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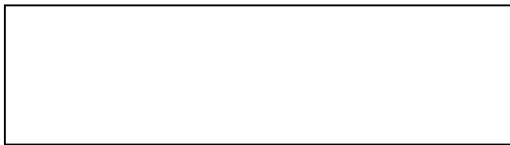
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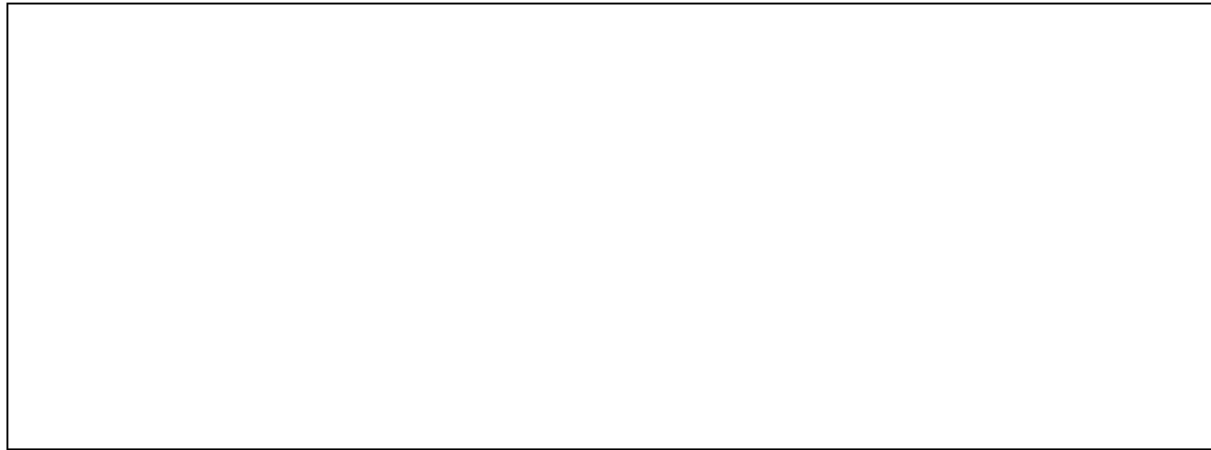
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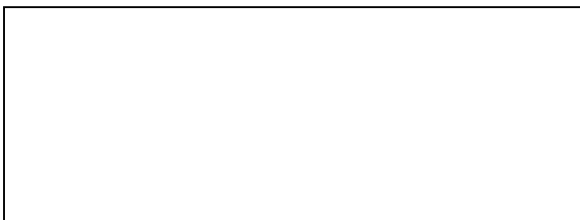


Azerbaijan's Energy Strategy Threatens Caspian Export Projects

Azerbaijan's discovery of gas and condensate (liquid gas) at its offshore Shah Deniz field is likely to reinforce Baku's quest to control oil and gas pipeline projects from the Caspian. President Aliyev planned to host a briefing Monday for other Shah Deniz shareholders on the discovery and proposed export strategies.

- According to the field's operator, BP Amoco, initial tests indicate Shah Deniz holds about 400 billion cubic meters of gas, making it the largest discovery in the Caspian since the breakup of the Soviet Union.
- In addition, the field contains 500 million barrels of condensate—enough to produce about 60,000 barrels a day—that could be fed into a main export pipeline with oil produced by the Azerbaijan International Operating Company (AIOC).

The discovery will enable Azerbaijan to become a significant gas exporter when the field is developed in four or five years. With assurances from Turkish President Demirel that Turkey will buy all the gas Azerbaijan can provide, Azerbaijan is wasting no time in promoting its image as a major gas exporter.



- The commercial developers of Shah Deniz are meeting in Baku this week to create a gas-marketing working group.

Power Play Could Delay Projects

Baku's focus on its own oil and gas export needs and its determination to control major transport projects through Azerbaijan will aggravate already tenuous regional cooperation. In addition, it may discourage other producers, especially Kazakhstan and Turkmenistan, from participating in developing the Baku-Ceyhan oil pipeline and the trans-Caspian gas pipeline and prompt them to seek other export routes through Russia and Iran.

- If Baku blocks the trans-Caspian pipeline from Turkmenistan to protect its own gas export markets while it develops Shah Deniz and overcomes processing bottlenecks, it could lose the Turkish gas market to Russia and Iran, which are moving ahead with competing projects to deliver gas to Turkey.

