The Caspian ... Azerbaijan ... Baku ... everyone seems to have a neighbour or colleague working in the region, writes **NIGEL ROSS**

Azerbaijan's the place to be — no question about it

■ *Downtown boom-town Baku.*

WITHOUT a doubt, companies in the North-east of Scotland are playing an important part in forging and reshaping the oil and gas industry of the Caspian — Azerbaijan in particular.

In my role as director of Caspian Trade Centre, I am continually answering the same set of questions.

Is Azerbaijan politically stable?

Is the war with Armenia not going to eventually reach Baku?

What's to stop communists taking control again?

Or, another coup is likely, because there is usually one a year.

And, won't the Azeris just use us to gain knowledge and technology then throw us out in a few years time?

No one can answer these questions with any degree of accuracy, but the evidence speaks for itself.

Would operators like BP/ Statoil, UNOCAL, Exxon, Conoco, Elf and Agip, supported by contractors like AMEC, Cameron, McDermott, Kvaerner, John Brown, Rigblast, OMS, Briggs Marine, Aramark, Hunting, CSM and EAE, be investing vast sums of money if they felt there was such a high risk to the area?

No, the oil companies have done their homework and they have assessed the risks as thoroughly as they can.

Azerbaijan is a country still at war, but a ceasefire prevails. It remains determined to reclaim its land, but only by peaceful means through international mechanisms and continued political pressure.

As for throwing foreign companies out, there may well come a time when Azerbaijan no longer relies on foreigners to exploit its resources, but that is natural commercial and industrial evolution, and who can say if that time is five or 25 years from now?

But one thing is for sure, Azerbaijan needs assistance from experienced North Sea companies today, and if we do not take up the challenge, there are hundreds of other competitors elsewhere in the world who certainly will.

Another question asked by relatively intelligent businessmen is why have only a handful of foreign consortia groups been formed in two-and-a-half years?

The reason is simple. Azeri officials had to start from scratch to develop extremely complex production-sharing agreements, pass legislation through parliament, fighting the opposition in the process to arrive at a position which could be understood and accepted by the foreign participants.

Not that the process is fully understood, the tables have turned on some foreign oil companies. State Oil Company of Azerbaijan (SOCAR) negotiators walked out of discussions with Shell. Unthinkable! But true. That place was immediately taken by Elf.

Currently, there are 16 different sets of real negotiations taking place between SOCAR and foreign operators.

It is estimated there are another 25-plus foreign companies waiting in SOCAR's reception area for an audience.

No wonder SOCAR can afford to be so selective.

I was interested to note the shift in shareholding owned in all Caspian developments, country by country.

Russia, through LUKoil, now has 10.61% of the Caspian action; the UK has 15.01%, the US leads with 27.71%. Germany has entered the race as a late starter (Deminex) and secured 0.69%, while Japan has jumped ahead of Saudi Arabia, Iran and Italy with 4.31%.

Using the above figures as a guide, it begs the question, is the UK getting 15.01% of the Caspian development's order book?

But then again, if Germany has only recently got 0.69%, why have German companies been winning huge orders from the area well exceeding 0.69% of the pie?

I think the answer is simple. The Germans are an aggressive bunch and have an enviable and insatiable export-driven appetite for winning business in the most obscure regions of the world.

It would follow that if Germany had the UK's 15% of the shareholding, it would be winning about 60% of the business.

On that basis, many more North-east and other British firms have to galvanise themselves and capitalise on the UK shareholding in the Caspian Sea.

Another problem many companies have is assimilating and assessing what the $8.1billion Caspian "deal of the century" means in terms of their products and services.

How much lifting gear is needed — generators, motors, containers, electrical cabling, switchgear, flanges, bolting, safetywear, chemicals, manpower, steel work and fabrication, etc.

In fact, the list is endless.

The Shelf 5 rig consumable tender issued recently shows just how wide the needs are — everything from torch batteries and lightbulbs to cable times, to compressors and welding equipment.

It demonstrates that virtually every imaginable item needs to be imported to support projects with foreign participation.

Aker Rauma landed a nice little order worth $25million from Shah Deniz operator BP recently for upgrade work on Shelf 5. And sister company Maritime Hydraulics will supply the rig's drilling equipment package.

Aberdeen-based Altra Consultants clinched a $2million contract along with Consafe to provide study, design, engineering services and fabrication for Azerbaijan International Operating Company (AIOC).

Besides the above, Caspian Trade Centre is aware of at least $5million of orders placed into Scotland over the last three weeks out of Baku, all of which went to small/medium-sized companies in the service and supply sector.

Sad, but understandable, just two years ago, every order placed with a foreign company was recorded and hot news in the international press. But that has now passed.

Companies like BP, AIOC, CIPCO, ETR and the others are now quietly going about their daily activities, and companies winning business don't want to shout the news from the rooftops in case they alert their competition.

But what has been encouraging lately in Baku is that companies in fierce competition with one another in the North Sea are alliancing and partnering to bid for bigger or more complex work in the Caspian. Such collaboration can only be good for Scotland and the UK in general.

As in previous Offshore Journal articles, I maintain there is a need for companies to develop relationships with SOCAR and not restrict themselves to visiting only foreign companies when in Baku.

Although not official yet, Azerbaijan will be creating its own ministry of oil and gas to police and legislate the sub-surface rights, on and offshore.

Much midnight oil has been burned in SOCAR's HQ to decide who will be drafted into key positions in the ministry and to analyse the implications for itself of losing key people — or perhaps they may be thinking, gaining key people in the new ministry.

By the way, it is rumoured that, early next year, SOCAR will be announcing the first phase of redevelopment of its 25km Oily Rocks offshore structures, four years ahead of schedule.

Finally, there was great news for Ramco shareholders recently when Steve Remp, the oil industry's answer to Richard Branson, signed production-sharing agreements in Georgia earlier in the year.

Ramco's strategy to date has been faultless and, while I am biased towards the CIS, I believe Ramco will prove to the sceptics that gigantic opportunities are available for companies determined and committed to succeed in the vast region and have long-range vision and imagination like Remp.

■ *Crowded aisles at Azerbaijan's annual oil show.*