
Companies Look To Tap Azerbaijan Oil Rush.

By Kristian Gravenor - Business Edge

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Few Canadian firms involved, but opportunity beckons to cash in on boom

It wasn't long ago that a spy in a tuxedo snooped around an imaginary oil pipeline that held huge global political and economic implications.

James Bond's *The World is Not Enough* helped sell a few barrels of oily popcorn, but the pricier barrels - those full of oil - hit world markets in July when armies of workers turned the fictional pipeline into fact.

The world's second-largest pipeline now brings Caspian gold to the world market via tankers on the Mediterranean.

Since it began operation, one million barrels of Azeri oil have flowed through the pipe, earning Azerbaijan a reputation as a new Kuwait on the Caspian.

Kristian Gravenor, Business Edge Bars and cafes are open for business on a Baku street.

In engineering and oil circles, the three-year, \$3-billion effort is considered as glamorous as any spy in a tuxedo. Investors from Norway, Israel, Britain, Japan and beyond are deep into the action.

But most Canadians are at the other end of the ice, far from the puck.

Among the few Canadian companies that seized on opportunity in this country of eight million at the foot of the Caucasus is Vancouver's Canadian Helicopter Corp., which flies oil workers to offshore rigs.

Montreal's Stonepay - run by Azeri-Canadian Sam Jafarpour - builds luxury housing. Alberta's Nation's Energy has a team of 16 Canadians extracting oil onshore.

While Baku has become a second home to countless British Petroleum workers who fill downtown pubs, crossing paths with a Canadian in Baku is rare. That's because the rising price of oil has led Canadian companies to focus on business at home.

EnCana Corp., which has allowed its small oil interest in Azerbaijan to lie dormant, explains that philosophy.

"Over the past couple of years we've taken our focus off overseas and put our interest on North America," says EnCana spokesman Alan Boras.

"We've sold off large overseas interests and are investing further money here in Canada."

Canada's pipeline builders also consider a rising barrel reason to stay home.

"Quite frankly, the pipeline industry has a significant amount of work in Canada and the U.S.," says David MacInnis, president of the Canadian Energy Pipeline Association. "The Canadian pipeline industry doesn't have a real history of looking outside its borders."

"We've got about \$60 billion of projects on the drawing board between natural gas and oil pipeline, the bulk of which are in Canada and the U.S. That's enough to keep us pretty busy."

Kristian Gravenor, Business Edge McDonald's has arrived in the Azeri capital to take advantage of the current energy-driven economic surge.

So, while Britons, Americans and others have meticulously cultivated business relations with Azerbaijan, Canadians have seemed oblivious to opportunities in the fastest-growing former Soviet republic.

But it's not too late to get into the action, according to Edmonton native Raymond Conway.

The Baku-based banker has a message for those who might think that the completion of the massive international project has drained opportunities from Azerbaijan.

"If you drive around Azerbaijan, you still see oil fields with nodding donkeys all over the place. Many are still using old technology, pulling out a barrel here and there. I'll bet a lot of the equipment is the same as when the Nobel brothers arrived here in 1860," says Conway, referring to the family responsible for creating some of Azerbaijan's earliest oil-extraction infrastructure before becoming more famous for their eponymous annual prizes.

Conway has lent millions of dollars to small businesses as Baku bureau chief of the European Bank for Reconstruction and Development (EBRD), a business lending institution co-owned by 60 countries.

He still sees fortunes yet to be made in Azerbaijan. "I'm willing to bet if you came here with steam injection or other kinds of secondary, tertiary technologies, you could easily increase production tenfold with minimal investment. If you're pulling 5,000 barrels out of the ground in Alberta, you have a successful company.

Here, you could do up to 10,000 barrels a day with a modest investment, that's not a bad return."

Conway says he's "a little shocked that Canadians are not here a bit more aggressively."

While the U.S. has been racking up \$150-million trade surpluses with Azerbaijan, Canada's exports have never topped \$30 million a year, which include such goods as a million dollars' worth of cow tongues from Alberta.

Other than the odd crate of pomegranate juice, Canada imports almost nothing from Azerbaijan. Imports weigh in at less than \$1 million a year.

Azerbaijan suffered years of threadbare desperation following independence in 1991.

War with Armenia - which still occupies about 20 per cent of Azerbaijan's territory - led the country to suffer a refugee crisis, as a million displaced people were forced to live anywhere they could find. Tens of thousands spent years living in derelict traincars.

Hopes were dim until a decade ago when former president Heydar Aliyev signed on to an oil-sharing agreement. It led a flood of US \$29 billion in foreign direct investment into the country, making Azerbaijan the

world's leader for FDI-to-GDP (foreign direct investment to gross domestic product) in 2005.

Azeri streetscapes that once featured old women in babushkas pushing twig brooms are now increasingly peopled by denim-clad youth chattering on cellphones. Construction cranes needle every vista.

But some old traditions endure. The World Bank's recently released annual Doing Business Report ranks Azerbaijan 99th out of 170 countries as the easiest place to do business. Azerbaijan has been slower than some in eradicating seven decades of Soviet tradition.

The report argues that running a business in Azerbaijan still involves too many visits to sleepy-eyed wicket zombies to rubber-stamp triplicates.

Study co-author Caralee McLiesh, senior economist at the World Bank, obtained results by surveying lawyers on 10 criteria of business law.

She says the data show that Azerbaijan needs to swing a big machete at its layers of red tape. "We've seen some reforms from Azerbaijan since the prior year. The number of days it takes to start a business has gone from 115 days - among the longest in the world - to 53 days.

It's a significant improvement, but there's still some way to go in order to compete with leading economies."

But ask the few Canadians working in Azerbaijan and you won't hear much groaning. The mostly Alberta-born members of Nation's Energy crew of oil specialists are fans of the country, which stacks up well against their last home in Siberia, where they worked without even a telephone connection.

"Here in Baku, these guys get everything they want, the North American sports networks are all on TV. Now you wake up in the morning and have your choice of hockey and baseball games," says Mike Palmer, one of the few Americans on the largely Canadian staff.

Palmer reports little trouble in wheeling and dealing within Azerbaijan, even though he can't speak the Azeri-Turkic language.

"It's a very positive business climate, the government is anxious to do business with the West. It's safe and I can walk the streets at night. The thing I cherish about Azerbaijan is that there is the sanctity of the contract here. Whenever you sign a contract, you know that it's going to be respected," he says.

His one major knock is that Canada has no embassy in Baku. "I can walk across the street to the Russian, Norwegian, British embassies.

But to get a Canadian embassy I have to work out of Ankara. It would make my life easier if there was a Canadian embassy here."

Azerbaijan has an embassy in Ottawa and Ambassador Fakhraddin Gurbanov is a booster for closer relations with Canadian investors.

He notes that Azerbaijan, which isn't in the World Trade Organization, boasts a competitive 5.7-per-cent weighted average trade tariff. The country has a workforce that's cheaper than that of eastern Europe and laws are designed to open the doors to foreigners looking to make a buck.

"Generally, the legislation of Azerbaijan establishes a very permissive national regime for foreign direct investment. There are no special permissions or specific registration requirements for any foreign investment. Licensing has been substantially simplified with foreign investors' interests in mind. A regime of non-discrimination applies to foreign investors in Azerbaijan," says Gurbanov.

A spate of upcoming Azeri laws aims to further entice foreigners.

Soon, any investment will be protected from rule changes for 10 years. The government will be banned from expropriating or nationalizing foreign investment and will be forced to financially compensate any illegal actions by any member of its government.

Some investors in the former Soviet Union have suffered jitters at the so-called Khodorkovsky syndrome, named in honour of Russia's richest man who was tossed into a jail cell, supposedly because he became a potential political threat.

But lately, Azerbaijan's financial elite no longer cite the old Azeri adage that courage is 10, nine is the ability to escape. Or so says the one western observer who might have the best gut-level intuition about the future of Azerbaijan.

Montana author Thomas Goltz, whose book Azerbaijan Diary chronicled the political development of the country following its chaotic years after independence in 1991, doubts that much of the fast-incoming "wall of cash" will flee to Swiss bank accounts.

"They now seem to be confident of living in a wealthy country," he says. "They're not trying to squirrel away their money and I regard that as a good sign."

Ottawa business consultant Grant Thomas has conducted several exploratory missions to Azerbaijan and sees a sort of spiritual synchronicity between Canada and Azerbaijan, both oil exporting countries that sleep next to economic elephants - the U.S. and Russia.

"We Canadians know what it's like to have an asymmetrical relationship as a smaller country," he says.

It's a natural market and that could also be a way into trickier spots. "Azerbaijan is a soft Islamic country and can serve as a gateway to flashspots like Iran," adds Thomas. "Besides, Azerbaijan has petroleum, we have infrastructure for oil. They have regional telecom and banking aspirations, and we have large banks and a reputation for telecom."

Meanwhile, after three years in Baku, Raymond Conway, his wife and three kids still "love living in Azerbaijan."

In fact, Conway has been considering permanently settling in and starting his own oil concern.

"The only downside of living here that I can think of is that the driving habits are among the most challenging in the world. Aside from that it's a much more international city than people realize.

The weather is fabulous, a little hot on occasion and you might have to pay a bit more sometimes, but you can get whatever you can get anywhere else."

Conway describes Azerbaijan as a "relationship economy," and stresses the need to hit the ground running with a local partner, hopefully one that didn't learn business in the old Soviet era.

He's also bullish on Azeri tourism, which has so far been almost non-existent. "If you go a couple of hours west to the mountains, it's very beautiful country and if they could clean up the Caspian it would have very nice beaches. They still have the kind of Soviet concepts in the tourist industry that need to be developed, but the people are warm and friendly. On occasion they look a little intimidating, but I've never had any difficulty with the Azeris."

And the future leadership looks bright. "There is a generational shift," he says. "Some of the senior people in government have lived abroad extensively and they know what the potential is and they're trying to realize that."

The Azeri proverb notes that it's not shameful not to know, but it's shameful not to ask. So far, Canadians haven't asked many questions about Azerbaijan. Conway, among others, would choose profit over shame.

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