eastern History at Monmouth University, '01. (Tadeusz Swietochocki, Professor of Russian and Middle Eastern History at Monmouth University and member of the Columbia University Caspian Project. "The Long Shadow of Russia." *Caspian Crossroads*, Summer 2001: Volume 5, Issue 4. Online, <http://www.usazerbaijancouncil.org/caspiancrossroads/archive/archive.htm>, accessed 7/9/03.

Oil extraction is high on Russia's list of interests

With regard to Russia's long term interests in the region of South Caucasus, academic publications list them in a wide range, from the echoes of the Cold War mentality, to trivialities, to hard-nosed business considerations. The list includes such points as: 1) preservation of a political and military presence, 2) increase of the control over extraction and transportation routes of the Caspian oil, 3) efforts at eliminating potential geopolitical contesters -Turkey, the USA, and Western countries, 4) counteraction to the spread of Islamic fundamentalism and Pan-Turkism, implicitly using Armenia as the main ally, 5) protection of the rights of the Russian population, (never large and leaving voluntarily), 6) prevention from harmful influences on the situation in the North Caucasian territories of the Russian Federation. Above all, there has loomed, in the background, the issue of oil, as the world seems to be inching toward a new energy crisis.

## RUSSIA IS $\uparrow$ OIL EXPORTS

RUSSIA IS AWARE THEIR OIL WILL DECREASE THE PRICE OF IT INTERNATIONALLY; THEREFORE THEY ARE TAKING STRIDES TO INCREASE OIL EXPORTS SAFELY.

Grost 3/23/03

(March 23, 2003, Platt's Oilgram News, The McGraw-Hill Companies Inc, BYLINE: Isabel Grost SECTION: Vol. 81, No. 99; Pg. 1 HEADLINE: Russia's experts forecast: Gain in crude, drop in products DATELINE: Moscow)

Over the next few years Russia's crude exports should increase

The Russian energy strategy until 2020, approved by the government May 22, forecasts growth in crude exports over the coming two decades but warns foreign sales of oil products will likely sink.

Crude exports to 2020 will range between 2.8- to 6.2-mil b/d, the strategy says. Foreign sales of crude averaged 3.5-mil b/d in 2002, according to customs statistics. Exact volumes in future years will be influenced by a number of external and internal factors, including world prices and demand, and progress in tapping new fields in the Caspian, North Sea and Gulf of Mexico.

Crude exports will likely climb in proportion to growth in oil output, Russian energy minister Igor Yusufov told reporters. According to the most optimistic forecasts, crude output could climb to 490-mil mt in 2010 compared with 380-mil mt in 2002, before stretching to 520-mil mt in 2020. The more moderate outlook is for output of 450-mil mt in 2020.

Forecasting oil exports was "not a simple question," Yusufov said, explaining that "Russia should not destabilize the world market." For this reason, the country was engaged in a dialogue both with OPEC and with other producers that attend OPEC gatherings as observers, as well as with consuming nations grouped in the International Energy Agency and European Union, Yusufov said.

Prices will be the key question governing Russian oil export levels. Of three price forecasts studied by the government, including \$ 28-30/bbl, \$ 22-23/bbl and \$ 18-18.50/bbl, Russia believed the latter to be the most "realistic" scenario, the minister said.

Russia will strive to diversify into new oil export markets in the coming years. Europe and the CIS will remain the biggest foreign consumers of Russian oil. But the Asian Pacific, which currently absorbed just 3% of Russia's oil exports, will gain ground on traditional outlets and should account for some 30% of foreign sales by 2020.

92

RUSSIA PRODUCES LOTS OF OIL

11 Years since the collapse of the Soviet Union, Russia has regained the title of worlds largest oil producer

Stinemetz 6/2/03

(June 6, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Douglas Stinemetz, Haynes & Boone LLP, Houston SECTION: General Interest HEADLINE: Russian Oil sector rebound under full swing

years  
since  
the  
collapse  
of  
the  
Soviet  
Union,  
Russia  
has  
regained  
the  
title  
of  
world's  
largest  
oil  
producer

Russian oil production has rebounded, after falling almost 30% after the collapse of the Soviet Union in 1992.

"Russia has become the world's largest oil producer and has taken a firm grip of global leadership in the export of hydrocarbon products," Russian Energy Minister Igor Yusufov said recently. Even more important, the Russian oil industry has been completely reorganized along more international lines in the course of this recovery.

After the Soviet Union collapsed in 1992, a number of Russian private groups moved to seize control of state oil assets through privatizations and other means. Rudimentary oil companies were assembled ad hoc out of the fragments of the state oil system commencing in 1993. These companies began to reorganize their new assets, culminating in a flurry of activity in 1996-97.

After the 1998 fiscal crisis in Russia, the emerging Russian major oil companies began to consolidate assets more aggressively. They acquired more oil properties, streamlined operations, cut costs, introduced Western management and technology, and in most cases began listing their shares, either in Russia or abroad.

Currently, Russian oil companies are seeking to increase their share prices and improve liquidity in their shares. The primary reason is that they need access to cheap capital. The surviving "oligarchs" in the controlling groups also will be able to cash out. They will leave behind a Russian oil industry organized, operated, and capitalized much like their Western brethren. Thus reformed, the Russian oil industry will be able to take up its role as a vital component of the international oil industry and more effectively exploit the tremendous oil reserves it has at its disposal.

Russia is the world's second leading oil producer.

Energy Information Administration, November 2002

<http://www.eia.doe.gov/emeu/cabs/russia.htm#oil> accessed 7/7/03

Russia is the world's second leading oil producer. 6-A

Oil Exports

Despite problems surrounding the transition to a market economy and the lack of foreign investment in its oil sector, Russia remains one of the world's top oil exporters. Following a plunge in the early 1990s, Russian oil exports rebounded in the mid-1990s. The ruble devaluation of August 1998 reduced production costs sharply for Russian oil producers, leading to a further increase in exports, and relatively high world oil prices since 1999 have made exports even more profitable for Russian oil companies. With domestic consumption of 2.38 million bbl/d in 2001, Russia increased its net oil exports in 2001 to 4.91 million bbl/d, making Russia the world's second largest oil exporter, behind only Saudi Arabia.

93

## RUSSIA PRODUCES LOTS OF OIL

-RUSSIA IS THE 2<sup>ND</sup> LARGEST OIL PRODUCER.

Energy Information Administration, Nov. 2002  
(November 2002 "Russia: Oil and Natural Gas Exports"  
<http://www.eia.doe.gov/emeu/cabs/rusexp.html>)

After Russia restructured its oil industry into a number of <sup>new</sup> vertically-integrated, private oil companies, the country's oil <sup>ave</sup> production and exports began to increase again. In 2001, <sup>to</sup> Russia's net oil exports rose for the seventh consecutive year, reaching 4.91 million bbl/d in net crude oil and oil product exports. Russia is now the world's second largest oil exporter, behind only Saudi Arabia. Russia's net oil exports are projected to increase again in 2002, to 5.17 million bbl/d, and then to 5.4 million bbl/d in 2003.]

-Russia is the world's largest natural gas exporter and is still growing

Energy Information Administration, Nov. 2002  
(November 2002 "Russia: Oil and Natural Gas Exports"  
<http://www.eia.doe.gov/emeu/cabs/rusexp.html>)

[Russia is the world's largest natural gas exporter, with 6.7 trillion cubic feet (Tcf) in net natural gas exports in 2001. Gazprom, Russia's state-run gas monopoly and the country's largest natural gas exporter, has forecast that Russia's natural gas exports will climb to 7.1 Tcf by 2002 and to 7.5 Tcf in 2005.

Many Russian oil companies sit on huge natural gas reserves, which they have not developed commercially because they do not have access to lucrative export markets. Gazprom keeps firm control of Russia's pipeline network, but with restructuring in the country's natural gas sector in the works, all natural gas producers finally may receive equal pipeline access. When third-party access to Russia's natural gas transportation infrastructure becomes a reality, Russia's natural gas exports could increase dramatically: Russian oil companies currently produce approximately 2.2 Tcf of associated natural gas that could be treated and exported rather than flared off.

Already, Russian independent Arktikgaz has been given access to Gazprom's pipeline network to supply 4.2 billion cubic feet (Bcf) of natural gas to northern Ukraine from October 2001 until 2010. Arktikgaz also has signed contracts to supply 5.3 Bcf to Belarus and 2.1 Bcf to Georgia over the next 10 years and hopes to become the first Russian independent producer to export natural gas outside the former Soviet Union.]

94

RUSSIA WANTS TO EXPORT TO U.S.

RUSSIA EXPORTS ARE INCREASING DRASTICALLY TO U.S.

Mariya Ignatova. Nov. 27, 2002. World Press Review "Russia Vies for US Market, A competitive Northern Pipeline." pg. 12

RUSSIAN EXPORT TO THE U.S. WILL INCREASE DRAMATICALLY

And so on Wednesday, the top managers of Russia's four largest oil companies—Lukoil, Yukos, Sibneft, and Tyumen Oil Co.—put their signatures to a memorandum marking the beginning of a megaproject valued at \$3.5-\$4.5 billion. By 2007, the companies intend to launch a new export route for Russian oil to the United States via Murmansk. And by 2010 Russian oil companies intend to hold a 13-percent share in the U.S. energy market, which fits in with the U.S. strategy of reducing dependence on Middle East oil.

Russia now exports about 5 million barrels of oil per day. Its main rival, Saudi Arabia, now exports more than 6 million barrels but, unlike Russia, it has an unused capacity to increase its exports by another 2.5 million barrels. Russia intends to increase its exports up to 10 million barrels per day, thus occupying a stable niche in the U.S. market. The Murmansk project is one of the ways of achieving such ambitions. ] 12

131

U.S. + RUSSIA HAVE ALREADY SIGNED AGREEMENTS TO GUARANTEE TRADE

Blagov, Professor at the University of Stuttgart Institute of Thermodynamics, '03 (Sergei Blagov. "Economy-Russia: Iraq Upsets Ambitious Oil Plans". Inter Press Service, May 16, 2003. Pg. Lexis)

Russia is planning on selling its oil surplus to the U.S.

[A draft plan that was a year in the making had projected that by 2020 Russia would produce 450 to 520 million tonnes of crude a year. Production last year was 379 million tonnes, nine per cent higher than 2001. With domestic consumption expected to remain stable, much of the new production was intended for export, with the U.S. as the big buyer. U.S. President George W. Bush and Russian President Vladimir Putin signed a joint declaration on energy cooperation at their summit in Moscow May 24 last year. At an "energy summit" that followed in Houston in October, Russian officials said they could export as much as a million barrels a day to the U.S. within five years.]

95

RUSSIA WANTS TO EXPORT TO U.S.

-Russia views expansion of exports to US as essential

Eudes, 1/9/2003

(Marielle Eudes of Agence France Press, Moscow January 9, 2003 "Russia oil boom unlikely to help curb world price rise")

Russian  
views  
expansion of  
ports  
to US  
as  
essential

Russia's oil majors also have their sights on the United States, known to be seeking to diversify its suppliers.

Last summer the first successful direct deliveries of oil to the United States were made by sea.

The deficiencies of Russia's port-terminal infrastructures mean that the US market is currently insignificant, but it is likely to gain rapidly in importance, Russian industry insiders believe.

Russian producers decided last November to combine efforts open up a new route for exports to the United States via a deep-water terminal near the northern port of Murmansk, on the Barents Sea, which they hope will become operational within five years.

-Russia is seeking to sell oil to the US

Agency WPS, 1/27/03

(Agency What the People Say "Russian Fuel Companies are preparing for Intervention to South Eastern Europe" January 24, 2003)

Russian seeks to  
sell oil to U.S.

In 2002, diversification of routes for exports of Russian raw materials was developing in the northern direction. Gazprom presented the project of the North European gas pipeline and oil companies agreed on construction of the oil pipeline to Murmansk to make oil exports to the US easier. In 2003, the southern direction is in fashion. Results of the auction for sale of a 25% stake in the Croatian oil company INA will be announced in February. Rosneft, which offered the maximum price of \$400 million, is considered the main candidate. A comprehensive issue of Russia's entrance to the gas markets of South Eastern Europe is now on the agenda.

Russian Oil Exports ⇒ ↑ to the West

-Russian oil exports are substantially increasing into the Western world

Energy Information Administration, Nov. 2002  
(November 2002 "Russia: Oil and Natural Gas Exports"  
<http://www.eia.doe.gov/emeu/cabs/rusexp.html>)

Since 1991, Russian oil exporters increasingly have shifted their focus from the countries of the Commonwealth of Independent States (CIS) and central Europe to Western Europe. As countries in the former Soviet Union have racked up oil debts, Russian oil exporters have targeted customers in Western Europe, where demand is strong, supply is limited, and payment is in cash.

The majority of Russian oil exports are sent to countries in Western Europe, such as the United Kingdom, France, Italy, Germany, and Spain. The share of net exports to countries

outside the former Soviet Union rose from 53% in 1992 to 86% in 2001 as the share of net exports to former Eastern Bloc and Soviet Union countries decreased. Russia's net exports outside the CIS totaled approximately 4.23 million bbl/d in 2001, while only about 680,000 bbl/d was exported to CIS countries.

An October 2000 energy summit between the European Union (EU) and Russia, whereby the EU agreed to help Russia develop its oil and natural gas reserves in return for a long-term energy supply commitment, promises to boost Russia's oil exports. With pipeline projects such as the Baltic Pipeline System, Russia hopes to increase oil exports to Europe to over 5 million bbl/d in the future.

**Russia's exports to Europe compose the bulk of Russia's oil exports**

Lombard Street Research 5/28/03  
(May 28, 2003 Janet Matthews Information Services; Quest Economic Database; Lombard Street Research Monthly Economic Review, SECTION: Forecast, HEADLINE: Russia: Current oil export transport capacity constraint)

Russian oil exports to Europe are expected to rise to 5 mb/d. However, Russia is looking to tap the huge growth in Asia, especially China, and from a strategic point of view is planning to export to the US. Oil demand in China has doubled in the past ten years to 5.2 mb/d in 2002, while North American and European oil demand rose by just 15% and 6% respectively. Other Asian countries' oil demand was up by 53%. Asia is likely to be the most dynamic growth region of the world over the next ten years, as China's output growth potential is estimated at up to 10% compared with only 3 1/4% in the US and 2 1/4% in Euroland. The transportation and production costs of delivering Russian oil to the US are higher than those of Middle East producers, but the recognition of the new security threats suggest that the US would look to diversify its oil supply.

## Investors for Russia are Needed

---

Although 2002 was a fantastic year for Russian oil, \$15-18 billion of outside investment was needed

### What The Papers Say 1/22/03

(January 22, 2003 Wednesday, What The Papers Say (Russia), SECTION: Feature Stories HEADLINE: Development of Russian oil industry in 2002 )

In general, results of development of the **Russian oil** sector in 2002 can be characterized positively. **Russian oil** companies were growing at a speed exceeding the speed of growth of the international leaders of the **oil** industry. However, improvement of financial and production parameters in the **oil** industry took place due to persistence of high world prices. This circumstance also conditions the growth in **exports** of crude **oil** both to non-CIS and to CIS countries.

Along with this, the negative trend of reduction of investments in capital assets is obvious. The needs of the **Russian** fuel and energy sector for investments are estimated at \$50 billion. According to available information, the needs of the **Russian oil** and gas industries amount to \$15-18 billion a year. Hence, the strategy of development of **oil** companies should be aimed at increase of investments in capital assets and improvement of their efficiency. Improvement of efficiency is conditioned by the need to solve the two main problems, namely a sharp worsening in condition of the raw material base both in the quantitative (their decrease) and in the qualitative (growth in the share of the reserves that are difficult to recover) aspects, as well as a high decrease in capital assets and increasingly obsolete technology. Possibilities of the **export** increase are also closely connected with the volume of investments in the **Russian** fuel and energy sector.

The issue of selection of the most effective and urgent direction of investments in the **oil** industry is also important. At present, the degree of wear of the **oil** processing industry exceeds the wear in the **oil** producing industry. Hence, substantial investments are needed in the **oil** processing industry. The major part of investments is made in **oil** production and not in **oil** processing. The modern **oil** processing industry requires serious upgrading, which is confirmed by Russia's substantial trend of lagging behind Western countries according to the **oil** processing depth.

98

## Investors for Russia are Needed

---

Foreign investment needed in Russia  
Victor, Victor G., Director of the Program on Energy and Sustainable Development 4/2003  
( Foreign Affairs, April 2003, Axis of oil, Page 53-54)

What holds OPEC together is not merely an ideology of market manipulation but also the facts that production in OPEC fields is generally inexpensive—few capital assets are idled when a swing supplier cuts back—and that OPEC member governments are generally able to exert strong control over production decisions. In contrast, the structure of the Russian industry favors exporting at full capacity rather than the on-again, off-again behavior of a swing supplier. New wells in Russia generally require significant investment drawn from demanding capital markets, and the tightest bottleneck for Russian exports is not drilling but the infrastructure of pipelines and ports needed to get oil to markets. Unlike the seaside Saudis, the center of today's Russian oil industry is inland in Siberia—more than two thousand miles by pipeline to markets in western Europe. Slightly shorter pipes also carry western Siberian oil to the Black Sea, but then the journey to market continues at high cost through the narrow and crowded Bosphorus. New and expanded routes to the Adriatic Sea and the Baltic Sea—as well as new fields and export pipelines from eastern Siberia to China and ports on the Pacific Ocean—all require massive infusions of capital. Once spent, this investment is immobile and thus creates a strong incentive for firms to pump at full capacity.

## Investors For Russia are Needed

---

### Russia is a hot spot for foreign oil investment

Tavernise & Banerjee 2/12/03

(February 12, 2003 Wednesday, The New York Times, BYLINE: Sabrina Tavernise & Neela Banerjee  
SECTION: Business/Financial HEADLINE: BP completes big oil deal with Russian's DATELINE: Moscow)

BP, the world's third-largest oil company, agreed today to pay \$6.75 billion to form a new Russian oil company. The deal underscores the growing attractiveness of Russia to foreign oil concerns and could increase the country's already significant role as an exporter of crude oil.

Under the deal, which is the largest single investment in post-Soviet Russia, BP will merge its assets in the Russian oil company Sidanco with those of several Russian businessmen who own two other Russian oil producers. The resulting company would become Russia's third-largest oil producer. BP will pay cash and equity for a 50 percent stake in the new company.

Analysts and companies warn that because Russia is still a difficult and uncertain place to do business, it is unlikely that other foreign oil powers will race in after BP. Few foreign oil companies appear willing to invest a great deal in Russia unless the government creates a better tax regime and a stronger legal system, oil executives and analysts said.

"All the major oil companies have been active in one way or another in Russia," said Walter van de Vijver, group managing director and head of exploration and production for Royal Dutch/Shell, which has invested more than \$2 billion so far in the Sakhalin 2 offshore project in the Russian Far East. "All of us have had difficulty getting our projects off the ground. It's very easy to invest money, but how easy is it to get your money out? The risks in Russia remain."

But Russia may have become too important to ignore. For the last year, the Bush administration has praised Russia as a stable source of crude oil to world markets, while political instability has plagued other regions that export a lot of oil, most notably the Middle East and Venezuela. Russia's oil output grew nearly 9 percent last year, and by the end of the year, the country had overtaken Saudi Arabia as the world's largest producer, though Saudi Arabia still exports more oil.

"There's been a lot of talk about diversifying away from dependence on Middle East supplies," said Stephen O'Sullivan, head of research at the United Financial Group, an investment bank in Moscow. "It's all very well for governments to say. BP is creating a new production province for itself in Russia."

The BP transaction comes as the largest international oil companies have had to acknowledge the difficulties they face trying to increase oil production through their own exploration and production. One way to meet ambitious growth forecasts, analysts say, is for some companies to acquire others, the path BP appears to have chosen.

"The acquisition may reflect the growing difficulties faced by the majors in replacing their reserves," said Mehdi Varzi, president of Varzi Energy, a London consulting firm. "Russia will remain a relatively hard place to enter, but the BP deal is definitely encouraging."

100

## Investors for Russia are Needed

---

Major investments are needed to keep production up.

**Energy Information Administration, November 2002**

<http://www.eia.doe.gov/emeu/cabs/russia.htm#oil> accessed 7/7/03

[Russian oil companies have benefited immensely from relatively high world oil prices since 1999, and, in addition to further development of the West Siberian fields, some of these producers are using those profits to invest in exploration and new drilling projects. Exploration in the Russian sector of the Caspian Sea is picking up speed, and international projects teaming Russian companies with Western oil majors are underway in the Arctic region, in East Siberia, and on Sakhalin Island in Russia's Far East. Russia's future level of oil production will be defined by the ability of oil companies to develop these greenfield deposits, which will require a massive amount of infrastructure investment (including new export pipelines) in order to deliver this oil to markets.]

(0)

## Russia Good for Investors

---

### Russia is no longer isolated; the oil market could attract US investment

Fletcher 2/17/03

(February 17, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Sam Fletcher SECTION: General Interest HEADLINE: TNK's Kukes: Russia must look to new oil markets for it's oil )

#### *US opportunities*

As for opportunities for US and other western producers to share in the exploration and development of **Russian oil** and gas, Kukes said that, in the absence of a well-defined production-sharing agreement, "I think you'll see more joint ventures initially between **Russian companies**."

He said, "We're one of a very few companies in Russia that strongly supports a PSA. But there are some companies that oppose it in any form."

Development of a PSA "is important, because **Russian companies** realize that to get access to long-term capital with corporate issues involving governance and transparency, one of the attributes is to have a successful joint venture with western partners, and there is a very, very limited number of those between **Russian oil companies** and foreign (firms). I think there are a lot of upside opportunities there for both sides."

Kukes said, "To be attractive in Russia, (a firm) has to keep demonstrating that it can do transparent business with western companies. Unfortunately, not everybody in Russia feels yet the need for joint ventures. It's always happens that, when the price of crude is high, everything works -- they can buy services, consultants. When things get tight, in a downturn cycle, then you'll see joint ventures. Sometimes people have to learn by their mistakes."

What **Russian companies** are looking for in joint ventures, he said, is "definitely low-cost capital (and the) know-how to develop large **oil fields**." As for technology, Kukes said, "A lot of it you can buy from the service companies. But how to select the best -- the bridging technology -- this knowledge we definitely need." To help with the selection and implementation of western technology, he said, "We've hired quite a few Americans."

Technology developed for aerospace and military use under the old Soviet system was much too specialized and "isolated" to adapt to modern industrial use, Kukes said. He also doesn't see **Russian service companies** "developing to become world-class players -- not on their own. I see more of joint ventures, when you combine some know-how that the **Russians** have with Western (companies), too."

Besides, with the growth of international **oil field service companies**, Kukes said, "There's no need for Russia to isolate again."

102

Russia Good for Investors

The Russian oil industry can cooperate without foreign investors.

Stinemetz 6/2/03

(June 6, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Douglas Stinemetz, Haynes & Boone LLP, Houston SECTION: General Interest HEADLINE: Russian Oil sector rebound under full swing

*What's needed now*

The rebound in **Russian oil** production has been the work of the **Russians** themselves. Relatively little foreign investment in the **Russian oil** industry has been made, apart from the **oil** projects in Sakhalin. There are a number of reasons commonly cited for this relative lack of foreign investment -- the absence of a favorable regulatory and tax regime for production-sharing agreements being the most notable excuse. The underlying truth is that the **Russians** do not need foreign **oil** companies to produce their **oil** -- at least under the terms that the foreign **oil** companies desire.

Foreign investment in Russia is being embraced

Ivanov 6/14/03

(June 14, 2003, The Daily Yomiuri Global News Wire, BYLINE: Vladimir I. Ivanov, special to the Daily Yomiuri HEADLINE: Russia emerging as energy powerhouse)

Also, BP recently decided to put almost 7 billion dollars in a new company formed with TNK, the **Russian oil** major with a presence in Eastern Siberia. In this context, an **oil** pipeline project to Nakhodka that the Japanese Bank for International Cooperation could partially back with its low-interest loans looks like a reasonably priced venture.

All these investment funds that should support energy infrastructure development in Russia potentially would create huge business opportunities for Japan. Investors and equipment manufacturers could benefit from the construction of new power plants and the modernization of existing facilities, as well as a broader reorientation of the **Russian** energy sector toward increased efficiency and added value.

More generally, the development of energy industries is seen by the **Russian** government in the context of technological advancement and high-tech research and development that would reduce project costs and enhance energy efficiency. Japan-Russia technological cooperation in the field of energy, fuels and emission reduction could benefit both countries.

103

# Investors moving towards Russia

## U.S. investments already moving towards Russia.

Federal News Service 4/30/2003

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Anna Borg – Witness: Deputy Assistant Secretary for Energy Sanctions and Commodities, Bureau of Economic and Business Affairs of the State, I/n)

← Exploration -- U.S. exploration and production companies are keenly interested in Russia's potential, though they remain concerned about the need for continued improvements in the investment climate, further progress towards a liberalized energy market, and increased export capacity. We are pleased with the very energetic participation by a broad range of American firms in the U.S.-Russia Commercial Energy Dialogue, and their cooperation with their Russian private sector colleagues in jointly developing draft recommendations to both of our governments on ways to facilitate increased commercial cooperation and investment in Russia. Those recommendations will be presented at the next U.S.-Russia commercial energy summit in September 2003.

us investments already moving towards Russia

As of June a year ago, total U.S. private investment in Russia's energy sector had totaled already \$500 million. Prospects are also interesting for oil and gas field equipment manufacturers. Russia is currently the fifth largest export market, with U.S. exports in this sector last year totaling about \$328 million. There was opportunities for more exports, although price is often an obstacle, as ours are often more expensive than domestic alternatives. >

مرطاب

## Shell is Currently Investing \$10 Billion Dollars in Oil Fields in Russia

Louis, Staffwriter at United Press International, '03

(Anthony Louis, "Analysis; Putin's royal visit." *United Press International*, June 24, 2003, Page: Lexis.)

And Shell is investing as much as \$10 billion in the Russian Far East, with an oil and gas venture on Sakhalin that will place it at the heart of fast-growing markets there, even as Britain's own oil fields in the North Sea produce less and less crude.

1/04

# LOW OIL PRICES BAD FOR RUSSIA

Russia and OPEC must create stable oil prices before Russian economy can be revived.

## Rosbalt, 2003

(Rosbalt=Russian News Agency, "Russia Could Lose USD 35 Billion by 2025 Due to Unstable World Oil Prices" April 7, 2003)

MOSCOW, July 4. The Russian government budget could lose from USD 32 billion to USD 35 billion in the period up to 2025 because of unstable world oil prices, said Vice President of the International Academy's Fuel and Energy Complex and member of the Russian Academy of Sciences Valery Salygin. 'Russia will endure huge losses if Russian exporters with OPEC are unsuccessful in finding a mechanism for providing stable world oil prices,' he said.

Salygin came out for an increase in delivery of Russian oil to EU countries. He said that in 2002 the amount of delivery of Russian oil to EU countries increased by 16.8% and at the same time to other countries by only 4.9%. 'European countries will remain one of the larger and more perspective markets for the export of Russian oil,' he said. At the same time, he noted 'the active increase of cooperation with the US in the area of exports of Russian energy resources' and also the necessary conduct of joint prospecting for new oil fields in the countries of the Asian Pacific region.

Salygin disagreed with yesterday's statement by *British Petroleum* that oil reserves in Russia will last for only another 22 years. 'There are large oil deposits in Urengoe and Nadym. I think oil reserves will last another 30-50 years,' he said.

Low oil prices hurt the Russian economy.

Energy Information Administration, Nov. 2002  
(November 2002 "Russia: Oil and Natural Gas Exports"  
<http://www.eia.doe.gov/emeu/cabs/rusexp.html>)

Crude oil exports are a key source of income for Russia, as revenues from exports provide approximately 25% of the Russian government's income. It is estimated that every \$1-per-barrel price increase in the price of Russia's Urals Blend benchmark brings in almost \$1 billion in extra earnings. On the other hand, a decrease in oil prices adversely impact Russia's budget. While Russia experienced a windfall in extra oil revenues in 1999 and 2000 when world oil prices were relatively high, the drop in world oil prices in late 2001 cut into Russia's revenue intake.

105

# LOW OIL PRICES BAD FOR RUSSIA

Drillable Russian oil will dry up in years; they need billions in revenues to ensure ~~the~~ future oil.

Slobodanuk, 1/8/03

(Dmitry Slobodanuk is a Russian business reporter "Russian Economy in 2002. Oil Expansion: Jump to Nowhere" January 8, 2003 <http://english.pravda.ru/main/2003/01/08/41723.html>)

[The rise of the international oil prices and the chase of Russian companies for petrodollars have resulted in the severest crisis in Russia's fuel and energy complex. Production and export of oil are rapidly increasing; the relations with NATO are getting more complicated. The organization of oil exporters even threatens Russia with a price war for the strikebreaking. As it turns out at the same time, Russia's oil and gas supplies that are of easy access will be enough just for a few years. The equipment employed at the oil and gas complex is worn out and urgently needs modernization. It means that the Russian fuel and energy complex needs investments at the rate of several billions.]

**Russia is in economic decline and does not have the resources to drill in the Caspian**

Ebel, Director of the Energy Program for Strategic and International Studies, '02  
(Robert Ebel, Director of the Energy Program for Strategic and International Studies. "The Geopolitics of Caspian Oil." *Caspian Energy Project*, June 20<sup>th</sup>, 2002.)

[Increasingly, however, the world's attention is turning to the Caspian region. Russia's energy production, due to mismanagement and a shortage of investment capital, is experiencing a severe state of decline; oil production has declined from a Soviet-era peak of 11.4 million barrels per day to only 6 million barrels per day at present, a decline which is unprecedented in history. Meanwhile, the south Caspian basin has 17.5 billion barrels of proven oil reserves, and doubling that amount through future exploration may be realistic. In addition, Turkmenistan has world class gas reserves, and needs only a reliable pipeline route to transport supplies to the world market.]

106

AZ: DEPENDENCY IS BAD (RUSSIA)

TUPEN: RUSSIAN OIL DEPENDENCY IS NOT BETTER THAN US/MIDDLE EAST DEPENDENCY.

Godeau, 2003

(Lucie Godeau, Agence France Press "US seeks Russian oil despite widening rift over Iraq: analysts" March 16, 2003, 1/n)

Despite growing differences over their stance on Iraq, the United States still sees Russia's vast oil supply as an essential means of weaning itself off its dependence on Middle East oil, analysts said.

During a visit to Moscow last week, US Energy Secretary Spencer Abraham glossed over warnings by US diplomats here that Russia's fierce opposition to US war plans in Iraq could disrupt economic partnership between the two countries.

"We are pushing Russian and US companies to work together," Abraham said Wednesday, in remarks that contrasted sharply with recent warnings by the US ambassador to Moscow that Russia could suffer serious economic consequences if it follows through on threats to veto a UN resolution authorizing war on Iraq.

AND, RUSSIA CAN SUPPLY ALL NECESSARY OIL SUPPLIES TO THE US.

Godeau, 2003

(Lucie Godeau, Agence France Press "US seeks Russian oil despite widening rift over Iraq: analysts" March 16, 2003, 1/n)

US invest-  
ment  
in Russia  
is strong  
Five Russian oil majors signed an initial deal in November to build an Arctic export terminal to help them boost shipments to the United States, and Yukos estimated that Russia could supply the United States with 15 percent of its oil supply.

"We strongly support the development of greater capacity to export oil in Russia. More pipelines will be a good thing for Russia and will allow more exports," Abraham said.

The energy secretary's statements were echoed by a senior US diplomat said, who said on condition of anonymity that "there won't be a strategic course change" in US policy towards Russia even if Moscow vetoes the UN resolution on Iraq.

107

AZ: DEPENDENCY FEAD (RUSSIA)

---

TURN: RUSSIAN OIL EXPORTS CURBS MASSIVE PRICE JUMPS  
IN THE GLOBAL NRG MARKET

Novak-September 5<sup>th</sup> 2002;(Robert-staff writer @ the Chicago Sun Times; "President's oil policy has business spooked")plexis

The overriding problem is that the world today needs more oil, not less, at a time when global environmentalists are aligned against boosting production. That is reason enough for the Bush administration not to risk its Saudi Arabian oil supply by joining the conservative Republican campaign against the royal regime. Political instability in Venezuela poses another potential reduction. While Bush is criticized for snuggling up to Russia's President Vladimir Putin, Russian oil exports have prevented perhaps another \$5 raise in oil prices.

108

# US/RUSSIAN DEPENDENCY GOOD: RU ECONOMY

US-RUSSIAN OIL DEPENDENCY IS VITAL TO GLOBALIZE AND STABILIZE THE RUSSIAN ECONOMY

Somers, President of the American Chamber of Commerce in Russia, '03  
(Andrew B. Somers, President of the American Chamber of Commerce in Russia  
"Russia and the Caspian." *Federal News Service*, April 30<sup>th</sup>, 2003, Pg. Lexis.)

It is in the interests of American business for Russia to continue its re-emergence as a major oil producer and to gain a significant share of the U.S. oil import market. As the U.S. Department of Commerce held last June after an extensive public inquiry, Russia has succeeded in making the difficult transition to a market economy. Moreover, this fundamental change in the character of the Russian economy has occurred

within a new democracy, an historic transformation in itself. American business prospers best in democratic market economies. By allowing such an important sector of the Russian economy to contribute with other oil-producing nations to meeting U.S. energy needs, the U.S. would help to globalize the Russian economy and stabilize these positive developments.

109

## A2: Russian Dependency Bad

---

Its vital for Putin to Restructure  
the Economy.

Taylor 1/15/03

(January 15, 2003 Wednesday, Australian Financial Review, John Fairfax Publications Pty Ltd, BYLINE: Lenore Taylor SECTION: New, Pg. 44 HEADLINE: Russia's Frozen Oilfields)

o: | <sup>vital</sup> And for Putin, investment in Russia's oil and gas industry brings revenue, and that  
is revenue gives him the economic leeway to reform the rest of the Russian economy.  
vital It would also lend Russia international status far in excess of his country's actual  
Putin economic strength.

the Events last month in a committee room in Russia's parliament, the Duma, provided a  
Russian gov. good insight as to the foreign firms' frustrations. For years, the foreign oil companies  
have been struggling to finalise Russia's production sharing agreements, or PSAs  
specific laws setting out the legal terms and conditions for multibillion-dollar  
investments in remote areas of Russia with little existing infrastructure. These laws  
diminish the investment risk in what has been, by any calculation, a very risky  
environment.

The PSA laws were finally passed last year, but subsequent and overriding tax laws  
were deemed "impossible" by the foreign investors. They painstakingly negotiated  
amendments with the government and the Duma, and were promised the changes  
would pass the Duma by the end of 2002.

Then what some observers like to call "forces within the Duma" by which they appear  
to mean parliamentarians linked with Mikhail Khordokovsky, the young CEO of  
Russia's second-largest oil company Yukos began to stymie their efforts.



RUSSIAN OIL MARKET = KEY TO WORLD MARKET

**Russian oil production key to world market.**

**Federal News Service 4/30/2003**

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Anna Borg – Witness: Deputy Assistant Secretary for Energy Sanctions and Commodities, Bureau of Economic and Business Affairs of the State, l/n)

◀ We are working with our colleagues at those departments on implementing these recommendations, with both successes to report and areas for still further progress. Russia, as you noted, is important to world energy markets because it is the world's largest exporter of natural gas, the second largest oil exporter and the third largest energy consumer. Russian oil production has rebounded from the lows of the mid 1990s, thanks largely to capital investment by Russian oil firms and the increasing use of western oil field service companies.

Russian oil production key to world market

Production in February 2003 was already about 8 million barrels a day, and with sustained firm oil prices it is possible that production over the next six years could go to as high as 11 million barrels a day. While estimates vary over the size of Russia's proven oil reserves, going for about 50 to 60 billion barrels, Russia also has the world's highest reserves of natural gas, about 1,700 trillion cubic feet. The Caspian, the non-Russian region is also rich in these resources, with oil production expected to increase from the current level of about 1.5 million barrels a day to about four million barrels a day by 2010, possibly reaching as high as five million barrels a day at that timeframe. >

Russian oil companies are capable of shipping oil.

**Latvian Radio, Riga Latvia 1/10/03**

Copyright 2003 British Broadcasting Corporation BBC Monitoring. Supplied by BBC Worldwide Monitoring. L/N accessed 7/8/03

[Varpa Ventspils Nafta fully understands the problems of those Russian oil exporting companies, about which they have contacted the Russian government. And Ventspils port, which is not iced up, and Ventspils Nafta and the pipeline company are completely ready to work in the interests of our clients, and with the high quality we have provided all these years, and which is testified by our partners all these years. As for how the situation is going to develop, obviously that depends on the Russian side, on the structures which are being called upon personally by the management of these largest and most influential Russian oil companies.]

Russian oil companies are capable of shipping the oil

Russian oil companies have oil and are looking for a place to send it.

**Latvian Radio, Riga Latvia 1/10/03**

Copyright 2003 British Broadcasting Corporation BBC Monitoring. Supplied by BBC Worldwide Monitoring. L/N accessed 7/8/03

[The Russian oil companies are currently suffering large losses. The Primorsk port is iced up; every tanker working there needs the services of icebreakers. Novorossiysk port is very often ravaged by storms. Russian oil refineries are now accumulating large amounts of production, and in future there will be very negative consequences from the restrictions, right up to pressure to stop drilling, which is especially unwelcome in winter. Observing this situation, and in its own interest, Ventspils Nafta is ready at any moment to conclude a contract on oil supplies, and this is what the press secretary of Ventspils Nafta, Gundega Varpa, has to say:]

Russian oil companies have enough oil and are looking for a place to send it



Russian Economy: OIL/GAS

Russian Oil/Gas Production is critical to their economic success

Petroleum Economist 2/10/03, Lexis Nexis

Since the collapse in 1998 of Russia's financial markets and the devaluation of the rouble, the revenue stream from Russia's energy complex has been the single most important factor in helping the country achieve its economic objectives. The physical protection of infrastructure investment, regardless of origin, is a major policy objective. The 62,000-km former Soviet Union (FSU) oil and gas network is the largest integrated hydrocarbons transport system in the world, interconnecting 17 countries. This could increase, with China, Japan, the Korean peninsula, Finland, Denmark and the UK all potential oil/gas transit countries or export recipients. The security of the Russian pipeline system is therefore of major international importance as well.

Russian oil (GOOD)

A rise in Russian oil exports would help stabilize their government.

Ivanova, March 20, 2003

(S. Ivanova. "Do Not Cut Taxes." *Gazeta*, March 20, 2003. Pg. 1, 10-11. Pg. Lexis.)

a raise in Russian oil exports would help stabilize their government

[At the presentation of the report, the chief economist of the World Bank Department for Russia K. Ruel stated that a rapid cut of taxes entails "many risks," because "Russia's economy depends heavily on prices for raw materials which are fixed outside Russia." According to him, the government could use resources from a stabilization fund to reduce risks connected with the price for oil. However, "it is undesirable to use the stabilization fund to cut taxes." Russia's finance minister A. Kudrin is of the same opinion and calls the stabilization fund "a safety bag" and, despite the opinion of the Premier M. Kasyanov, added to the draft law on stabilization fund a ban on the use of the stabilization fund with a view to reduce a tax load.]

-Russia seems to have a sufficient amount of oil guaranteed for the next 30 years.

Somers, president of American Chamber of Commerce in Russia, 2003

(Andrew B. Somers, Senate Foreign Relations Committee "U.S. Energy Security: Russia and the Caspian" Testimony in Senate Committee April 30, 2003, 1/n)

<Some Russian private sector sources are more optimistic about Russia's reserves and see little need for PSAs. Yukos, now the world's fourth largest oil company recently asserted that reserves are

sufficient to assure the extraction of oil in Russia over the next 30 years at levels of 9-10 million barrels per day, with an export capacity of 6-7 million barrels per day. A strong proponent of the Murmansk project to resolve the export constraint problem discussed above, Yukos claims that Russia can supply 15 % of U.S. oil imports with an estimated range of 1-2 million barrels of oil per day.>

Production will be around 9 million barrels a day in 2005

Ebel Director of the Energy Program for the Center for Strategic and International Studies June 2003

(Robert E., *Russia, Caspian and Central Asia*, June 26-29, 2002, <http://www.csis.org/energy/020626Ebel.pdf>, Accessed 7/9/03)

return be 2.9 ~ 10.2 2005

[Based largely on statements by the leading Russian oil producers of their intent to expand output through 2005, the near-term future looks relatively bright, if nothing happens to sidetrack these growth plans. If the production growth achieved so far this year were to be extended out to the year 2005, that would provide a production level of about 9 million b/d for that year. But, time will tell, especially for the years 2004 and 2005. The following table is a bit more conservative.]

13

Russian oil (GOOD)

Russia is gaining worldwide popularity  
with its oil

Federal News Service, Inc. Jun 19. 2003 Official Kremlin Int'l News Broadcast. "Press conference on results of energy summit seminar of amegie Moscow Center"

So, we are open to any questions you may have.  
Jaffe: I am going to address my remarks specifically to the question of Russian energy and I think that some other experts will talk about different aspects. There's been a lot of discussion about Russia's role in the international energy market and I think that one of the highlights or points that was made at the seminar was that really Russia is not yet a global oil power. They have the capacity to be, the potential to be so. But right now both in natural gas and in oil Russia is a sort of a provincial player in the sense that it's a regional supplier to Europe.

Russian oil is gaining worldwide popularity

And this is a problem for the future of the country because we all heard a lot of discussion about Russia's ability to increase its production that we have seen dramatic increases in production and exports over the last two or three years. But I think most analysts agree that the European market demand certainly for oil is not going to grow by any extent over the next decade and beyond. But that's partly by regulation or having to do with energy taxes or it is also partly due to the fact that the EU has restrictions, policy restrictions on diversity of supply and there will be a cap on the amount of oil they can buy from one supplier.

And so for that reason, as Russia expands its capacity, it's going to be very critical that it be able to reach other markets beyond Europe. Both for economic reasons and also just to find the market for its oil, and the critical factor in Russia's ability to do this is going to be access to, as ambassador Djerejian said, is going to be access to export capacity.

Russia oil exports have already surpassed that of Saudi Arabia, and they are still growing

What The Papers Say 1/22/03

(January 22, 2003 Wednesday, What The Papers Say (Russia), SECTION: Feature Stories HEADLINE: Development of Russian oil industry in 2002 )

Russian oil production has already surpassed Saudi Arabia  
The pricing situation on the world oil market was favorable for Russia in 2002. An average yearly price of Urals crude amounted to \$23.60, which was much higher than the experts predicted at the beginning of 2002 and much higher than the price included into the Russian budget for 2002. According to the Energy Ministry, in 2002 Russia produced 379 million tons of oil or 9% more than in 2001 (348 million tons). Russia became the largest oil producer in the world having outrun Saudi Arabia. In the last quarter of 2002, oil production in Russia amounted to 7.97 million barrels per day on average, whereas in Saudi Arabia oil production amounted to 7.86 million barrels per day. In 2002, primary oil processing in Russia grew by 3.4% in comparison to 2001 reaching 183-184 million tons.

In 2002, Russia's oil exports grew by 12.2% to 157.53 million tons including the growth in exports to non-CIS countries by 8.4%. Exports of petroleum products also grew by 18.3% to 69.06 million tons.

growing  
According to the plans of the Energy Ministry, in 2003 oil production in Russia will grow by 11 million tons to 390 million tons and oil processing will grow by 7 million tons to 190 million tons. Russia will also do its best to increase oil exports. Deputy Prime Minister Victor Khristenko says that "this is one of our tasks in development of the oil sector."

114

## Russia Needs Access To Foreign Markets

Access to foreign markets is essential to the Russian oil market right now

Stinemetz 6/2/03

(June 6, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Douglas Stinemetz, Haynes & Boone LLP, Houston SECTION: General Interest HEADLINE: Russian Oil sector rebound under full swing

*Access to foreign market is essential to Russian oil*  
What the **Russian oil** industry really needs now is access to cheap foreign capital from the capital markets and access to world markets. The major **Russian oil** companies are generating significant revenues, given current oil prices, but need access to foreign capital markets to raise equity to expand their production. They are currently moving in that direction. Both Lukoil and Yukos are notable leaders in listing their bonds or shares on the London Stock Exchange and on the New York Stock Exchange (through American Depository Share programs).

*Such access to additional markets is critical for the long-term profitability of the industry, because Russian domestic oil sales are in rubles at prices about half the world market price, and dumping additional oil production on the Russian domestic market would depress prices even further. A glut of Russian oil in its domestic market in 2002 has already resulted in significant price pressure -- and even calls to establish a Russian strategic petroleum reserve to absorb excess production.*

Access to world markets for this purpose means developing 1) long-term sales arrangements with foreign retailers of gasoline, lubricants, and other refined products to ensure that long-term investments in expanding production can be recovered and 2) the infrastructure necessary to transport increasing quantities of **Russian** crude to

refineries abroad to serve these new markets.

# Russian economy is stable

---

-Russia's economy is stable and can sustain an oil shock

Hardovsky, 4/8/03

(Mikhail Hardvosky is president of the YUKOS oil company "Russian Economy Will not suffer even if Oil Prices Fall by 50%, April 8, 2003

<http://english.pravda.ru/main/2003/01/08/41723.html>)

'The Russian economy will not suffer even if oil prices fall by half,'  
announced President of YUKOS oil company Mikhail Hordovsky at a meeting with journalists in Moscow yesterday. As a Rosbalt correspondent reports, Mr Hordovsky pointed out that oil extraction in Russia only accounts for 15% of GDP and therefore this industry is not of critical importance for the country as a whole. 'The Russian economy is relatively steady at present and this is unlikely to change,' said Mr Hordovsky.)

The Russian economy is growing - oil problems will not affect growth.

Gateway Russia Magazine, 7/2/03

(July 2, 2003 "Russian market growth based on strong economy"

[www.gateway2russia.com/st/art\\_1031143.php](http://www.gateway2russia.com/st/art_1031143.php)

The Russian stock market showed the highest growth in the world twice over the past five years. It surged 40 percent in the first six months of this year, the Wall Street Journal reports. Analysts say this growth is based on strong economy. Even if there is a correction, stock indices will not drop significantly. A sharp fall in oil prices will not become a catastrophe for Russia, as it happened in the late 1990s. According to the WSJ, the impressive growth of the Russian stock market in the first half of the year reflects the overall situation on the Russian market.

Russian economy is stable.

-Russia's economy is doing well and growing

ACW

Business Day Magazine, 7/8/03

(July 8, 2003 "Russian economy expands" [www.bday.co.za/bday/content/direct/1,3523,139735-6078-0.00.html](http://www.bday.co.za/bday/content/direct/1,3523,139735-6078-0.00.html))

MOSCOW - The Russian economy grew by 7.1 percent in the first five months of 2003 compared with the same period in 2002, Economic Development and Trade Minister German Gref told a government meeting.

Gref also told ministers that 11-percent growth in investment during this period was particularly promising.

"The decline in investment in the country has been halted," he said, as quoted by the Interfax news agency.

Investment growth recorded last year for the same period was just 1.5 percent, he noted.

Most industrial sectors -- but not agriculture -- showed recovery and growth, he said. Industrial production expanded by 6.7 percent and personal incomes by 14.5 percent during the first five months of the year.

"Inflation has slowed down, standing at 8.7 percent during this period, which is 1.5 percent lower than last year," Interfax quoted the minister as saying.

Separately, the state statistics committee published provisional first-quarter figures showing gross domestic product (GDP) growth up by 6.8 percent compared with the first quarter last year, Interfax reported.

The figure was slightly higher than the government's own estimate of first quarter growth at 6.4 percent.

Last year, first quarter growth was just 3.7 percent compared with the same period the previous year.

The government has set a conservative estimate of 4.6 overall GDP growth for 2003, compared with 4.3 percent for 2002.

117

Russian economy is stable.

Russian economy in an up-swing, ~~CONSUMER SPENDING PROVE'S~~

Federal News Service 4/30/2003

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Andrew Sommers – President, American Chamber of Commerce in Russia, Chair, commercial energy dialog with Russia, 1/n)

< The Russian government didn't expect it, none of the western analysts expected it. We see a continuing growth in consumer spending. The reserves of the central bank are at the highest ever, about \$55 billion. <sup>2</sup>

The real estate market in Moscow and some of the other larger cities is growing. And overall the economic prospects we think look pretty good, and I'm speaking from the perspective of someone who every day has to battle the bureaucracy and all of the other implementation issues of the very progressive legislation that has been passed. >

The Russian oil market is in a period of robust, steady growth.

Fletcher 2/17/03

(February 17, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Sam Fletcher SECTION: General Interest HEADLINE: TNK's Kukes: Russia must look to new oil markets for it's oil )

#### **Robust Russian growth**

Russia's restructured, privatized oil industry has entered a period of "robust and sustainable growth" through operations by increasingly efficient private companies, Kukes said. Its oil exports are projected to increase to 4.5 million b/d in 2010 from 3 million b/d in 2001.

What's more, Kukes noted, new Russian production in Sakhalin and East Siberia is closer to non-European markets, particularly Japan and China.

The US, with its growing dependence on imported oil, also is a prime potential market for Russian crude, Kukes said. Total oil imports into the US are expected to jump to 12.3 million b/d in 2010 from 9.3 million b/d in 2001. Moreover, Kukes said, the commercial efficiency of spot shipments of Urals crude to the US is about 50/C/bbl lower than exports to Europe.

He said the US represents a potentially stable market for light, sour Urals-type crude, production of which is expected to inch up to 5.9 million b/d in 2005 and 6 million b/d in 2010 from 5.8 million b/d in 2001. He sees Russian oil entering the US market primarily as a displacement of other light, sour crudes.

With lifting costs generally under \$ 3/bbl, he said, Russia can compete as a source of oil supplies for the US.

"So I think you'll see more and more cargoes coming," Kukes said. "By the end of 2003, you'll start to see a few hundred thousand barrels of Russian crude coming into the US market."

118

Russian Economy is how

High costs of corruption in licensing economy increase the cost of doing business with them

Jennifer I. Considine Associate Editor, Geopolitics of Energy William A. Kerr 2002 Van Vliet Professor, University of Saskatchewan, Canada The Russian Oil Economy Chapter 8: Russian Oil in the 21<sup>st</sup> Century pg 304-5

High cost of corruption in licensing economy increase the cost of doing business

< The high corruption costs imposed by the 'licensing' economy greatly increase the cost of doing business for firms while the siphoning of any profits and the mining of existing assets reduces investment. Together, they are a recipe for stagnation over the long run even if the removal of the controls imposed by central planning allowed for considerable opportunities for profit, particularly due to the heavy monopolization of supply chains (Hobbs et al., 1997). For example, fortunes were certainly made by the 'oligarchs' that controlled much of the domestic oil and gas distribution systems.

Given high costs and low levels of investment in productive assets, why isn't there a strong movement for reform of the system? The problem is that those who have the rights to license economic activity have a direct stake in the continuation of the system. Their livelihood depends upon it.

It is no coincidence that the most difficult reforms in the Russian Federation have related to the definition, much less enforcement, of property rights. Freeing prices was largely accomplished, although, as illustrated in Chapter 7, it was often a tortuous process. Privatization has been more difficult but considerable progress has been made and there are few barriers to new private enterprises (as long as you obtain a license). While it took some hard lessons to bring a measure of macroeconomic stability, that too has been accomplished to a considerable degree. On the other hand, little progress has been made on establishing an effective property rights system. In particular, land and resource markets have failed to develop. While commercial law is now on the books, it is not enforced. Extending property rights would put at risk the power of those who have the ability to license.

Given that the ability to personally exploit the right to license is endemic throughout the bureaucracy of the Russian Federation, there is a built-in resistance to changing the status quo. This is why the periodic anti-corruption campaigns are bound to fail. While these campaigns can be used to punish a few individuals who have fallen out of favour or whose corrupt practices have become so lucrative or overt so as to cause political embarrassment, they cannot be used to end widespread corruption. Only the formal extension of property rights and the introduction of competition into the provision of licenses can accomplish this change (Kerr and MacKay, 1997). 73045

# Russian Economy is how

## Russia is gravitating toward a licensing economy

Jennifer I. Considine Associate Editor, Geopolitics of Energy William A. Kerr 2002 Van Vliet Professor, University of Saskatchewan, Canada The Russian Oil Economy Chapter 8: Russian Oil in the 21<sup>st</sup> Century pg 303-4

< The economy of the Russian Federation and its petroleum sector may be gravitating to what was characterized as a 'licensing' economy in Chapter 1 (Kerr and MacKay, 1997). In the absence of secure property rights and a functioning and enforceable commercial legal system, government bureaucrats retain considerable economic power through their ability to license economic activities. While central planning has been abandoned, government interference in the economy of the Russian Federation remains high. The tight central control exercised by the Communist Party has been

Russian  
is gravitating  
toward  
a licensing  
econ

broken but many of the old personal relationships upon which Party control was based remain intact and those who wielded power in the Soviet era continue to do so. The loosening of control at the centre, however, has meant that those with the right to license economic activity have been able to use their power in entrepreneurial ways. The ability to 'license' economic activity is the basis of corruption. Given the poor state of government finances, government employees are poorly and often only intermittently paid. Thus, income from corruption has become the major source of bureaucrats' income. They are dependent upon it. The ability to license economic activity comes in a variety of forms including not only the requirement of various forms of permission but also access to credit, foreign exchange or communications systems, permitting the avoidance of taxation, and protection from intimidation. The ability to license activity also provided the mechanism whereby many of the public assets created during the Soviet era were transferred to former Party officials or the former cohort of the professional managerial elite.

Without well defined property rights, however, those in control of productive assets have no security of their tenure for the assets they control. This makes them vulnerable to rent extraction by those who license activity directly. It also means that productive assets are not seen as building blocks for future wealth creation, but rather as opportunities for 'mining' in the short run to acquire cash that can be transferred into assets that are relatively safe from confiscation if the individual has control of the firm taken away from him. Large foreign bank accounts and hoards of convertible foreign currencies are only the two most obvious manifestations of being able to exploit the right to license economic activity. This means that instead of being reinvested in activities leading to business growth, profits are siphoned off. In the absence of a banking and financial system, this is a major inhibitor of economic growth. It is also the reason why so much foreign capital fails to find its way into productive assets. > 303-4

120

# Russian Economy is how

**Growing Russian investment climate = high risk.**

**Federal News Service 4/30/2003**

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Leonard L. Coburn – Director, Office of Newly Independent States, Russian and Middle Eastern Affairs, Department of Energy, I/n)

So all those issues have been discussed and will continued to be discussed in the energy working group as well as in the energy dialogue that we have, Commercial Energy Dialogue. In the investment area, we have discussed a great deal this production sharing issue that I mentioned earlier in my testimony, one that disturbs our companies because it looked like the mechanism and the best mechanism for ensuring that companies could invest in Russia in a secure way, in high risk projects. We continued to work the issue, although we've had some disappointing twists and turns in the last few months.

Russian investment mechanism = high risk

We've heard government statements that there will be a severe limitation on production sharing agreements and the ability to use them in the future. But at the same time this sort of opens up different avenues of discussion in terms of trying to find other ways to address high risk projects. And when I mean high risk, I mean the ones that will cost \$10 billion to \$15 billion over the life of the project, that are going into unexplored areas where there is not infrastructure, places like Sakhalin Island or East Siberia.

And the Russians are very receptive to hearing our ideas about -- as well as the company ideas about how they can address those types of projects and bring in investment from the private sector. If it requires changes in their tax regime or in their licensing and other associated laws, we've had all those under discussion over the last several months and years.

## Russian government doesn't understand the requirements to move the economy forward

Jennifer I. Considine Associate Editor, Geopolitics of Energy William A. Kerr 2002 Van Vliet Professor, University of Saskatchewan, Canada The Russian Oil Economy Chapter 8: Russian Oil in the 21<sup>st</sup> Century pg 306

Russian Govt doesn't understand the requirements to move the economy forward

Part of the problem may be that those in power in Russia simply do not understand what is required to move the economy from its current licensing mode to one based on markets. Freeing prices and privatization are easy concepts to understand, and ones that were politically popular. It was also what constituted the naive advice given by Western economists at the start of the liberalization process (Hobbs et al, 1997). The more complex institutions required to underpin the operation of modern market economy are much more difficult to explain, much less to create. Property rights, the rule of law and mechanisms to reduce information, negotiation and monitoring/enforcement costs are difficult concepts to grasp for those with no experience of market economies. They are also not the types of concepts that catch the voters' interest in the same way as anti-corruption campaigns or privatization schemes. Given considerable and widespread resistance to the further extension of property rights by those dependent on corruption for their livelihood and a failure to understand the workings of a market economy on the part of Russia's political leaders, progress on further reform may prove illusive.

306

(2)

# RUSSIAN OIL TRANSPORTATION ⇒ EFFICIENT

The bulk of Russian oil is exported through new and more efficient transport systems

Stinemetz 6/2/03

(June 6, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Douglas Stinemetz, Haynes & Boone LLP, Houston SECTION: General Interest HEADLINE: Russian Oil sector rebound under full swing

The bulk of Russian oil is exported through new more efficient transport systems

The new Russian oil companies are already actively exporting their oil to foreign markets. About 6 out of every 10 bbl of oil currently produced is exported. Most Russian crude deliveries currently go to European refineries from ports on the Black Sea or Baltic Sea or via the Druzhba (Friendship) oil pipeline to Austria. These routes are reaching their capacity, with tanker traffic on the Black Sea route in particular being subject to environmental limitations at the Bosphorus Straits, and the markets they serve are already absorbing a lot of Russian export oil. Western Europe in 2000 accounted for 87% of net Russian oil exports. While that amount is likely to increase, particularly given the projected fall-off in North Sea production, Western Europe cannot absorb all the additional oil Russia is likely to produce.

As an alternative, Russian oil companies have experimented with long-distance deliveries of oil to new markets, principally North America. Yukos has sent a number of tankers to the Gulf of Mexico, and Lukoil has sent a tanker to Singapore. Both appear to be trying to reduce the cost of tankering oil in order to make such shipments commercially feasible. TNK is projecting that exports of Russian oil to the US could reach 1.5 million b/d by 2008. Yukos has also actively sought to develop Eastern Siberia oil fields as a source of supply for East Asian markets.

Russian companies also have experimented with acquiring foreign chains for retail distribution of gasoline. Most notably, Lukoil acquired the Getty Petroleum Marketing Inc. retail network in the northeastern US (OGJ Online, Dec. 7, 2000). Leonid Fedun of Lukoil has said that Lukoil in the future can profitably ship up to 110,000 b/d of its Timan-Pechora oil production to North American refineries for eventual distribution as refined products through the Getty station network.

122

# RUSSIA IS FIXING ITS PIPELINE PROBLEM

Russians give go-ahead on pipeline to ship oil to the U.S.A.  
(Ilya Baranikas, staff writer, "The World Russian Forum meets in Washington,"  
Source: Moscow News. May 7<sup>th</sup> 2003, online, accessed 7/8/03)

major go-ahead on pipeline

What is the outlook for **U.S.-Russian relations**? Sometimes it seems that they can only get worse although the worst may have come already. Sometimes there is an encouraging glimmer of light at the end of the tunnel. Russia's position is hard to understand. On one hand, Putin spurned Blair who sought to map out a way toward reconciliation between Washington and Moscow. On the other, the Russian government has at long last given the go-ahead to the building of an export oil pipeline and a deep-water terminal in Murmansk to ship oil to the United States. On April 28 through May 1, the World Russian Forum was held in Washington and New York, sponsored by, among others, the Moskovskiye Novosti weekly. What is the outcome of this year's meeting of prominent U.S. and Russian personalities? Here is what Edward Lozanski, chief organizer of the Forum and president of the Continent USA media group and of American University in Moscow, has to say on the matter: 3

## RUSSIA WILL FIX ITS PIPELINES SUBSTANTIALLY BY DECEMBER 2003.

Lombard Street Research 5/28/03

(May 28, 2003 Janet Matthews Information Services; Quest Economic Database; Lombard Street Research Monthly Economic Review, SECTION: Forecast, HEADLINE: Russia: Current oil export transport capacity constraint)

Russian pipeline system is being improved  
Russia has an extensive domestic oil pipeline system, but its ability to export its oil to markets beyond the borders of the former Soviet Union is limited. The Soviet Union's main export terminals were located outside Russia in the former republics. Russia has been stepping up pressure on the Latvian port of Ventspils in a takeover bid. Shipments dropped by 28% in 2002 as the pipeline monopoly Transneft has virtually cut off Russian oil traffic since last April. Although Russia could still boost exports somewhat in the short term, for a substantial increase and to diversify its routes it needs to build new pipelines and oil terminals.

The Baltic pipeline system, whose first stage began operations in 2001 and has a capacity of 240,000 bbl/d, which includes the Primorsk terminal, allows the Russian government to bypass oil terminals in the Baltic states. The second stage, which will increase the capacity by an additional 120,000 bbl/d, is expected to be completed by December 2003. The Druzhba-Adria pipeline integration, which became fully operational in 2003, handles 100,000 bbl/d. The capacity at Novorosiisk has been increased.

-Russian oil companies want to increase exports and are looking at building new pipelines

Energy Information Administration, Nov. 2002  
(November 2002 "Russia: Oil and Natural Gas Exports"  
<http://www.eia.doe.gov/emeu/cabs/rusexp.html>)

Despite being restricted to exporting 30% of their production by a long-standing quota arrangement, Russia's oil producers have been seeking to maximize their exports by whatever means possible, constraints on export capacity notwithstanding. The discrepancy between export and domestic prices (Russian prices are typically just over half of the world market price), plus the guarantee of hard currency payment for oil exports, combine to make a compelling argument for increased sales abroad.

123

US / RUSSIAN RELATIONS (L) OIL

OIL IS CENTRAL TO US / RUSSIAN RELATIONS

Federal News Service 4/30/2003

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Anna Borg-- Witness: Deputy Assistant Secretary for Energy Sanctions and Commodities, Bureau of Economic and Business Affairs of the State, I/n)

That said, of course, it's important to remember that neither Russia or the Caspian region can replace Saudi Arabia as swing producers, nor can they change the fact that two-thirds of proven world oil reserves are in the Middle East. As for natural gas, exports from Russia to Western Europe contribute significantly to our allies' economic stability and vitality. Russia supplies Europe with approximately 25 percent of its natural gas, and with North Sea gas and oil production slated to decline in the coming decade, Russia's gas exports will be an important contribution to global energy diversification.

US Russian relations are key

Our relationship with Russia on energy issues is a key part of our bilateral relationship, a piece of a broader matrix, of course, of interaction on a range of issues, both political and economic. Our cooperation on energy was revitalized with President Bush and President Putin's joint statement on energy in May 2002, and continues with regular meetings of an intergovernmental dialogue within the framework of the U.S.-Russia Energy Working Group. That process is supplemented by a business to business dialogue called the Commercial Energy Dialogue which grew out of last October's highly successful U.S.-Russia commercial energy summit in Houston.

OIL IS PIVOTAL TO US / RUSSIAN RELATIONS

Moscow Times June 24, 2003

"Nicely Stuck Between Two Oil Foes" <http://www.cdi.org/russia/johnson/7237-10.cfm>

For over a decade Russia has searched for an instrument to regain its influence in world politics. And now it seems to have found it -- it is oil.

The demand for crude oil is now forcing major developed countries to seek good relations with Russia, the world's second-largest producer. In the clash between the West, particularly the United States, and the Organization of the Petroleum Exporting Countries over stable crude oil supplies, everyone wants to be Russia's friend.

A number of U.S. officials have argued in past months that Russia should boost its oil output to gain a more prominent role on the market and that Russian crude is welcomed by American consumers.

124

US/RUSSIAN RELATIONS (L) OIL

OIL IS VITAL TO US/RUSSIAN RELATIONS BECAUSE OF ECONOMIC GAINS

Federal News Service 4/30/2003

(April 30, 2003 Wednesday SECTION: Capitol Hill Hearing HEADLINE: Hearing of the Senate Foreign Relations Committee; Leonard L. Coburn Director, Office of Newly Independent States, Russian and Middle Eastern Affairs, Department of Energy, I/n)

< The U.S. also has been a strong supporter of oil and gas development in the region. One way in which we, the United States, has sought to enhance our energy supply security is to promote Russian energy resource development and exports. We have expressed our support for these efforts to export crude to the United States and the future development of transit routes and terminals that will allow Russian resources to reach American markets, and we can discuss some of these efforts in our follow-up question and answer session.

The administration's enhanced energy engagement with Russia developed as a result of the summit held by Presidents Bush and Putin in May 2002 in Russia, where they issued a joint statement on a new U.S.-Russia energy dialogue. This joint statement confirms the importance of energy in our bilateral relations, and the Department of Energy is moving forward on the elements of this dialogue in conjunction with our colleagues at State and other agencies.

In order to accomplish these objectives laid out in the joint statement, the Department of Energy and the Russian Ministry of Energy created a U.S.-Russia Energy Working Group. In that working group we will be concentrating on five areas of discussion: global oil markets, investment, technology, including energy efficient, environmentally friendly clean coal technologies and oil spill prevention and response, energy information exchange and small and medium sized enterprises. >

US  
keeps  
up w/ Russia  
to promote  
Russian  
energy res

US-RU  
RELATION  
(L)

# Oil spills hurt the environment

- More offshore drilling will cause oil spills which harm marine life and wildlife habitats-

Simon- April 22<sup>nd</sup> 2003; (Richard-staff writer @ The L.A. Times; "The nation; Bush pursues Offshore Oil Drilling in Alaska; With the Arctic Refuge off-limits, the White House sets its sights on the Beaufort Sea")

Opponents of the proposed drilling in the Beaufort Sea say they fear an oil spill could harm marine life and wildlife habitats. Such spills, they warn, would be more difficult to clean up because of cold water and broken ice conditions that take place much of the year.

"We hope ... that maybe Congress ... will wake up and smell the oil and recognize the risk to the environment might outweigh the gains," said Warner Chabot, vice president of regional operations for the Ocean Conservancy, based in Washington, D.C. "But we also know that the economic and political pressure in favor of [the proposed drilling] in Alaska is overwhelming." |

Heavy oil destroys the ocean floor and leach into coastal ground water

Energy Educators 1993, <http://www.iclei.org/EFACTS/OILSPILL.HTM> accessed July 9, 2003

Heavy oil destroys ocean floor  
A few hours after being spilled the heavier portions of crude oil forms a sticky oil and water mixture called 'mousse' and may either wash up on shore or sink to the bottom of the body of water in which it was spilled. This oil mixes with sediments on the ocean floor and turns into a thick tar-like mass which can destroy the habitat of many bottom dwelling organisms. These tar-like clumps can also drift with tides and currents, eventually washing up on beaches far away from the spill. If a spill occurs near a coastline, beached oil can leak into fresh groundwater reservoirs that often extend under beaches, contaminating local wells. |

Even small oil spills are still dangerous

The Minister of Environment, 1992 [http://www.cws-scf.ec.gc.ca/hww-fap/hww-fap.cfm?ID\\_species=89&lang=e](http://www.cws-scf.ec.gc.ca/hww-fap/hww-fap.cfm?ID_species=89&lang=e) accessed July 9, 2003

Unnoticeable spills still dangerous  
However, most spills in Canadian waters have been much smaller than these — often too small to notice at the time. This makes no difference in practice, because the size of a spill has little to do with the damage it can cause. In March 1970, the barge *Irving Whale* spilled 30 tonnes of Bunker C off southern Newfoundland, after a hatch came loose in a storm. The slick drifted across an eider feeding area, oiling about 5000 birds. The toll was nearly as large as *Arrow's*, from a spill only 1% of the size. More recently, at least 17,500 oiled murrelets washed up in Placentia Bay, Newfoundland, during winter 1989–90. This pollution probably came from oily bilge water, pumped into the sea from passing ships. Technically speaking, bilge discharges are not "oil spills" at all, but a normal part of the ships' routine. Unfortunately, the effects on birds are just the same. |

126

# Oil spills hurt the environment

---

## Spilled oil messes with the food chain

EPA, May 5, 2003 "Impacts on Habitats" <http://www.epa.gov/oilspills/relation.htm>

Spilled oil has the potential to affect every level of the food chain. Floating oil may contaminate plankton, which includes algae, fish eggs, and the larvae of various invertebrates such as oysters and shrimp. In turn, the small fish that feed on these organisms can become contaminated. Larger animals in the food chain, including bigger fish, birds, bears, and humans may then eat these contaminated fish. Thus, predators that consume contaminated prey can be exposed to oil through ingestion. Because oil contamination gives fish and other animals unpleasant tastes and smells, predators will sometimes refuse to eat their prey and may begin to starve. Sometimes, a local population of prey organisms is destroyed, leaving no food resources for predators. In addition, marine mammals and birds may be exposed directly to oil in the water, which they can ingest or get on their fur or feathers. Spilled oil may also prevent the germination and growth of marine plants and the reproduction of invertebrates either by smothering or by toxic effects.

Spilled oil messes food chain

## OFF-SHORE DRILLING HURTS MARINE ECOSYSTEMS

Ingestion of oil from oil spills is detrimental to marine life.

Energy Educators 1993, <http://www.iclei.org/EFACTS/OILSPILL.HTM> accessed July 9, 2003

The negative effects of ingesting toxic levels of oil are poorly understood for many specific organisms, especially micro-organisms such as plankton, bottom dwelling organisms and larval fish. The effects on larger creatures such as fish and marine mammals are much more fully documented. Fish ingest large amounts of oil through their gills. If this does not kill them directly, it can inhibit their ability to reproduce or result in offspring which are deformed. Especially vulnerable are slow moving shellfish such as clams, oysters and mussels. These creatures can't escape from an oil slick.

Marine mammals and birds which have been in direct contact with oil slicks often ingest a great deal of oil while attempting to clean themselves. Carnivorous animals and birds which end up eating the carcasses of other oiled creatures also end up ingesting potentially toxic amounts of oil. Ingesting oil can destroy an animal's internal organs (such as the liver) and interferes with the reproductive process. The famous 'Exxon Valdez' oil spill in Alaska's Prince William Sound resulted in the deaths of 15,000 otters, predominantly as a result of ingesting oil.

Oil surveying is harmful to marine species & habitats.

**Graham and Feinstein**- June 25<sup>th</sup> 2003; (Bob-Dem. Senator from Florida, Dianne-Dem. Senator from California—commentary @ The L.A. Times; "Commentary; Energy Bill's Slick Language Could Usher In Offshore Drilling; Benefits would be nil. And risks could be grave: Just ask Santa Barbara about the disastrous gunk onslaught of 1969") plexis

The survey as proposed is not an innocuous study. It would require the use of 3-D seismic technology, which is harmful to marine life, and core sampling, which is suspiciously similar to drilling. On its own, the survey would harm the very coastal resources we want to protect.

OFFSHORE DRILLING HURTS MARINE ECOSYSTEMS

Direct contact with oil kills species.

Energy Educators 1993, <http://www.iclei.org/EFACTS/OILSPILL.HTM> accessed July 9, 2003

Birds and marine mammals can also be killed by direct exposure to oil. Oil can clog a bird's feathers making it impossible for the bird to fly, and so heavy they may simply sink rather than float (Figure 1). Oil also eliminates the ability of a bird's feathers to keep it warm. In colder climates, many oiled birds die of hypothermia (drastically lowered body temperatures). Similarly, mammals in cold waters can also die of hypothermia as their fur loses its insulating ability once it has been covered in oil. The 'Torrey Canyon' oil spill in 1967 left about 10,000 bird corpses on beaches in England, but it is estimated that 90% of the birds killed drown and sink to the bottom of the ocean before they can wash up on a beach.

**Oil kills birds**

The Minister of Environment, 1992 [http://www.cws-scf.ec.gc.ca/hww-fap/hww-fap.cfm?ID\\_species-89&lang=e](http://www.cws-scf.ec.gc.ca/hww-fap/hww-fap.cfm?ID_species-89&lang=e) accessed July 9, 2003

Oil kills birds in many ways. Its first effect is to break down the birds' waterproofing. Water runs off a duck's back because the bird is protected by a layer of feathers, overlapping like the tiles on a roof (see sketch). Their fine structure makes them waterproof. The separate strands, or *barbs*, in each feather are bound together by rows of tiny hooks, or *barbules*, into a tight weave, like the cloth of a raincoat, that water cannot penetrate.

Oil kills birds

OFF-SHORE DRILLING HURTS MARINE ECOSYSTEMS

Empirically Proven, oil spills hurt the environment.

Tampa Tribune 43/12/03

(April 12 2003, Saturday, Section: Nation/World, page 18 Headline: Renewed Drilling Threat to Florida.

l/n)

[The House energy bill contained language that would weaken controls on drilling off Florida and many other coastal states. It would mandate a study of all offshore leases, including those currently protected by a drilling ban. The goal is obvious: to allow drilling.

Davis, successfully proposed an amendment stripping the troublesome language from the energy bill. Despite its passage, Davis says its drilling proponents made clear they will seek to dismantle the prohibitions in future legislation.

But the oil industry is simply incompatible with Florida's coast. Spills and leaks would be inevitable, jeopardizing the state's fabled beaches, and industrial support facilities would threaten the state's coastal beauty.

Consider how the offshore oil industry has wrecked Louisiana's environment. Industry officials like to brag about the fine fishing around Louisiana's oil rigs, but the state is one of the most polluted in the nation. Canals dug in connection with offshore operations have contributed to widespread erosion and a dangerous loss of coastline. Toxins contaminate many waters. Indeed, heavy mercury concentrations - higher than those found at some Superfund sites - have been found in the sand around many rigs. ]

**Bush's push for geological testing will cause harm to marine species-**

Coile- June 13<sup>th</sup> 2003; ( Zachary- staff writer @ The San Francisco Chronicle; "Senate OKs survey of offshore oil; Drilling moratorium off California coast at risk, opponents say")plexis

The department could use three-dimensional seismic tests, which involve firing an air gun to send sound waves bouncing off the ocean floor to help determine the size and location of energy deposits in deep water. Scientists believe the high-decibel noises may be harming endangered sperm whales in the Gulf of Mexico, which use a similar noise-related system to navigate and to identify their prey. >

30

ZAC: STATES CP OR FEDERAL AXN KEY

**It is in the interest of the federal governments to control the OCS because of the national significance of oil and gas. States risk cornering the market risking political**

Weaver, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

<What should this local political resolve count for in a debate over the disposition of national resources? The brief history sketched in Part I shows that in prior battles between states and the federal government, the federal government has won. Leaving aside for the moment whether the federal government has used this power to best manage the OCS resources or in the best interest of the nation generally, there are strong policy reasons to favor national control in this instance. First, the OCS is a national resource to be used in the interests of the country, rather than only in the interests of people who live in the affected coastal communities. Second, and more importantly, the national government is in the best position to compare different options for mineral extraction and energy development. It should not be impeded from making these difficult decisions by parochial interests that lack both the information and the public mandate unique to the federal government. Senator Mary Landrieu of Louisiana recently expressed this view when discussing the oil drilling controversy in Florida. Advocating an easing of offshore development restrictions in order to combat the nation's high energy prices, Landrieu asked, "Is it fair for one state or a handful of states to drive up the [energy] costs for everyone else?" 89

We must also inquire about the fairness of a decision-making process that favors the political power of individual states over environmental safety and social equity. For example, in the use of appropriations to block drilling off the coasts of certain states, offshore energy development may be completely divorced from either environmental or energy policy, existing only as a potential financial allocation to be bargained over in the political sphere. With regard to presidential moratoria, or even executive agency action on the standard five-year leasing plans, political power can play a major role. When asked during his presidential campaign whether he would pursue drilling off the Florida coast, George W. Bush tipped his hat to Florida Governor and family member Jeb Bush when he promised that he "would not mess with 'little brother over there.'" 90 President Bush's advisors later noted that family ties would have to take a back seat if he was to fulfill his campaign promise to increase the country's energy supply. 91

As Senator Landrieu's comment suggests, the public generally regards it as unacceptable that a few powerful states, including Florida and [\*248] California, receive political preference at the expense of fulfilling national needs. In the energy context, as well as in the environmental context, the general public simply feels that burdens and benefits should be distributed equitably and be based on legitimate concerns of environmental risks, socioeconomic effects, and physical compatibility. 92 Both our sense of fairness and the law of offshore development require this policy foundation. >

131

A2: STATES CP F/L

**A2: States counter plan**

**States are incapable of implementing the Environmental Baseline standard—national regulation is vital because it reinforces protection of fisheries, endangered species and promotes tourism.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

<State control, however, faces the downside of lacking the broad national perspective that is essential to national resource management. State control also may not add as much to the proposed environmental baseline approach as it would to the current system. Arguably, the proposed environmental baseline approach could adequately account for all valid public value oriented state and local interests. The environmental baseline would be broad enough to protect fisheries resources, endangered species, and other sensitive species and habitats, thus indirectly preserving the local interests in fishing, tourism, and other ecologically dependent economic factors. Additionally, giving force to the currently undervalued considerations of OCSLA and fully enforcing national environmental laws could further change the culture of minerals extraction in such a way that leaving final decisions to the federal government would support the overall scheme rather than undermine it. >

**Permutation solvency: DO BOTH**  
**State and federal government action enables accountability over local communities and policies.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

<Although there are strong arguments for both state and federal control, policy-makers should ultimately come back to the principle that people support what they create. The contentious history of offshore oil and gas development has left local governments and environmental activists with the perception that the federal government is only interested in maximum extraction. Thus, anti-oil activists are not likely to accept readily yet another shift in rhetoric without an accompanying shift in action. Giving states the final authority to say yes or no to a proposed development would empower local communities in this way. State veto power would also place control at a higher level, removing it from parochial interests and making it accountable to a more broad-based constituency. Federal agencies would continue to lead the OCS development program and guide national policies, yet states would determine how best to [\*263] implement those policies while balancing competing local and national interests. >

132

AZ: STATES CP (US-RU + ON)

A

FEDERAL GOVERNMENT ACTION TO CATALYZE RUSSIAN INVESTMENT IS CRITICAL TO A SOUND US/RUSSIAN RELATIONSHIP.

Dobriansky, '98

(Paula J. Dobriansky, the Vice President and Washington Director, as well as the Kennan Fellow for Russia, at the Council on Foreign Relations, "The State of Russian Foreign Policy and US Policy toward Russia." April 6, 1998. Heritage Lecture #607)

#### Developing Relations with Russia's Emerging Democratic Leaders

[While some progress in this area has been made, we have not taken full advantage of numerous opportunities to bolster the growth and institutionalization of democracy in Russia and to forge better ties with Russia's democratic leaders. For example, our routine contacts and assistance have been limited to a relatively small number of senior Moscow-based officials. Not enough has been done at the local and regional level, despite numerous opportunities to forge strong ties between American local and state governments and their Russian counterparts. The federal government can and should be a catalyst for such efforts. ]

133

AZ : FEDERALISM DA (CAC)ton

INTERIOR

Turn: Courts granted deference to the Department of ~~Defense~~ for offshore oil development.

Weaver, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002 (Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. L/N 26 Harv. Envtl. L. Re. 231)

< [\*239] Over the course of program implementation, federal agencies and courts have been called on to mediate between both the competing resources of the OCS and the competing levels of government. Almost universally, they have favored federal, and hence, extractive interests above all others. For example, during the early 1980s, the Reagan administration's Interior Department pursued a vigorous expansion of OCS exploration and development over the vehement objections of several coastal states, most notably California. Courts came into this debate as arbiters and interpreters of how the competing interests of energy and environment, national and local, were to be balanced. With the first decisions coinciding with the birth of "Chevron deference,"<sup>43</sup> courts were, not surprisingly, supportive of federal interests as expressed through the agencies. Moreover, courts upheld the expansion of federal leasing by reading deferentially the statutory purpose of "expeditious and orderly development" of the OCS, thereby failing to give equal weight to the competing purposes recognized in the same subchapter of OCSLA.<sup>44</sup>

Although OCSLA appears to provide states with a significant advisory role in the offshore leasing process, a series of early federal court decisions effectively dismantled state control in favor of deference to the Secretary of the Interior. Section 18, as described above, sets out principles with which all federal actions must be consistent, requiring full consideration of competing interests on the OCS.<sup>45</sup> It further purports to give governors of affected states input and substantive review of proposed leasing programs.<sup>46</sup> For each of the first three five-year

leasing programs following the 1978 amendments to OCSLA,<sup>47</sup> the State of California used the Section 18 provisions to comment on the proposed programs but was unsatisfied with the federal response. Eventually, the State sued Interior for its refusal to give legal effect to the governor's comments.<sup>48</sup> This litigation set the stage for subsequent legal challenges to offshore energy development under OCSLA, making it clear that although the states might play a role in the leasing process, the Secretary would be given the utmost deference in the decision to accept or reject state recommendations.<sup>49</sup> The law now stands that so long as the Secretary responds to [\*240] comments from state officials, no evidence of actual consideration, attempt at incorporation, or proof of any other substantive effect is required. We are thus left with a toothless and nontransparent balancing test in which states, despite the intent of OCSLA, have no greater opportunity to affect policy than any other party in notice-and-comment rulemaking. >

134

AZ: FEDERALISM DA

---

**Current approach to offshore drilling violates cooperative federalism model.**

**Weaver**, Assoc. Attorney Southern Environmental Law Center, Chapel Hill N.C. and JD Harvard, 2002  
(Sierra, "Local Management of Natural Resources: Should Local Governments be Able to Keep Oil Out." P. Lexus: 26 Harv. Envtl. L. Re. 231)

<[\*231] The system that governs offshore oil and natural gas development of the Outer Continental Shelf ("OCS") has been called one of "cooperative federalism." In practice, however, this system has been anything but cooperative. Although leasing authority is technically divided between state and federal tiers of government, ongoing jurisdictional battles between state and federal agencies, between state and federal political figures, and within the tiers of government themselves have made the regulatory landscape incredibly complex and controversial. This conflict between coastal states and the federal government over offshore development is often referred to as "the Seaweed Rebellion" and has concerned lawyers, activists, scientists, and politicians since the 1940s. >

135

## ZAC: CHINA RELATIONS IMPACT TURN

TURN: CHINA AND JAPAN ARE PRO-RUSSIAN OIL —  
THEY VIEW IT AS A CHEAP SOURCE.

Mara D. Bellaby, Associated Press Writer. March 12, 2003

"Russia Looks East to Find Market for Oil" Associated Press Online, Copyright 2003  
International News. L/N accessed 7/7/03

The Russian government has an enviable if ticklish dilemma to consider this week: Two Asian powers are lobbying for a first crack at eastern Siberia's oil, and Moscow must decide which gets preferential treatment.

The Kremlin is expected to try to satisfy both China and Japan, an approach reflecting both a delicate geopolitical compromise and Russia's insatiable ambition when it comes to its key export commodity.

The Russian Energy Ministry plans to recommend to the Cabinet Thursday that the Japanese and Chinese proposals be combined into one project, said spokesman Yur' Nogotkov.

The pipeline would eventually pump 1.6 million barrels of oil a day from fields near the shores of Lake Baikal, north of Mongolia, to Nakhodka on the Sea of Japan, but first a spur would be built to Daqing, the Chinese oil production center.

TURN:  
OIL RUSSIA VIEWS CHINA/JAPAN AS VITAL TO INCREASE  
BECAUSE OF PIPELINE ACCESS.  
NY TIMES 1/14/03

A debate is raging in Russia over how to get the bountiful supplies of crude oil out of the wilds of Siberia into world markets.

Russia's oil exports have rapidly become the centerpiece of its relations with the world. As its production rises, its means of exporting oil are reaching capacity. Russia has reached the point where it needs to build several major pipelines, ports and storage terminals to relieve the bottleneck.

One part of the debate is whether to bind Russia's energy future to China or to Japan. Another is an ideological clash over who should own and control Russia's oil pipelines: private industry or the state. As these questions are settled, the geography of the export routes that result will have economic and political ramifications for decades.

East Asia is the final destination for two competing Russian pipeline proposals. Either would be a first for Russia, which now ships crude west to Europe, largely from a swampy, oil-rich part of Siberia just east of the Ural Mountains.

A Japanese government delegation visiting Russia last week lobbied for one route, from Angarsk near Lake Baikal to the port of Nakhodka, near Vladivostok on the Sea of Japan. This \$5 billion, 2,500-mile pipeline would skirt northeast China to run entirely in Russian territory, though a branch could someday be built to China.

Competing with that vision is a smaller, shorter and cheaper route from Angarsk to the industrial region of northeast China. This project is being promoted by one of Russia's largest private oil companies, Yukos, which owns much of the oil reserves in the region that would supply the pipeline.

136

RUSSIA = SEEKING CHINESE/JAPANESE MARKETS

With the US able to poach cheap oil out of Iraq, Russian oil exports are instead focusing on Chinese & Japanese markets

What The Papers Say 4/9/03

(April 9, 2003 Friday, What The Papers Say (Russia), SECTION: Feature Stories HEADLINE: The war in Iraq changes priorities in development of Russia's oil exports)

With the US able to poach cheap oil out of Iraq

Completion of the war in Iraq reduces the chances for development of the export project in Murmansk. Along with this, interest of China and Japan in Russian oil may grow substantially. However, to build the pipelines in eastern direction it is important not to lose the moment because the expected decrease in oil prices will make the Angarsk-Daqing and Angarsk-Nakhodka projects less attractive.

It is obvious that the UK and US will establish control over Iraq. This event will have a serious influence on plans of Russian oil companies. In 2002, the oil companies were considering various options for conquering of new markets including the American one. Now they will probably have to wait with conquering of the American market because, first, the US will change its attitude to Russian partners and, second, Americans will receive their own source of cheap oil soon.

Russian exports are instead focusing on Chinese

It is possible to judge that the US does not hope already for supplies of Russian energy resources by the fact that congress members unanimously excluded Russia from the list of the countries to which it would be allowed to make money on restoration of Iraqi economy. With regard to connection of the war with Iraqi oil, it is getting increasingly obvious. The US Administration decided not to wait until the war is over and began handing out oil contracts to allied companies.

Japanese markets

Analysts predict that events in Iraq will develop according to the following scenario. It will take oil companies about a year to restore the oil producing facilities of Iraq amounting to 2.5-3 million barrels per day. In three years, production may be increased to 5 million barrels of oil per day. Increase of production to 8 million barrels per day will take three to five years more. Bearing in mind that now the US imports about 9 million barrels of oil per day it is possible to understand that Americans will be able to solve their oil problems without Russia even if the oil imports grow to 12 million barrels per day by 2010.

Hence, the chances for development of the project for construction of the deep-water oil terminal in Murmansk are decreasing. The project was proposed in 2002 by LUKoil and supported by YUKOS, TNK, Sibneft and Surgutneftegaz. The project implies construction of the pipeline from Western Siberia to Murmansk, from where 40 million to 80 million tons of oil will be loaded in super tankers annually and exported, mostly to the American market. Henceforth construction of the pipeline from 2,500 to 3,600 kilometers long and worth about \$6 billion is doubtful.

RUSSIA SEEKING ASIAN MARKETS

Because of Mideast turmoil Russia is looking at expanding its oil market to Asian countries such as China & Japan

Blagov 4/1/03

(April 1, 2003 Monday, Inter Press Service, BYLINE: Sergei Blagov SECTION: Economy HEADLINE: With Mideast in turmoil, Russia eyes oil markets in Asia DATELINE: Moscow)

Because of Moscow is planning to develop new markets in Asia for its crude oil and become an alternative to the volatile Middle East.

In the blueprint are big pipeline projects to boost its oil exports to countries such as Japan -- the second biggest importer of oil in the world after the United States -- and China, the world's third largest oil consumer.

At the moment, Russian oilmen decline to speculate whether their bold pipeline vision could be affected by the Iraq war. "It is too early to foresee if the consequences of war or changes in Iraqi oil exports policy may affect the pipeline project," Rosneft chief Dmitry Panteleyev told IPS.

In fact, Victor Kalyuzhny, Russia's deputy foreign minister and special envoy on the Caspian, told journalists on Monday that the war may boost the world market demand for crude.

Rosneft seems to remain confident that its pipeline project, which is a topic of debate in the oil industry, will be economically viable.

The Russian oil industry is actively trying to become a part of the international oil scene

Stinemetz 6/2/03

(June 6, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Douglas Stinemetz, Haynes & Boone LLP, Houston SECTION: General Interest HEADLINE: Russian Oil sector rebound under full swing

The Russian oil industry in short is currently seeking to integrate itself fully into the international oil industry. Such efforts are not altruistic, of course, because the Russian oil companies fully understand that the more integrated they become in the international oil industry, the more likely they are to achieve the access to capital and stock market trading multiples of prominent international oil companies such as ExxonMobil Corp., ChevronTexaco Corp., BP PLC, and Royal Dutch/Shell Group. That economic motive provides a powerful incentive for Russian oil companies to continue on their path of managerial reform.

The more integrated the Russian oil companies are in the international oil industry, the more they will act like international oil companies. The Russian oil companies are currently subject to many of the same forces pushing the international oil industry to consolidate. Russian oil companies are beginning to respond to those pressures as well, as evidenced by the recent BP combination with TNK and the Yukos acquisition of Sibneft. In short, the Russian oil industry is not only recovering from the breakup of the Soviet Union but also well on its way to integrating with the international oil industry as a whole.

138

A2: OPEC CREDIBILITY DA

---

No 1/L: NON-OPEC COUNTRIES DONT FOLLOW OPEC'S  
POLICY ON OIL PRODUCTION.

**Minayev 1/13/03**

(January 13, 2003 Monday, RusDat online - Russian press digest, Russica Izvestia Information Inc,  
BYLINE: Sergei Minayev SECTION: News HEADLINE: OPEC sheds oil)

At yesterday's meeting in Vienna, OPEC members decided to increase oil output by 1.5 million barrels per day to bring down oil prices that have been pushed up in recent days due to the planned U.S.-led military operation against Iraq and an oil workers' strike in Venezuela. Experts believe OPEC's decision will stabilize oil markets. OPEC President Abdullah bin Hamad Al Attiyah announced that independent oil producers - Russia, Mexico and Norway - had already declined to follow the cartel.

Russian independent oil producers are not satisfied with the government's decision not to boost oil production. In 2002, Russian oil corporations produced 379,6 million tons of oil - a 9 % increase compared to the year 2001, and a record for the last ten years. According to the information of the Energy Ministry, this year Russia will produce 390 million tons of oil.

139

ZAC: COAST GUARDS DA FL

Tuzel: THE COAST GUARD AND MMS ARE PRO-REGULATING  
OCS.

American Petroleum Institute, 2001  
("To Operate in Deeper Water, Industry Has Improved New Production Systems" <http://api-ep.api.org>, 2001)

< Today there are over 500 of these voluntary standards and operating practices that address safe operations, protection of the environment, the manufacture and operation of equipment, and the safe design and installation of facilities.

Government agencies that oversee offshore oil and natural gas operations have referenced many of these publications in regulations - currently over sixty API standards and operating practices are incorporated into Federal laws governing offshore operations.

A number of API standards and operating practices have recently been published to assist offshore operators in the development of deepwater oil and natural gas projects. The two primary agencies that regulate deepwater offshore oil and gas operations, the US Coast Guard and the Department of Interior Minerals Management Service, are actively encouraging the industry to accelerate the standards process. As a result of this effort, many of these "deepwater" related publications may also become regulatory requirements for domestic offshore operations. >

140

AR: RUSSIAN/OPEC RELATIONS DA

RUSSIA/OPEC COOPERATE TO QUELL HOSTILITIES IN THE  
COMMODITIES MARKET.

Eudes, 1/9/2003

(Marielle Eudes of Agence France Press, Moscow January 9, 2003 "Russia oil boom unlikely to help curb world price rise")

BODY:

Russia wants to cooperate w/ OPEC to raise its exports capacity  
Russian oil production has returned to levels not seen for a decade and crude exports last year beat all records, but Moscow's ability to contribute to a lowering of world prices remains limited, experts said ahead of a key OPEC meeting.

Some OPEC (Organisation of Petroleum Exporting Countries) members, including the world's biggest exporter Saudi Arabia, are willing to boost production in order to stabilise oil prices that have remained above the 28 dollar per barrel level for several weeks as a result of uncertainty over Iraq and Venezuela.

The oil cartel is holding a special meeting in Vienna on Sunday to discuss the situation and Russia, though not a member, has promised to do what it can to help.

"We are prepared to cooperate in any way possible," Energy Minister Igor Yusufov said during a visit to the Gulf where he held talks with Saudi, Kuwaiti and Iranian officials. Following a rise in production for the fourth successive year, Russian crude output hit 379.6 million tonnes (7.59 million barrels a day) in 2002, confirming the country's standing as the world's second-ranked producer after Saudi Arabia.

Exports through Russia totalled 156.6 million tonnes (3.13 million bpd), the highest level since the collapse of the Soviet Union in 1991, according to provisional figures from the energy ministry, compared with three million bpd in 2001.

## AT: CAPITAL FLIGHT TURN

NO ILL: INTERNAL ECONOMIC PROBLEMS OVERWHELM CORPORATE INCENTIVES TO INVEST IN RUSSIAN OIL INDUSTRIES

Stinemetz 6/2/03

(June 6, 2003, Oil & Gas Journal, PenWell Publishing Company, BYLINE: Douglas Stinemetz, Haynes & Boone LLP, Houston SECTION: General Interest HEADLINE: Russian Oil sector rebound under full swing

Foreign oil companies do have opportunities to invest in Russian oil fields apart from production sharing terms.

First, majors can invest directly in Russian oil companies, as BP has invested in TNK recently. Second, foreign oil companies can enter into strategic alliances with Russian oil companies. The LukArco strategic joint venture to develop the North Caspian is one example. Third, farm-out or informal sharing arrangements are possible, although seldom attempted onshore in Russia. Such arrangements, however, might prove more workable in offshore fields where production can be taken off platforms directly to tankers so that there are fewer local issues to complicate matters, although the tax regime obviously still matters.

The underlying weakness of all these approaches is that they require the foreign oil companies to work with Russian companies as equals. Major Russian companies will not turn over onshore operations in Russia for foreign companies and are loath to surrender control even over offshore prospects. Unfortunately, most larger Western oil companies prefer to operate projects on their own, subject to farmout to other players. Given the way Russians conduct business, however, it might prove better for foreign companies to experiment with some smaller projects in order to earn the Russian companies' trust for larger projects.

142

AT: BAN CP

---

TURN - TOTAL BAN WORSE THAN REGULATED  
THE CP FORECLOSES ANY USE OF OIL  
INCREASING THE RISK OF AN OIL SHOCK  
AND COLLAPSES US LEADERSHIP  
GRAMBLING 1996 (ROBERT, OIL @ THE EDGE, P. 165)

For the former, it would require a major mind shift at the top levels of Interior and Minerals Management Service, but changes

associated with real management of the Outer Continental Shelf would be even more profound. To actually begin to manage the Outer Continental Shelf would probably require Interior, or more properly Minerals Management Service, to begin to utilize some of the revenues generated by the Outer Continental Shelf leasing program to directly contract for seismic exploration to more clearly identify the existing resources of the Outer Continental Shelf and, once these data have been processed, for exploratory drilling to delineate those resources. What a radical but hardly new idea that the agency entrusted with the resources on public lands should take an active role in their assessment and should know what those resources are in order to plan for their future use or conservation. Not only would such a new focus represent rational planning for the future, but it would mean that the enormous amount of scientific knowledge that the Minerals Management Service's Environmental Studies Program has generated would become relevant, useful information in that effort and, furthermore, that the agency would have clear criteria to evaluate the gaps in the data in order to direct future research! While the development of the Outer Continental Shelf has been argued as a matter of "national security," I would argue for its careful management and conservation for the same reason. The limited reserves of the Outer Continental Shelf may well be needed in the future for the transition from oil to alternative energy sources that ultimately must occur if the United States is to remain a superpower. A superpower dependent on oil but with inevitably dwindling domestic reserves is dangerously balanced as the OPEC 1973-1974 embargo demonstrated. 163