

News Analysis: Baku to the future Will BP Amoco's natural gas discovery put the boom back into the Caspian Sea oil capital ?

MacAlister, Terry. **The Guardian** [London (UK)] 14 July 1999: 24.

☐ Abstract (summary)

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This was once the oil capital of the world. A dream of another oil bonanza was fading with the decade. But BP Amoco's discovery of natural gas in the Caspian Sea could put the boom back into Baku.

It is not just BP and the Azeri state-owned oil group Socar which benefit from their respective 25.5% and 10% stakes in Shakh Deniz. It is a big fillip to Elf Aquitaine (10%) which needs all the good news it can get while it faces a hostile bid from its fellow French oil group, Total. Other members of the consortium are Statoil (25.5%), LUKAgip (10%) Iran's OIEC (10%) and Turkey's TPAO (9.0%).

☐ Full Text

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The Shakh Deniz offshore field has natural gas reserves of at least 400bn cubic metres and possibly as much as 700bn, according to the London-based operator. This is enormous by anyone's standards. But given that BP has a reputation for underplaying its victories there could well be much more.

In fact, BP really wanted to strike oil which is worth much more and would be easier to export. But the find is still a boost and helped propel the group's share price by 3% to 1259p within hours of the announcement on Monday, before dipping slightly yesterday.

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It is also of huge significance to Azerbaijan which has been in the doldrums since two western consortiums - Caspian International Petroleum Company and North Aspheron Operating Company - shut down their operations last year after failing to find commercial reserves. It might take as long as 10 years to get the gas to market but it also gives the Azeris the opportunity to build a major offshore pipeline infrastructure into which a number of other discoveries in the area could be tied. It will have implications for the entire region because Azerbaijan was being written off as a significant gas producer by neighbouring countries.

Now it will have to be consulted on pipeline issues. The discovery also puts heart into the whole Caspian Sea area where confidence has been badly dented by low oil prices and rising competition for investment from emerging countries such as Angola.

However, good times have come and gone for Baku before. Over 100 years ago famous international business families such as Nobel and Rothschild made fortunes from exploiting natural resources from the part of the Russian empire around Baku which produced 75% of the world's oil.

The Russian revolution had origins in Baku. A local communist committee member called Joseph Stalin led an oil workers' strike in 1905 in the first attempt to overthrow the tsar. When the communists won power they put a great deal of effort into reviving the oil industry to help drive the economy. Hitler also recognised the strategic importance of Baku; gaining control of it was a key goal of his assault against the USSR during the second world war.

Later, as the Soviet economic machine ran into serious trouble so too did the fortunes of Baku and the Caspian region generally. Since the collapse of communism, western oilmen have been moving back into the region bringing with them high hopes.

Over the last couple of years it has been almost impossible to find half-way decent accommodation in the Azeri capital because oilmen are packing out the best places to stay. Until recently there was only one western-style hotel though now there are two.

Old Baku hands insist that there has never been great disappointment in the hydrocarbon prospects of the region, only the gradual deflation of hyped expectations from ill-informed foreigners and local inhabitants alike. But one could sense the relief felt by Azeri officials when the scale of the BP find became clear.

President Haydar Aliyev could hardly contain his enthusiasm when he called the media to his presidential palace earlier this week and told them: 'Shakh Deniz is one of the biggest and richest hydrocarbon areas in the Azeri sector of the Caspian Sea . . . and the results have confirmed the predictions made by Azeri oilmen, geologists and engineers.'

The president said these reserves alone would allow Azerbaijan to export 16 to 20bn cubic metres per year to energy-hungry Turkey. Regional producers such as Russia and Turkmenistan already have supply contracts to Turkey in place and a US consortium was planning to build a pipeline across the Caspian from Turkmenistan.

Now all these plans may be thrown into disarray. Officials from the Azeri state-owned oil group SOCAR took a much tougher line with the Americans on the pipeline than previously, indicating that they might want to build their own pipeline to Turkey and not be regarded simply as a country to be transited.

BP had been playing down the prospects of Shakh Deniz after they began to seep out in oil energy trade papers such as Upstream. Two weeks ago, the spin doctors at Britannic House pooh-poohed suggestions of a major discovery. But they had changed their tune by Monday.

Andy Hopwood, head of BP Amoco Exploration in the Caspian region said: 'Even at this early stage, this discovery has

confirmed the exciting potential to create a new dimension, namely gas exports, to the development of Azerbaijan's energy industry.'

Illustration

Caption: article-BakuAnalysis

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