

A world scale gas value chain, breaking ground on the southern gas corridor to Europe

Breaking Ground on the Southern Gas Corridor to Europe

Al Cook, Vice President, Shah Deniz Development



Introduction

Good afternoon and thank you for inviting me to address this important conference today. I am very impressed by the people that the European Bank for Reconstruction and Development has drawn together here in London and am privileged to be part of this discussion.

There are not many occasions when a company can announce it has reached a decision to invest in a project that is set to change the energy map of an entire region.

Yet that is what occurred in Baku, the capital city of Azerbaijan, just a few weeks ago.

The partnership operating the Shah Deniz gas field in the Caspian Sea which amongst others includes SOCAR, Statoil, and BP, gave the green light to the Stage 2 development of this giant energy project.

Leaders from the European Commission, the United States, Turkey, Italy, the UK, and many other countries were present on the 17th of December to witness this historic signing.

The signing triggered our plans to expand the South Caucasus Pipeline through Azerbaijan and Georgia, to construct the Trans Anatolian Pipeline (TANAP) across Turkey and to construct the Trans Adriatic Pipeline (TAP) across Greece, Albania and into Italy.

The Southern Corridor



These projects, as well as gas transmission infrastructure to Bulgaria, will create a new Southern Gas Corridor, connecting gas supplies in the Caspian to markets in Europe for the first time.

Over the next few minutes I'd like to give you a sense of why we are doing this project and the enormous amount of work that lies ahead of us.

Firstly, I'd like to talk about whether or not Europe needs gas from the Southern Corridor.

Secondly, I'll describe the political and engineering foundations of the project.

Thirdly, I'd like to reflect on what this project can mean for the companies and countries involved.

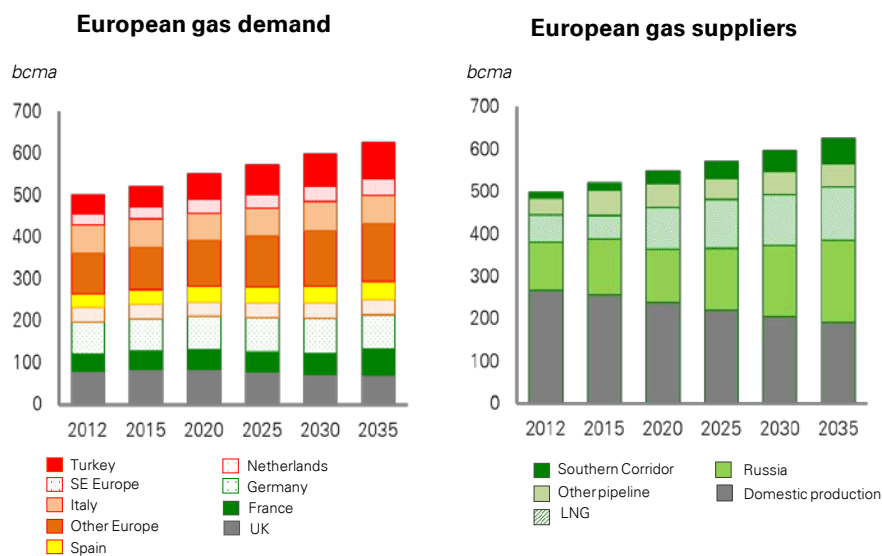
And finally, I'd like to be open with you about some of the challenges we face.

European gas forecasts

To start with, let's look at the forecasts for natural gas supply and demand in Europe.

BP's recently published Energy Outlook 2035 projects that natural gas will be the fastest growing fossil fuel globally over the next 20 years.

Europe: dependence on imports



But Europe has a problem, shown on this slide. It shows gas demand and supply in billions of cubic metres per annum, or bcma. With domestic

production of gas declining sharply, as shown in grey on the right hand chart, the continent is facing a supply issue.

In the UK alone, production levels over last 10 years fell by 60%.

Europe today is the largest importer of natural gas in the world – and we predict that it will remain so over the next two decades.

This creates a major market opportunity for expanding Caspian gas supply and developing a new Southern Corridor to Europe.

Building solid foundations



Building Solid Foundations

I would next like to talk about the foundations on which we are building this project.

Three factors stand out which now underpin the success of this major new gas value chain:

Firstly, the political framework.

Multi-country projects of this nature with such important economic and political dimensions require rigorous and clear political frameworks.

In 2011, the EU and Azerbaijan signed a Joint Declaration underpinning the establishment of direct gas delivery routes from the Caspian to Europe.

This was a key milestone for the Southern Gas Corridor project.

Secondly, the Joint Declaration together with the Intergovernmental Agreements on TANAP and TAP paved the way for long-term gas sales contracts.

6 bcma of gas will be delivered to Turkey and 10 bcma to nine European companies for consumption in Bulgaria, Greece and Italy.

And finally, it is our proven track record of building world scale projects in Azerbaijan that gives us the confidence that we can take on the challenge of developing the Southern Gas Corridor.

Since 1994, we have developed 2 giant fields in Azerbaijan and have built the Baku-Tbilisi-Ceyhan and South Caucasus Pipelines across Azerbaijan, Georgia and Turkey. I should note the key role that EBRD played in this.

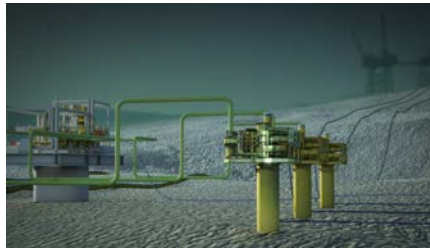
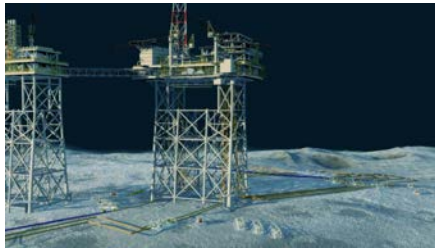
This is a track record that gives confidence to host governments, to gas customers and to our shareholders.

Breaking Ground

The development of Shah Deniz Stage 2 will add a further 16bcma of gas production.

This is enough gas to meet the needs of every capital city along the Southern Corridor - more than twice over.

Breaking ground



The Shah Deniz 2 project is now mobilising at full pace.

We are now awarding the major construction contracts and bringing in the thousands of Azerbaijanis who will build the offshore and onshore facilities.

The expansion of the South Caucasus Pipeline will also get underway this year.

For the two new pipelines - TANAP and TAP – activities are underway in early procurement and obtaining access to land along the pipeline corridor in Turkey, Greece, Albania and Italy.

So it is fair to say that this gigantic undertaking is now becoming a reality on the ground with a clear timetable and set of goals for delivery.

Economic and Financial Impacts

So what does this project mean for the companies and countries involved?

The economic benefits that the Southern Corridor project will create are substantial. Total investment of over \$45 billion is expected to create 30,000 local jobs in the construction phase.

To give you a sense of the scale of this, it is the most expensive project undertaken by BP in over a century of history.

But there is an even greater and longer term prize to be gained.

On the 17th of December we also announced an extension of the Production Sharing Agreement for Shah Deniz from 2031 out to 2048.

This enables us to appraise the potential of a new high pressure reservoir below Shah Deniz 2, which we call Shah Deniz Deep.

Gas prospects such as Shah Deniz Deep are the reason why we have designed the Southern Gas Corridor pipeline system to be scalable to twice its initial capacity to accommodate additional gas supplies in future.

We believe that with the potential additional supplies, Southern Corridor gas will be available to customers beyond countries currently involved.

New pipelines such as the Interconnector Greece-Bulgaria and Ionian Adriatic Pipeline offer the opportunity to take Southern Corridor gas to other countries in South East Europe. One more agreement that was signed on the 17th of December – you can tell it was a busy day! – was a Memorandum of Understanding for expanding the Southern Corridor up through Albania and Montenegro to Croatia.

A key challenge – managing complexity

I have painted a positive picture of this project today.

But that doesn't mean that we underestimate the scale of the challenge involved and the complexity which will need to be managed over the next few years.

And I would like to finish by highlighting some of the challenges we need to take on.

We have multiple and very different stakeholders.

Seven governments have a direct interest in the project.

Eleven companies hold shares in one or several parts of the project.

And eleven gas purchasers will be involved in off-taking major new volumes of gas.

We have to coordinate the projects along the Southern Corridor in every way. We have to deploy our most experienced project leaders, engineers, and technologists to work with our partners and contractors to ensure we achieve a cohesive approach.

And we have to ensure there is a clear and continuous alignment between the interests of the many stakeholders.

That will be the ultimate challenge for our leaders on each of the Southern Corridor projects.

Conclusion – A Legacy for the Future

To conclude, the Southern Gas Corridor is a monumental project in terms of its scale and its importance to Europe and the individual countries that lie along its route.

It will offer a major new source of energy diversity to Europe.

It will have a material positive impact on the economies along the Corridor.

And it will have created a legacy of agreement and understanding between a host of governments, energy companies and gas purchasers which will encourage the development of even greater volumes of gas from Azerbaijan and other countries.

That is an immense prize.

And the success of the Southern Gas Corridor is key to securing it.

Thank you