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BP Opens Caspian Spigot

Complex Pipeline Project Shows Big Oil's Thirst for Reserves

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When **BP PLC** opened the spigot today on an 1,100 mile, \$3.6 billion pipeline stretching from the Caspian Sea to the Mediterranean, it demonstrated how the world's biggest oil companies are turning to increasingly expensive and complex projects to gain access to new reserves.

The Baku-Tbilisi-Ceyhan pipeline, built by a consortium of international oil companies led by London's BP, will gradually ramp up to carrying about 400,000 barrels of oil a day from an offshore Azerbaijan field through Georgia and Turkey in the first few years of operation. The line's maximum capacity of one million barrels a day -- slightly more than 1% of global demand -- isn't enough of a gusher to tame today's superhigh oil prices. Still, the project is coming online as the petroleum industry strains to meet surging demand, making it a welcome new cushion for world markets.

"Our supply situation is so much worse than expected," said Amy Myers Jaffe, a fellow at the James A. Baker III Institute at Rice University in Houston. "So this increment is so important."

The pipeline is expected to be feeding tankers by the fourth quarter. The crude it will carry is of the light, sweet variety markets value most. By the end of the decade, the field's output is expected to increase to the pipeline's maximum capacity. In the meantime, Kazakhstan has said it will ship some of its oil production in coming years across the Caspian to Baku and then through the line.

BP and the pipeline's planners -- including the administrations of Presidents Bush and Clinton -- have weathered years of skepticism about the project's economic and geopolitical hurdles, from declining forecasts of Caspian production to fears of terrorism and political unrest.

The Caspian Sea region's oil discoveries have fallen short of heady forecasts of the 1990s, some of which projected the area could rival the Middle East. Caspian production amounts to about two million barrels of oil a day, about the same amount Iraq's insurgency-wracked industry is delivering now. High-end estimates of reserves in the region are just 33 billion barrels, compared with about 715 billion barrels in the Persian Gulf.

Still, the region and the pipeline, referred to as BTC, offer Western markets one more alternative

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to the often-volatile Middle East and other oil-rich but politically shaky hot spots including West Africa. Washington also has used the pipeline project as a way of fostering stability and cementing political and economic ties with regional governments in the wake of the breakup of the former Soviet Union.

For BP, the Azerbaijan field is one of several new projects that the world's second-largest publicly traded oil company by market capitalization, after **Exxon Mobil Corp.**, is starting up to lift oil production amid declining output at some of its older fields and slowing growth at its big joint venture in Russia. BP is forecasting output to increase 5% in the next few years, though Russian growth is expected to slow sharply from last year's double-digit pace.



"This is the big event," said Tony Hayward, BP's head of exploration and production. "It is opening up a new hydrocarbon province." BP is planning to build a natural-gas pipeline along the same right-of-way, making both projects more cost

efficient, though Mr. Hayward said each of the pipelines are "commercially robust" as stand-alone projects.

Much of the world's easy-to-tap oil reserves already are being developed or are closed off to foreign companies. As international companies increasingly compete with state-owned companies or smaller players willing to accept lower returns, BP and other large companies have used their ability to put together massive projects as their strongest competitive advantage.

Massive projects like BTC that are "geographically complex, geologically complex and geopolitically complex" will be much more the norm for Big Oil than big, easy-to-find oil fields, said Brenda Shaffer, research director for Caspian studies at Harvard's Kennedy School of Government, Cambridge, Mass.

The BTC pipeline is specifically designed to thwart terrorist attacks, adding to the project's complexity. The conduit is completely buried along its path through Azerbaijan, Georgia and Turkey. In Georgia, it skirts the ecologically delicate Borjomi Gorge, famous for its mineral water.

Some advocacy groups complain that the BP consortium and host governments aren't responding adequately to environmental and other local complaints related to the line's construction. BP's Mr. Hayward said the company is dealing with local issues fairly.

Each government has invested heavily in security and emergency-response arrangements, including paying local tribesmen to guard facilities along some stretches. The U.S. military is also training and equipping local security forces in the region. But terrorism worries still weigh.

"It's a very robust project," said Gal Luft, an energy-security analyst in Washington. Still, "when a pipeline is buried, it's more difficult to hit it, but it's also more difficult to fix if it does get hit."

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