
FROM CHAOS TO PROSPERITY: EFFICIENT OIL STRATEGY OF AZERBAIJAN

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09.04.2018

Natural Gas World (06 April 2018)

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When the Soviet Union (USSR) collapsed in the early 90s, Azerbaijan like other post-soviet countries faced the economic crisis. Due to isolationist economic policy of USSR, the economic relations of Azerbaijan with other countries outside the union was less developed.

As Natural Gas Europe writes in an article "FROM CHAOS TO PROSPERITY: EFFICIENT OIL STRATEGY OF AZERBAIJAN", high interconnection of economies of post-soviet countries ignited spillover effects of the crisis weakening production in partner countries. Consequently, Azerbaijan found itself in an economic blockade as it lost its foreign markets, and was unable to export its main products and import significant consumer products.

The another factor that worsened economic and political situation in the early years of independence was Nagorno-Karabakh war emerged due to illegal territorial claims of Armenia and resulted with occupation of 20% of Azerbaijani sovereign territories. During the period of economic recession, it was hard to provide employment and necessary daily products for refugees which led to serious social problems.

Economic problems experienced in Azerbaijan were characteristic for the countries in the transition process shifting from the command economy to market economy. However, destructive results of war put more pressure over the Azerbaijan economy making temporary economic decline more severe compared to other post-soviet countries.

During 1989 GDP of Azerbaijan decreased by about 63% in total due to agriculture output fell by about 43% and industrial output by about 60 %. Economic instability also led to high level of price fluctuations increasing inflation level to 1800% in 1994. At the time when financial resources much needed for economic recovery, Azerbaijan lost its attractiveness for investors as the unproductive economy and security concerns related to Karabakh war created inefficient environment.

Despite all these setbacks in the early years of independence Azerbaijan was able to recover its economy and embarked on a development path. After Heydar Aliyev became a president of Azerbaijan in 1993, he managed to draw out Azerbaijan from economic and political turmoil and succeeded suspending the war with Armenia. Stabilized political situation afterwards paved a way for economic development once security concerns were eliminated. Late/then president Heydar Aliyev made a great contribution for the Azerbaijani oil export to international markets which

brought tremendous oil revenues that helped Azerbaijan to get out of the economic crisis. Along with economic advantages, the oil revenues promised political independence and high level of social welfare. Even though Azerbaijan is one of the first venues where oil was drilled (XIX century) until independence (after 1991) it did not have a direct control over its oil industry. Hence, the development of oil industry after the independence had a special significance which necessitated creation of sustainable oil strategy.

In the early years of independence, important steps were taken that enabled to attract foreign investors to the development of Azerbaijan's oil sector. After the long negotiations and despite many difficulties, the oil contracts dubbed as Contract of Century with the Western Oil Consortium including famous oil companies such as British Petroleum, Amoco, Lukoil, Unocal, Statoil was signed on September 20, 1994. This contract facilitated the development of offshore Azeri, Chyrag and Guneshli oil fields and opened a new page in the history of the country stipulating for USD 60 billion of investment in oil and gas industry of Azerbaijan. Azerbaijan's hydrocarbon deposits were estimated at up to 670 million tons of oil and about 130 bcm of gas in those fields.

Following these contracts, Azerbaijani government understanding the importance of transport infrastructure for secure and efficient export of oil reserves to world market, has implemented number of other important energy and transportation projects. The first such a project was Baku-Novorossiysk oil pipeline (1,347 km) which was contracted in 1996 to deliver 6 million tons of Azerbaijani oil per year through Russia to the Black Sea and onwards to the ports of Mediterranean Sea. The second direction for oil transportation is Baku-Supsa oil pipeline (917 km, operational since 1999) which transports Azerbaijani oil to Georgia's Supsa export terminal on the coast of the Black Sea and later to Mediterranean countries.

The most important project for transportation of crude oil was the Baku-Tbilisi-Ceyhan pipeline (BTC, 1768 km) which became operational in 2006 to carry Azerbaijani oil from the Azeri XXXXXXXXXXXX (ACG) oil field in the Caspian Sea to the Mediterranean Sea onwards from its final destination in Turkey's Ceyhan port. BTC opened Azerbaijani oil sector for wider international economic cooperation.

Considering the possibility of political pressures president Ilham Aliyev made big efforts for construction alternative routes for oil export as there were occasional interruptions in the oil transportation through the Baku-Supsa and Baku-Novorossiysk pipelines due to political and technical issues. Therefore, BTC is the most secure and reliable project for Azerbaijan and it owns the greatest stake in the Azerbaijan's oil export. Based on the financial reports of Azerbaijan's State Oil Fund (2006-2016), the country earned more than \$120 billion from the oil export through the BTC.

Along with oil projects, Azerbaijani government also upholds for transportation of natural gas projects, known as Southern Gas Corridor, from Caspian Sea to Europe. One of these projects is South Caucasus Gas Pipeline (SCP, 2007) project, (a.k.a Baku-Tbilisi-Erzurum) which carries Azerbaijani gas from the Shah-Deniz field to Georgian and Turkish markets. Until 2016 Baku-Tbilisi-Erzurum brought 2.25 billion of revenues to Azerbaijan. Other projects that is the continuation of SCP Trans-Anatolian and Trans-Adriatic Gas Pipelines are currently under construction envisaging 16 bcm of Azerbaijani gas export to Europe by 2020.

The successful oil strategy still continues under the presidency of incumbent Ilham Aliyev. The Azerbaijani government together with BP, Chevron, INPEX, Statoil, ExxonMobil, TP, ITOCHU and

ONGC Videsh, signed the agreement on September 14, 2017 on extension of the joint development and production sharing agreement for the ACG fields until 2050. As a part of the new contract, the international co-ventures will pay a bonus of \$3.6 billion to the Azerbaijan State Oil Fund; and SOCAR will increase its equity share up to 25% from 11.65%. During the next 32 years, there is a potential for more than \$40 billion capital to be invested in the ACG oil field.

The signing and implementation of Contract of Century was the clear demonstration of the efficient oil strategy. The oil strategy formed the successful concept for development of Azerbaijan creating sustainable financial base for economic development. As a result of effective economic policy, Azerbaijan's economy became the highest growing economy in 2006 with 34.6% growth. Efficient transformation of oil revenues into economic development enabled Azerbaijan to gain average growth rate of 5% during 1991-2015, and 11% during 2000-2005. Establishment of efficient oil strategy by Heydar Aliyev and its effective continuation by Ilham Aliyev turned Azerbaijan to one of the global oil centers and facilitator in expansion of political and trade relations between Europe and Asia.

<http://vestnikkavkaza.net/analysis/Natural-Gas-Europe-efficient-oil-strategy-of-Azerbaijan.html>

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