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Azerbaijan's Riches Alter the Chessboard

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By Dan Morgan and David B. Ottaway
Washington Post Staff Writers
Sunday, October 4, 1998; Page A1

Amoco's T. Don Stacy educated U.S. officials on the Caspian's wealth.

BAKU, Azerbaijan – The message that Amoco Corp.'s T. Don Stacy took to a small political gathering on the morning of Aug. 6, 1996, seemed hopelessly obscure compared with the usual concerns of the lobbyists and business tycoons assembled at the White House.

Stacy, who directed Eurasian operations for the Chicago-based oil company, was incensed at what he considered misguided U.S. policies toward a remote Central Asian country on the western shore of the Caspian Sea – hardly a preoccupation of, for example, New York Yankees' owner George Steinbrenner, one of those on hand.

But as Stacy pressed his points on the strategic importance of Azerbaijan's oil deposits, one listener was riveted. Without waiting for Stacy to finish, President Clinton jumped in to clarify several geopolitical points, then strode to a blackboard and drew a remarkably accurate map of the Caspian region.

Before the meeting ended, Amoco – the largest U.S. investor in Azerbaijan's oil boom – had what it wanted: a promise from Clinton to invite the Azerbaijani president to Washington. Six months later the company, which traditionally donated heavily to the Republicans, contributed $50,000 to the Democratic Party. In August 1997, Clinton received President Heydar Aliyev with full honors, witnessed the signing of a new Amoco oil exploration deal and promised to lobby Congress to lift U.S. economic sanctions on Azerbaijan.

The ties between Amoco and Azerbaijan – and Amoco's role in pushing the United States closer to this Caspian nation – reflect a complex new choreography involving oil companies, big powers and regional governments vying for influence in

the strategic borderlands between Russia and the Middle East.

The key players are not only familiar companies such as Amoco, Mobil Corp. and Chevron Corp., but also senior officials of governments stretching from Washington to Moscow, and Beijing to Tehran. The stakes are enormous financially and, as Clinton's energetic intervention suggested, geopolitically. Azerbaijan, like neighboring Turkmenistan and Kazakhstan, sought to lure American oil companies and then the U.S. government to help shore up its financial and political independence.

The ultimate prize is an oil and gas patch potentially larger than those discovered three decades ago in the North Sea and Alaska's North Slope. U.S. experts estimate that the region could produce at least 3 million barrels of oil a day by 2010, worth $14 billion a year at current prices. That is far less than Saudi Arabia but more than Kuwait – although a vocal minority of analysts believes the Caspian's reserves have been substantially overestimated. The region's reserves of natural gas – a relatively clean fuel for a world fretting over pollution and global warming – are the world's third largest behind the Middle East and Russia, according to a State Department report.

The drive by U.S. companies to exploit these resources already has produced a political realignment of historic dimensions, including an unprecedented American presence in a region that had been under almost continuous Russian control since the mid-19th century.

Oil companies claim U.S. sanctions against Azerbaijan limit U.S. aid to Azeri refugees like these at Saatli.
(By Dan Morgan – The Washington Post)

But U.S. interest in the region also poses risks and policy dilemmas for the United States that seem likely to intensify.

Foremost is the U.S. relationship with Moscow. Both imperial Russia and the Soviet Union viewed the Caspian resources as a birthright. Now Russia accuses Washington of maneuvering to limit Moscow's control and establish a U.S. sphere of influence in the region.

Caspian oil also is central to the Clinton administration's internal debate over U.S. relations with Tehran. Some American oil companies view Iran as the cheapest, fastest exit route for Caspian oil; that's counter to other interests – and Clinton administration policy – favoring continued U.S. government efforts to isolate the Islamic state.

American involvement is just what the leaders of the newly independent nations of Azerbaijan, Kazakhstan and Turkmenistan wanted when they set about early in the decade to woo companies flying the flag of the world's only superpower.

"They recognized that with the forces they have around them – Russia and Iran – only a strong relationship with the United States provides an opportunity for stability and for not being totally dominated," said a U.S. oil executive who requested anonymity. "Since the U.S. government was slow to pick up on the importance of the region, they forged relations with U.S. business."

"We used oil for our major goal ... to become a real country," said Ilham Aliyev, vice president of Azerbaijan's state oil company and son of the country's president.

By investing more than $2 billion in the three former Soviet republics with most of the Caspian's oil and gas, American oil companies helped revive collapsed economies and end more than a century of economic dependence on Russia. But there were political and strategic gains as well.

American oil companies became advocates in Washington for the Caspian governments, calling attention to Caspian wealth, supporting Caspian political causes and putting the Caspian on the agenda of Washington's policy debates.

Representatives of American oil companies in Azerbaijan, for example, pressed administration officials "at every forum, meeting and luncheon" to become more involved in ending a bloody territorial dispute between Azerbaijan and Armenia, according to one U.S. executive. Last year, with Clinton's support, they also lobbied successfully in Congress to ease U.S. economic sanctions on Azerbaijan imposed in 1992 because of its war with Armenia.

Chevron Corp., the U.S. oil company with the largest investment in Kazakhstan, has battled in Moscow and Washington on behalf of a Kazakh plan to redirect the country's oil exports from the Russian market to hard-currency Western ones – crucial to the economic independence of Kazakhstan. Mobil Corp. placed advertisements in U.S. newspapers earlier this year extolling the accomplishments of the government of Turkmenistan, led by a controversial, former Communist strongman.

These relationships are binding the U.S. government closer to a region beset by ethnic rivalries and armed separatist

movements, and ruled by corrupt, autocratic regimes. The United States, in pursuing Caspian oil, risks becoming embroiled in a "zone of instability and crisis," according to Martha Brill Olcott, a Russian specialist at the Carnegie Endowment for International Peace.

The ties that bind the United States to the Caspian region seem certain to tighten, if only because U.S. energy companies have few alternatives as attractive. They are blocked by U.S. policy from investing in Iran and Iraq, and prospects elsewhere pale compared with the Caspian.

The blunt truth, according to one American oil man, is that "there are not a lot of Caspians out there."

How the United States came to be a player so far from home is a story of post-Cold War geopolitics and old-fashioned wildcatters, of a weakened Moscow and an emboldened Washington, of oil and money and power. And it is a tale with an ending still being written.

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Grasping the Potential

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Turkish workers build a pipeline from Baku, Azerbaijan, on the Caspian Sea, to Supsa, Georgia, on the Black Sea.
(AIOC photo)

By the time Don Stacy met Clinton in 1996, Amoco was the most prominent U.S. institution in Azerbaijan. From its headquarters in a handsomely restored mansion in Baku's old town, the company ran child-immunization programs, subsidized Azerbaijani musicians and sponsored student exchanges.

But in the early years of the Baku oil rush, it was far from certain that Amoco – or any American company – would prevail over a small cast of fortune hunters, polyglot middlemen and oil company agents who were the first to sense a bonanza. Before an American company could muscle its way in, others had to be muscled out. The British in particular – albeit represented by a trio of Americans – had the early edge in Azerbaijan.

Baku was still a provincial Soviet capital in 1990, and few U.S. oil executives appreciated its potential. Azerbaijan's oil industry had fallen on hard times since the 19th century, when the Rothschilds and the brothers of dynamite inventor Alfred Nobel turned Baku into a world oil center capable of challenging John D. Rockefeller's Standard Oil for control of Europe's kerosene markets.

By 1990, unbridled Soviet exploitation had left an environmental wasteland of ancient derricks and black puddles of oil. Azerbaijani production was plummeting. Yet Soviet geologists had glimpsed the future in discovering 4.7 billion barrels of premium oil in a sausage-shaped stretch of the Caspian Sea called the Absheron Sill. Fabulous as it was, the treasure lay beneath hundreds of feet of water and beyond the reach of Soviet drilling technology.

One of the first Westerners to grasp the potential of the Absheron Sill was an American-born oil entrepreneur and dealmaker named Stephen E. Remp. A lanky, restless man who rode motorcycles and restored Scottish castles for recreation,

Remp had been running Ramco, a small oil-services company in Aberdeen, Scotland, since 1977. But at 41, he was tired of cleaning other companies' oil pipes. He wanted to be in exploration and production – to "play with the elephants," as he told friends.

An attraction for oil frontiers ran in Remp's blood. His great-grandfather, a West Virginia oil driller, had followed oil west to California, the United States' oil frontier of the day. Remp began traveling to Baku in 1989, arriving on white-knuckle Aeroflot flights from Moscow, hoisting vodka glasses with local officials and learning what he could about the local prospects.

Baku was not a place for the faint-hearted. Tensions between Azerbaijan and neighboring Armenia were rising. In January 1990, Soviet President Mikhail Gorbachev sent his army into Baku to suppress a nationalist uprising. Nearly 200 demonstrators were killed in the capital. Tanks prowled the streets for months, and Azerbaijanis wore black to commemorate the dead.

Remp thrived on the turmoil, which, he knew, would keep the big boys away as he cultivated his connections and gathered information.

Later in 1990, after the uprising had been quelled, Remp got a big break. The Azerbaijani state oil company hired him to identify Western oil companies that could develop its principal offshore plum, soon to be named the Azeri Field. Remp contacted British Petroleum PLC, the huge British multinational. BP, he learned, had picked up its own tantalizing reports about a Caspian Kuwait and had sent two American-born executives to check them out.

BP's men in Baku were Rondo Fehlberg, a former all-American wrestler from Brigham Young University, and Thomas M. Hamilton, a veteran of oil exploration from Alaska to Burma. They initially believed BP could make its own deal in Azerbaijan, but soon thought better of trying to exclude Remp and risk having him allied with competitors.

By October 1990, a consortium of BP, Remp's Ramco and the Norwegian state oil company, a longtime BP partner, had "the keys to the kingdom," as Fehlberg put it in an interview: an informal promise to exclusively develop the Azeri Field.

That very month, however, a 30-year-old Georgetown University political science professor arrived in Baku and upset their plans.

Georgetown professor S. Rob Sobhani got American companies a shot at the Azeri Field. (By Gerald Martineau – The Washington Post)

S. Rob Sobhani's Azerbaijani family had emigrated to the United States from northern Iran in 1979. An Azerbaijani-speaking American was a novelty in Baku in those days, and Sobhani was summoned for a chat in the cavernous office of Communist Party boss Ayaz Mutalibov.

A bust of Soviet state founder Vladimir Lenin on the mantel caught Sobhani's eye as Mutalibov waxed enthusiastic about his plans for American-style democracy in post-Soviet Azerbaijan. The party boss then confided his oil deal with BP.

Sobhani eventually would work as a paid consultant for Amoco. Then, however, he was an independent professor doing what he would later describe as his patriotic duty.

"Look," Sobhani recalled saying, "you can't do this with BP. There's only one America and only one true superpower and you've got to work with it."

Sobhani cited the "heavy-handed" behavior in the Middle East of BP's ancestor, Anglo-Iranian Oil Co. Groping for an example of the "fine" American oil companies whose virtues he had extolled, Sobhani thought of one: Amoco.

The idea of inviting in the Americans seemed to hit Mutalibov as if delivered from the bust of Lenin perched behind his shoulder.

That same day, Remp was in the office of the head of the Azerbaijani state oil and gas agency when Mutalibov telephoned with a command: Cancel the exclusive BP deal and give the Americans a shot at the Azeri Field.

Jockeying for Position

The playing field had been leveled for U.S. companies, but success was not guaranteed.

In April 1991, an Amoco delegation presented the company's bid for developing the Azeri Field. Two months later the Azerbaijanis anointed Amoco and its partner, McDermott International Inc., to negotiate a binding contract.

But now it was Amoco's turn to find the treasure suddenly yanked away. Azerbaijan declared independence on Aug. 30, 1991. During the next three years, the new nation was humiliated in a bloody war with Armenia that made refugees

of hundreds of thousands of Azerbaijanis and gave Armenia control of Nagorno-Karabakh, a mountainous piece of Azerbaijani territory the size of Rhode Island. Rival political groups and local militias jockeyed for power. Before a cease-fire in March 1994, Baku would witness four changes of government.

As regimes rose and fell, the foreign oil men holed up at the Hotel Intourist near the Baku waterfront and maneuvered to keep their bids alive. With neither BP nor Amoco able to close a deal, other companies – including the U.S. giants Pennzoil Co. and Unocal Corp. – dispatched agents to work the Azerbaijani bureaucracy.

Seedy as it was, the Intourist was a refuge where foreign oil men traded rumors and kept tabs on one another – a "close community that enabled you to know who was in town and who they were seeing on any given day," as an American executive put it.

Remp imported single malt Scotch and Scottish shortbreads to keep up morale. At night, the oil men repaired to the Intourist's dingy bar, the door of which was papered with oil company decals, or to Charlie's, a restaurant run by an expatriate American who immortalized regulars by putting their caricatures on the wall.

By day, when it was safe enough to venture out, the oil men pressed their causes and curried favor at the Azerbaijani ministries, where officials changed with each new government. Unocal, for example, catering to Azerbaijani desires to improve ties with Islamic countries, took in a Saudi partner. Pennzoil launched a project to capture the gas flaring off uselessly from the Azerbaijanis' decrepit oil fields.

Business in Baku invariably was conducted in an atmosphere of intrigue, in which personal relationships counted for much and public officials expected favors and gratuities. American companies, subject to criminal penalties if they violated U.S. anti-bribery statutes, often felt at a disadvantage.

"It was whimsical," said Frank A. Verrastro, then a Pennzoil representative in Baku and now a company lobbyist in Washington. "One day you were the favored and featured. Then someone could take a dislike to you and you couldn't get a meeting for a week."

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A British 'Coup'

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Turkish workers check a section of the pipeline.
(By Dan Morgan – The Washington Post)

In September 1992, BP pulled off a coup that unnerved its competitors and appeared to put the British firm back on top. Former British prime minister Margaret Thatcher arrived in Baku and handed the Azerbaijani government two BP checks totaling $30 million.

The money was a down payment for a proven field called Chirag and for an unproven bloc called Shak-Deniz. To Azerbaijani officials, a deal with BP was tantamount to a deal with the British government; not only did visiting British officials lobby relentlessly for the company, but for months Britain's diplomatic mission to Azerbaijan had operated out of the BP offices.

By contrast, Azerbaijani officials didn't know what to make of the American companies, whose government seemed ignorant about – or even hostile to – their involvement in Azerbaijan. In the fall of 1992, for example, Congress – heavily lobbied by Armenian-American groups – banned most direct U.S. aid to Azerbaijan, while earmarking generous assistance to Armenia.

For U.S. oil men in Baku, "the chill was there immediately" after the passage of Section 907, as the restrictive legislation was called, according to Tom Hamilton, who had left BP to become Pennzoil's chief of worldwide exploration. Section 907 "was always a lever, always a club, that they beat on you with when nothing else was working," Hamilton recalled.

To Stacy, who took over Amoco's Caspian operations in mid-1993, Washington needed to be educated.

"We were the 'American Oil Company' and the Azeris felt like we had more pull with our government than we really did," Stacy later said. He began meeting with administration officials and members of Congress, offering primers on Central Asia's potential and geopolitics. Given the level of ignorance about the Caspian in Washington, he usually took along a map of the region.

The American Comeback

Heydar Aliyev took power in June 1993, after an armed insurrection ousted the country's elected president, Abulfez Elchibey. Aliyev was a 70-year-old former KGB chief who had served on the Soviet Politburo during the regime of Leonid Brezhnev. Some Azerbaijanis and Western oil men believed Moscow had engineered the coup in hopes of blocking a major oil deal by Baku with Western companies.

But Aliyev turned out to be the leader U.S. oil companies had been waiting for – a shrewd operator who understood petro-politics. After a shaky period when the Azerbaijanis put a pistol-toting Slovak businessman in charge of oil negotiations, Aliyev himself stepped in by directing his minions to pursue a deal at Amoco's office in Houston, heart of the U.S. oil industry.

Working in shirt sleeves on the fifth floor of the Amoco building and ordering pizza when talks dragged on at night, the negotiators hammered out an agreement, using Amoco computers to check their figures. On Sept. 20, 1994, Aliyev and oil executives gathered in Baku for the ceremonial signing of what the Azerbaijani president called the "deal of the century."

A consortium called the Azerbaijan International Operating Co. (AIOC) agreed to spend $7.4 billion to develop the three major fields: Azeri, Chirag and an adjacent patch, Guneshli. The avowed goal was to produce 800,000 to 1 million barrels a day by 2010.

U.S. companies – Amoco, McDermott, Unocal and Pennzoil – collectively took more than 40 percent, by far the largest bloc. Exxon Corp. would join the consortium the following year. BP was given a 17 percent share, and the rest was divided up among the Azeri oil company and a variety of smaller foreign concessionaires.

Remp was handsomely rewarded as the first foreign oil man into Baku in 1989. His Ramco got 2 percent; the little Scottish company could count on 8,000 to 12,000 barrels a day free and clear once pipelines were completed, potentially netting $30 million a year as long as the consortium stayed in business.

Pennzoil was in, but only after playing hardball. Before the final deal was announced, Azerbaijani officials summoned Hamilton and told him Pennzoil would be excluded.

"Basically the conversation started out that Pennzoil wasn't going to get any share, and at the end I had explained why we were going to get a share," Hamilton recalled. Hamilton reminded the Azerbaijanis that Pennzoil had recovered $3 billion from Texaco in a 1987 lawsuit settlement.

That, Hamilton suggested, was more money than Azerbaijan could afford to lose.

The Azerbaijan International Operating Co. oil platform, off Baku.
(AIOC photo)

The Pipeline Problem

In 1995, the AIOC consortium moved into a building in Baku once occupied by the Soviet Navy's House of Culture. The symbolism was not lost on Moscow.

Russia already had signaled its resistance to any U.S. inroads in the Caspian. Before his first trip to the region in 1994, Deputy Secretary of Energy William H. White took a phone call from Russian Energy Minister Yuri Shafranik.

"Remember," Shafranik warned, according to White, "those are Russian reserves. They will be developed by Russia."

Russia had only a modest piece of the AIOC deal – a 10 percent interest held by Russia's largest private oil company, Lukoil. But Russia possessed the leverage of geography.

The Caspian's landlocked resources could reach world markets only by crossing the territory of politically unstable neighbors or commercial competitors such as Iran and Russia. In Azerbaijan's case, all that was left of the Nobels' 19th-century pipeline from Baku to the Black Sea was "a trail of rust," as Hamilton put it. Azerbaijan's link to the world oil market consisted of a few rusty barges that could haul oil up the Volga River and a lone pipeline that ran the wrong way – from Russia into Azerbaijan – and passed through war-battered Chechnya.

The exporters also faced a unique legal conundrum: Who owned the Caspian and its resources? Earlier in the century, Iran and the Soviet Union had signed treaties designating the sea as their common lake. Now the Soviet Union was no more, but Moscow continued to assert its special treaty rights.

The situation left AIOC companies unusually dependent on international diplomacy to negotiate pipeline transit routes.

By early 1995, the U.S. oil companies operating in Azerbaijan had set up a Foreign Oil Companies group in Washington. It met with National Security Council energy expert Sheila Heslin and later with an interagency committee headed by her boss, Samuel R. "Sandy" Berger.

Government documents show that the NSC and oil companies worked together in June 1995 to forestall an attempt by Lebanese-American oil financier Roger Tamraz to promote his own pipeline from Baku to Turkey, via Armenia. Pennzoil's Hamilton alerted NSC officials of oil company opposition to the Tamraz initiative, effectively killing any White House support for the project.

The immediate issue facing the administration and the AIOC was the choice of an exit route for the initial flow of Caspian oil. A decision on a main export pipeline was deferred.

The Russian pipeline could be reversed cheaply, allowing oil to be pumped out of Azerbaijan. But that would allow Russia to dictate commercial terms for shipping AIOC oil; the pipeline also ran to the Black Sea port of Novorossiysk, closed by ice several months a year.

The Clinton administration and U.S. companies wanted other options. Ever since Chevron acquired the huge Tengiz field in Kazakhstan in 1990, Russia had imposed obstacles preventing a pipeline for Tengiz oil across its territory.

"If there wasn't an alternative [route], we'd be in the same boat as Chevron," one American oil company official later explained. "Russia had continually screwed them over. ... You really needed to have some leverage."

During the summer of 1995, Berger twice met with the AIOC companies. He worked to convince Terry Adams, a BP executive who served as AIOC president, of the need for a new $250 million pipeline west from Baku to Georgia's Black Sea port of Supsa, free of Russian control. BP favored the cheaper solution of spending $50 million to fix the pipeline through Russia.

Berger was persuasive. In September 1995, AIOC agreed to use both the Russian line and the new U.S.-backed western route. In the Clinton administration, a policy had emerged: "multiple pipelines" for Caspian oil.

Agreement at Last

The decision still had to be sold to Aliyev, whose government would negotiate the pipeline routes with neighboring

countries. Given the pressures from Russia, that support was far from certain.

Soon after the AIOC decision, national security adviser Anthony Lake privately asked Zbigniew Brzezinski, his predecessor in the Carter administration, to carry a letter from Clinton to Aliyev. The letter stressed the U.S. preference for two pipelines and, as an incentive, offered Washington's help in resolving the dispute with Armenia.

Brzezinski eventually would become a paid consultant to Amoco. But as he left for Baku in September 1995, he later recalled, he was motivated by anxiety over Russian intentions in the Caucasus. The Clinton letter burned a hole in Brzezinski's pocket at a large dinner hosted by Aliyev at the presidential palace. When the Azerbaijani president invited the guests to his private "cave" in the basement, Brzezinski followed, wondering how to get Aliyev alone.

The cave was illuminated by lights resembling stalactites. Guests lounged on chairs and couches covered with sheepskin while Aliyev regaled his guests with stories from the Brezhnev days.

It was approaching midnight before Brzezinski could whisper to the president that they must talk alone. Looking regretful at having to leave the party, Aliyev led Brzezinski to his office. There Brzezinski pulled out the letter and summarized its contents.

Over the next several days, the two men held protracted talks. The Russians, Brzezinski learned, had demanded that all Azerbaijani oil go through Russia and that Russian troops be based in Azerbaijan.

On Oct. 2, Clinton called Aliyev to lobby for the double-route plan. Fortified by his new tacit alliance with Washington, Aliyev gave his approval a week later.

By early 1996, the Russians folded a weak hand, concluding that control over one of the two pipelines out of Azerbaijan was better than being excluded completely. But Russian-American frictions were only just beginning.

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