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An oil platform off the Caspian sea coast near Baku

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Azerbaijan enjoys rare upstream FID

BP and partners have reached a $2.9b FID on a new phase at Shah Deniz, but slow progress on other gas projects is attributed to a lack of European support

BP and its partners greenlit a $2.9b compressor project at the giant offshore Shah Deniz gas field at the start of June, marking the first FID on an upstream development in Azerbaijan since 2018.

The approval is a boon for the country's oil and gas sector, generating fresh contracts, jobs and state revenue. Yet, the six-year dearth of FIDs means Azerbaijan will fail to ramp up gas exports to the EU to 20bcm/yr by 2027—as targeted in a memorandum the government signed with the European Commission in May 2022.

Baku has repeatedly attributed the lack of new investment to insufficient financial backing from European banks and a reluctance among EU gas buyers to commit to long-term supply contracts. However, a ten-year agreement signed in June between Azerbaijan's SOCAR and German state-owned SEFE could signal a shift, with Germany potentially joining other EU members in advocating for changes to the bloc's regulations that inhibit expanded pipeline gas imports.

Gift of gas

The Shah Deniz compressor project is designed to maximise overall recovery, unlocking an extra 50bcm of low-pressure gas reserves along with 25m bl of condensate. Rather than boosting output, the investment aims to prevent a decline in production after 2030, BP told *Petroleum Economist*.

Possibly, the deal could also indicate Berlin is willing to stand on the same side with a growing number of other EU member states seeking to revise the prohibitive regulatory framework

The unmanned, electrically powered compressor platform will be installed at a water depth of 84 metres, 3km from the existing Shah Deniz Bravo platform. It will feature four 11MW compressors, receiving gas from both Shah Deniz Alpha and Bravo. Supporting infrastructure includes new infield subsea pipelines, as well as power and fibre-optic cables running between the field facilities and to the Sangachal terminal. Various brownfield modifications are also planned.

Construction is due to begin in late 2025, with completion expected in 2029. Compression of the Alpha platform gas is scheduled to start that year, followed by Bravo's gas in 2030.

This latest investment follows two previous development phases at Shah Deniz, which began exporting gas to Europe in late 2020 via the Southern Gas Corridor. The field produced nearly 28bcm in 2024, of which nearly half was pumped to Europe. Additional volumes were sent to Turkey, Georgia and the domestic market.

"Shah Deniz is the gift that keeps on giving," Damjan Krnjevic Miskovic, director for policy research at ADA University's Institute for Development and Diplomacy in Baku, told *Petroleum Economist*. The investment "is a strategic sign of confidence by the consortium in the long-term viability of Shah Deniz and, more broadly, in Azerbaijan's gas industry."

BP operates Shah Deniz with a 30% interest, while Russia's Lukoil has 20%, Turkey's TPAO 19%, Azerbaijan's state-owned SGC 16%, Iran's NICO 10% and Hungary's MVM 5%.

Many projects, not enough progress

The last FID in Azerbaijan's upstream sector was in 2018, when France's TotalEnergies and SOCAR sanctioned the Absheron Phase 1 project, which reached a plateau capacity of 1.5bcm/yr in 2023. All this gas is used domestically.

Baku and Brussels signed their memorandum to double supplies to the EU to 20bcm/yr in May 2022, three months after Russia's invasion of Ukraine, which left the EU scrambling to reduce reliance on Russian gas. Azeri volumes have steadily risen since, with deliveries to Europe reaching 12.9bcm in 2024, an 8% increase year-on-year. Still, limited new investment means significant growth remains unlikely in the near term.

TotalEnergies and SOCAR, joined by the UAE's ADNOC as a new partner in 2023, expect to take an FID this year on Absheron Phase 2, which would raise output to 5.5–6.0bcm/yr, though this gas is not expected to reach market until 2028.

At the Azeri-Chirag-Gunashli oilfields, BP and its partners amended their production-sharing agreement in September 2024 to develop deeper gas layers. The first well was completed in April, with production expected by year-end. Output will initially amount to just 0.5bcm/yr, however.

“Shah Deniz is the gift that keeps on giving” Krnjevic, ADA University’s Institute for Development and Diplomacy

SOCAR also plans to raise combined output from the producing Umid and undeveloped Babek fields to more than 5bcm/yr, up from 2.3bcm at Umid in 2024. But further exploration and appraisal is needed, supported by foreign investment.

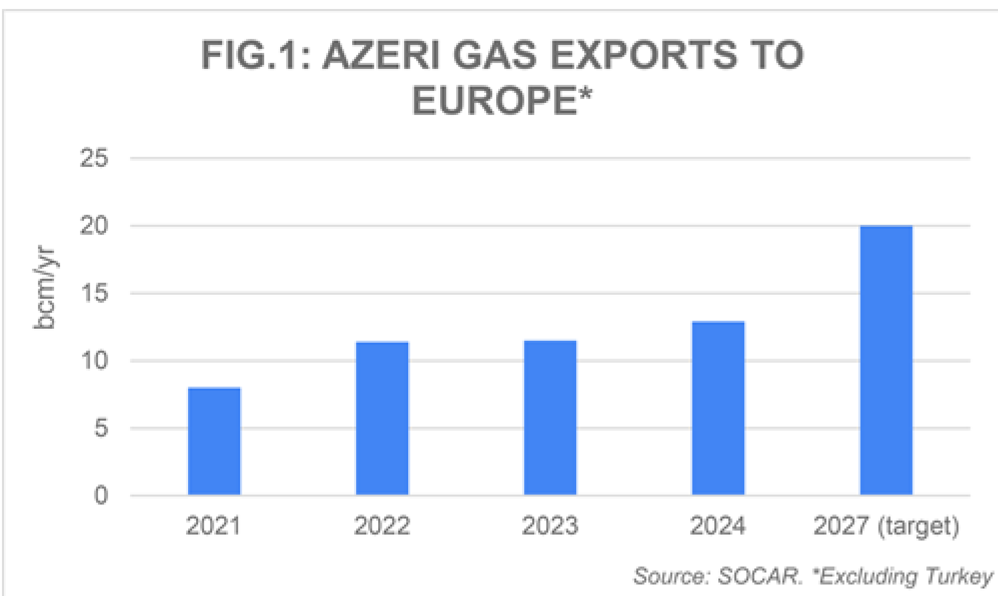
Other supply options are still at early stages. BP and SOCAR drilled a first well in 2021 at the Shafag-Asiman block, reporting a discovery without disclosing reserves. Turkish firm TPAO joined the project in June, helping to fund a second well, although no drilling timeline has been announced.

BP also agreed with SOCAR in June to explore the Karabagh and Ashrafi-Dan Ulduzu-Aypara blocks. However, a 2020 well at Karabagh struck oil, not gas, and the project’s former Norwegian partner Equinor subsequently withdrew.

Lack of support from Europe

Azerbaijan’s government has blamed the slow pace of new upstream progress on a lack of European support. In July 2024, President Ilham Aliyev called the EU approach “hypocritical”.

“Today, Europe is in dire need of our natural gas. On the one hand, they are asking us to increase production and transport gas to Europe, on the other, they do not finance it. Hypocrisy in this issue must end,” the leader said.



“The main reason there is not greater and faster investment in Azeri upstream projects, which would contribute to energy security through diversification of supply, is the EU’s regulatory framework,” ADA University’s Krnjevic said.

This framework prohibits banks under the control or jurisdiction of Brussels from financing new oil and gas projects. This even applies to the expansion of existing projects like the Southern Gas Corridor, which will require additional compressor stations to carry more Azeri gas, he noted. EU restrictions on signing new or longer-term pipeline gas contracts exacerbate the problem.

"This amounts to both geopolitical and geo-economic malpractice by the EU," he said. "This effectively amounts to a soft sanctions regime—not on a country, but on an industry."

In what Krnjevic sees as a welcome development, though, SEFE—formerly a subsidiary of Russia's Gazprom that was nationalised by Germany in 2022—signed a decade-long contract with SOCAR on 10 June for around 1.5bcm/yr of gas from this year. This deal will underpin investments in new production and infrastructure in Azerbaijan, including compressors, the expert said.

"Possibly, the deal could also indicate that Berlin is willing to stand on the same side with a growing number of other EU member states seeking to revise the prohibitive regulatory framework imposed by Brussels that distorts the energy market by discriminating against the import of more pipeline gas," Krnjevic said. "Removing these artificial, ideologically imposed barriers would lower energy prices while contributing to the EU's industrial competitiveness that has taken a number of hard hits in the past few years."

Comments