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AZERBAIJAN OIL PRODUCTION AS A MAIN LOCOMOTIVE OF STATE ECONOMY

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ABSTRACT

Moreover than century oil and its industrial production have played a crucial role in Azerbaijan development. Being one of the place in the world where oil started to produced, Baku attract attention of many major actors at the beginning of the 20 century. It was reason for fighting between different states prize of which accepted to be Baku oil. During the Soviet period Azerbaijani oil played significant role in defeating over fascism. But after the 50-ies importance of Baku oil decreased due to development of new filed exploration in Siberia. Only after regaining the independence Azerbaijan once more came to the international arena as oil producer and first in its history has a possibility to decide own fate. Oil factor played extremely important role in state building, economic development and following balancing policy in international arena. In this article given information about historical development of oil production and explanation of Azerbaijan strategy and policies realization by new independent state.

Keywords: Azerbaijan, oil, transport corridors

AZERBAYCAN EKONOMİSİNİN TEMEL GELİŞİM UNSURU GİBİ PETROL ÜRETİMİ

ÖZET

Bir asırdan fazladır ki petrol ve petrol sanayisi Azerbaycan`ın kaderine önemli bir yer almaktadır. 20-ci yüz yılın evvelinde dünya petrol üretim merkezlerinden biri olan Bakü`ye bir çok büyük uluslararası aktorun dikkatini kendine çekmiştir. Bakü petrolü için farkı devletker arasında amansız bir mücadele başlanmıştır. Sovet döneminde Azerbaycan petrolü faşızm üzerinde kazanılan zaferinde önemli rol etmişti. Fakat 50`lı yıllardan sonra, Sibirya`da bulunan büyük petrol yatakların işletilmesi nedeniyle Bakü`deki petrolün önemi arzalmağa başlıyor. Yalnız kendi bağımsızlığını tekrar kazandıktan sonra Azerbaycan bir daha uluslararası ortamda petrol üreticisi ve ilk defa olarak kendi kader belirleyicisi gibi ortaya çıkmıştı. Bu makalede Azerbaycan`da petrol üretiminin tarihi gelişimi ve bu ülkenin bağımsızlıktan sonrakı enerji stratejisi ve gerçekleçtirme politikaları konusunda bilgi verilecektir.

Anahtar kelimeler: Azerbaycan, petrol, ulaşın koridorları

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Oil Production in Azerbaijan Before Regaining Independence in 1991

After collapsing of the Soviet Union Azerbaijan regained its independence and was forced to seek ways of resolving the problems faced by this young republic. Erupted in the last period of Soviet political and economic crisis continued into the early years of independence of Azerbaijan. The economic collapse, which was accompanied by a sharp reduction in production and hyperinflation, frequent changes of the republic's leadership, the ongoing Nagorno-Karabakh conflict with Armenia, the problem that needed to be addressed to Azerbaijan in a short time. One obvious way out of difficult situation was to use a rich resource of hydrocarbons in order to obtain economic benefits as well as political dividends.

It should be noted that Azerbaijan is one of the centers of oil production in the world. As early as 1846 in the Bibi-Eybat (Baku) the first oil well was drilled. This was done for 12 years before the colonel Edwin L. Drake, started drilling in the town of Titusville in Pennsylvania.[1] By the beginning of the 20th century, Baku produced half of the world's and 95% of the Russian oil. After the entry of Azerbaijan in the Soviet Union, Baku still retained the position of the oil capital of the country. During the Second World War, the importance of the Baku oil has increased even more. In the period between 1941-1945 years Azerbaijan produced 75 million tons of oil, accounting for 75% of total production in the USSR.[2] Such active oil production led to a gradual depletion of onshore fields. As a result, increasingly began to be developed offshore fields. In the first time in the world an artificial Oily Rocks city (Neft Daşları) was built on piles in 1949, where is the main oil production started.[3] In addition to the Oil Rocks, oil was found in several other fields. In 1970-ies, 8 new deposits of oil and gas were discovered, thank to that the volume of oil reserves increased 2 times. In 1980-ies, the number of floating drilling rigs had been brought up to 11, after which new fields were discovered at a depth of 80-350 meters, including Guneshli, Chirag and Azeri deposits.[4] Despite the prospect of offshore production, lack of technology and the discovery of new, easily reclaimed giant oil fields in Siberia and in the Urals, has led to the fact that Baku is gradually began to lose the championship in the production of oil. By the 80th year of Azerbaijan was producing only 3% of total oil production in the Soviet Union.[5] By this time, Azerbaijan was to specialize in processing of crude oil, which was delivered in Baku, primarily from fields in Western Siberia, for which the Baku-Tikhoretsk pipeline was built in 1983.

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[1] Daniel Yergin, The Price: The Epic Quest for Oil, Money & Power, Free Press, New York, 2003, 26-27.

[2] Audrey L. Altstadt, The Azerbaijani Turks, Power and Identity Under Russian Rule, Hoover Institution Press California, 1992, p. 152.

[3] Thomas De Waal, The Caucasus: An Introduction, Oxford University Press, 2010, p. 170.

[4] Ровшан Ибрагимов, Статус Каспийского Моря и Проект Набукко: Развитие Отношений Между Азербайджаном и Туркменистаном, 30.04. 2008, http://www.eurasianhome.org/xml/t/expert.xml?lang=en&nic=expert&pid=1541, 18.04.2008.

[5] Svante E. Kornell, Azerbaijan Since Independence, M.E. Sharpe, New York, 2011, p. 202.

For the revival of the oil extraction was necessary to wait for the independence of Azerbaijan. To begin the development of deep-water oil fields of Azerbaijan, were needed more financial resources and new technologies that Azerbaijan does not possess. It was necessary to attract major Western energy companies to use their experience in this field. It should be noted that the negotiations with major companies were started before the collapse of the Soviet Union. Declaring September 23, 1989 its sovereignty,[6] Azerbaijan SSR has gained the right to form a direct economic relations with Western companies. This primarily concerned the possibility of their involvement to begin development of oil fields Azeri, Chirag and Guneshli.

Negotiations have started with a such companies as British Petroleum, Statoil, Amoco and Unocal. Already by early 1991, several steps to create conditions for early development of oil have been taken from these companies. On January 18, 1991, it was decided to hold a tender to build a joint production association between "Caspmorneftegaz" and western companies to explore and develop offshore Azerbaijani field. On June 1991, Amoco company was declared as the tender winner.[7]But this decision never came to force and negotiations with the companies continues after Azerbaijan gained independence. Russia's reluctance to conduct an independent Azerbaijan's energy policy, as well as the presence of the west in the South Caucasus region, has led to a change two governments in Azerbaijan.

Azerbaijan Independence: Oil As Cure For Political And Economical Instability: Contract Of Century

Attempts first Azerbaijani president Mutalibov to sign oil agreements with Western companies, led to the fact that on March 6, 1992 was forced to resign. It happened after the tragedy that occurred in the Karabakh town of Khojaly, predominantly inhabited by Azerbaijanis, when on the night of 25 to 26th February, the Armenian armed forces, with the support of the 366th infantry regiment of the former Soviet army staged a massacre. As a result of the bloody strife, more than 600 civilians were killed, hundreds injured and maimed, hundreds people were missing.[8] Starting from 1992 Russia unequivocally supports Armenia and uses a different leverage against the anti-Russian government of the Popular Front, headed by Abulfaz Elchibey, who came to power after Mutalibov.[9] Board Elchibey lasted

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[6] See: Конституционный Закон Азербайджанской ССР о Суверенитете Азербайджанской Советской Социалистической Республики, Бакинский Рабочий, 05.10.1989.

[7] Елхан Полухов, “Контракт Века” (Проблема в исторической ретроспективе), Кавказские Региональные Исследования, Journal, Volume 2, Issue 1, 1997, http://poli.vub.ac.be/publi/crs/rus/R02-005.html, 24.03.2011.

[8] Svante E. Kornell, ibid, p. 62-63.

[9] Thomas De Waal, ibid, pp. 117-118.

only one year, and fell at the outbreak of the self-styled Colonel Suret Huseynov rebellion in Ganja.[10]

During this period President Elchibey invited from Nachichevan a former Soviet Politburo member and KGB General, Heydar Aliyev, who was the chairman to the Majlis[11] of this autonomous republic. Immediately after that Elchibey fled Baku and settled in the village of Keleki, in Nachichevan, in the place where he was born.[12] In 10 June 1993, Aliyev arrived in Baku, following the resignation of Speaker of the National Assemble Isa Gambar, Heydar Aliyev was elected chairman of the National Assembly and granted temporary presidential powers.

In August 1993, Azerbaijan held a referendum vote of no confidence for the second president, as a result of people's will, Elchibey formally stripped of the presidency. In October 3, 1993 during the next elections, Heydar Aliyev becomes president of the country.[13]

Despite the many difficulties, in September 20, 1994, Azerbaijan managed to sign a Contract of Century develop offshore Azeri, Chirag and Guneshli oil fields. Contract were signed in the form of a Production Sharing Agreement. The averagely Azerbaijan government should be getting up to 80% of income from the sale of oil, while 20% is distributed among companies.[14] The agreement was signed for 30 years. Initially, the consortium members to participate in a signing ceremony were following companies: SOCAR (Azerbaijan) 20%, British Petroleum (UK) 17.127%, Amoco (U.S.) 17.01%, Lukoil (Russia) 10%, Pennzoil (U.S.) 9.82%, Unocal (U.S.) 9.52%, Statoil (Norway) 8.563%, McDermott International (U.S.) 2.45%, Ramco Energy (Scotland) 2.08%, Turkish State Oil Company (Turkey) 1.75%, Delta-Nimir (Saudi Arabia) 1.68%.[15] Over time, the ranks of the consortium members and their percentage of participation have changed. In short, Azerbaijan, SOCAR company delivered 5% of its share of the Turkish company TPAO.[16]

Another 5% the Azerbaijani government to pass the Iranian national oil company, under an agreement signed on November 1994 in Baku. The main purpose of President Aliyev was balancing key forces of the region through the establishment of equal treatment for all stakeholders. But the U.S. government has opposed this intention of the Azerbaijani government on the grounds impossibility functioning of American companies together with Iran in accordance with existing

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[10] Thomas De Waal, ibid, p. 121.
[11] Name of legislative organ in Azerbaijan
[12] Kamer Kasım, "Armenia's Foreign Policy: Basic Parameters of the Ter-Petrosian and Kocharian Era", Review of Armenian Studies, (Ankara, ASAM, Volume 1, No 1, 2002), p. 97.
[13] Svante E. Kornell, p. 75.
[14] Nasser Sagheb, Masoud Javadi, Azerbaijan's "Contract of the Century" Finally Signed with Western Oil Consortium, Azerbaijan International, Journal, Winter, 1994, pp. 26-27.
[15] Nasser Sagheb, Masoud Javadi, ibid, pp. 26-27.
[16] Günün Olayları, 12.04.1995, http://www.haberkazani.com/kazandan-12-nisan-1995-gundemi.html, 24.03.2011.

legislation. As a result, Iran has been denied a share. In April 1995, this 5 % were delegate to the ExxonMobil.[17]

An important event was the acquisition by BP the U.S. Amoco company in 1999 for the price of $ 55 billion. Thereby bringing its stake in the consortium up to 34%, becoming the largest auctioneer in the consortium.[18] After the merger of BP and Amoco, in 2000 Ramco Energy has sold 2.08% stake in the contract for $ 150 million to Amerada Hess company. In December 2002, the Russian company Lukoil sold its share in the block of the Azeri, Chirag, Guneshli to the Japanese company Inpex for the price of 1.35 $ billion. In this way the Russian company is completely out of the consortium before the start of the main oil production. In this redistribution of shares involved in the "Contract of the Century" has not ended. In March 2010, the company Devon Energy put up for sale its share in the consortium. It is part in the block Azeri, Chirag, Guneshli consisted 5.63%. As a result, the share of Devon Energy was divided between BP (3.29%), U.S. Chevron (0.99%), Japanese Inpex (0.96%) and Itochu (0.38%). So at the moment equity companies in the project is distributed as follows: SOCAR 11.65%, BP 35,78%, Chevron 11.27%, Inpex 10.96%, Itochu 4.3%, ExxonMobil 8.0006%, Hess 2.72%, Statoil 8.56%, TPAO 6.75 %.[19]

As can be seen on the changes, the change of the consortium took place quite rapidly. More it is related to the strategic plans of the companies themselves, some of whom preferred to get a momentary profits, without going into the production process.

Thanks to high oil prices in 2005-2008, as well as the high percentage of oil production revenues in Azerbaijan even exceeded 80%. Drilled wells showed very high productivity of reservoirs. Originally expected crude oil production rate will be at 10 thousand barrels, in reality, was 25-30 thousand barrels per day. The high price of oil and its large reserves of Azerbaijan have allowed up to 85% of profit oil from the Azeri, Chirag and Guneshli. In addition, recalculation of oil reserves in these fields was provided. At the beginning, it was believed that stocks of crude oil at the Azeri, Chirag and Guneshli oil fields were estimated as 511 million tons, but then found out that they account for 640 million tons. In June 2007, reserves were estimated at 900 million tons.[20] It has also been voiced figure of 1 billion tons. Positive impact on income was played a role of quality of Azeri oil which has sold on the world markets under the `Azeri light` brand. The quality of `Azeri light` crude oil brand is one of the highest and the oil itself is one of the lightest in the world. Azeri crude weighs 36.7 degrees average API gravity, which is even lighter than Saudi Arabia's, which weighs 34.2.

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[17] Thomas De Waal, ibid, pp. 172-173.

[18] Steve Le Vine, The Oil and the Glory: The Pursuit of Empire and Fortune on the Caspian Sea, Random House, New York, 2007,352.

[19] Доля SOCAR в проекте Азери-Чираг-Гюнешли увеличена до 11,65%, 16.07.2011, http://www.youthportal.az/news/detail.php?ID=5634

[20] Нефтепровод Баку-Тбилиси-Джейхан - любимец фортуны…, 06.08.2007, http://www.1news.az/articles.php?item_id=20070806100139785&sec_id=12, 05.04.2011.

Construction Of The Export Transport Corridors

However, the successful completion of the consortium "Contract of the Century" was only part of strategy. It was necessary to create a transport infrastructure for the export of Azerbaijani oil to world markets. The main difficulty in this issue for Azerbaijan is that this country has no access to the open seas. In consequence of that Azerbaijan depends on the transport corridors passing through the territory of neighboring countries. In this case, plays an important part of Azerbaijan's relations with the degree of potential transit countries. This factor played a major role in determining the route for the pipeline to transport crude from Azerbaijan to be exported to world markets. First having to create a pipeline began in the late 90s of the 20th century, when the fields of Azeri, Chirag had to be extracted "early oil".

Taking into account that the main oil production from oil fields is expected only in 2005, it was necessary to ensure a steady income Azerbaijan, which, after the collapsing of the Soviet Union, faced with serious economic problems. Word of the first batch of oil was supposed to be in the fourth quarter of 1997 from Chirag-1 platform, for the export of which the pipeline was necessary to build with a transmittance of not less than 5 million tons per year.[21] The term "early oil" means crude oil produced at the Azeri, Chirag, Guneshli that do not require extra costs to build the infrastructure for proper operation.

For exporting of the "early oil" two transport corridor directions were proposed: the first direction across Russia, the Baku-Novorossiysk pipeline, length of 1,347 km, with the capacity of up to 6 million tons of oil per year. From Novorossiysk oil transported by tanker across the Black Sea and then through the Turkish Straits to the ports of the Mediterranean Sea. The second direction: the Baku-Supsa oil pipeline, stretching 917 km and pipeline capacity is about 5.5-6 million tons per year. From Supsa, as well as from Novorossiysk, oil tankers should have been shipped across the Black Sea to the ports in the Mediterranean Sea.[22]

The reason is the need to construct two pipelines at the same time for a relatively small amount of "early oil", cut out the desire of Azerbaijan to reduce dependence on Russia. It was clear that politically Azerbaijan cannot refuse to take a northern direction and it will be necessary. In this situation parallel to the northern direction it became necessary to build a second pipeline bypassing Russia. The Baku-Supsa oil pipeline was such an option and for the first time one of the republics of the former Soviet Union put an end to Russia's monopoly in pipeline transport.[23] Construction of Baku-Supsa pipeline has allowed the implementation of Azerbaijan to diversify into transport policies. This enabled Azerbaijan to conduct a

[21] Ильхам Алиев, Каспийская нефть Азербайджана: Москва, Известия, 2003.
[22] Rovshan Ibrahimov, Azerbaijan Energy Strategy and the Importance of Diversification of Exported Transport Routes, // Journal of Qafqaz University, 2010, No 29, p. 25.
[23] Rovshan Ibrahimov, Azerbaijan: Happiness is the Availability of Export Corridors, ibid.

more independent foreign and energy policies. The creation of alternative transport routes for energy exports, became the key energy policy of Azerbaijan.

With the growth of oil production from Azeri, Chirag, Guneshli was necessary to build the main pipeline. One reason is limited in the volume capabilities of the two existing pipelines: a total of Baku-Novorossiysk and Baku-Supsa pipeline capable of transporting not more than 12 million tons per year. However, beginning in 2005 Azerbaijan had to begin shipping at least 20 million tons of oil annually.

The U.S. government strongly supported the construction of a new export pipeline. The United States would like to reduce Russia's influence on the successful development of energy projects in Azerbaijan and in the Caspian Sea region.[24]Azerbaijan wasn`t against this proposal because since gaining its independence had a rather strained relationship with Russia, accusing this country in support of Armenia in the Nagorno-Karabakh conflict. As a result it was far from the desire to get into complete dependence on the will of its northern neighbor in the matter of its own oil exports, which represents not only economic but also political significance.

Another reason is that set in Novorossiysk and Supsa oil tankers transported through the Turkish straits of Bosporus and Dardanelles, while the passage of tankers through them is limited to Turkey for security reasons. The straits are the boundary between Europe and Asia, while connected the Black Sea and the Mediterranean.[25] Legal status is determined by the passage of the Straits is Monteux Convention, signed on July 20, 1936. According to Convention, the passage of commercial vessels of all nations through them is free.[26]Turkey has limited the right to adjust the passage of vessels in order to increase the level of security. Turkish megalopolis Istanbul with the population of more than 10 million people located on this Straits. Intensiveness of transportation is also increase risks for this city. The annual volume of oil, which may carry through the Straits is in the range of 200 million tons. Every year about 50,000 vessels pass through these straits, including thousands of tankers filled with oil.[27] In support of Turkey and made the United States, which held that in case of selecting the main port for oil exports Novorossiysk or Supsa, there is a security issue as it passes through the straits.[28] In addition to the Azeri oil to the port of Novorossiysk oil exported from Russia itself, as well as Kazakhstan. A situation in which the export of such quantities of oil

[24]Jofi, Joseph, "Pipeline Diplomacy, The Clinton Administration`s Fight for Baku-Ceyhan", WWS Case Study, 1/99, http://wws.princeton.edu/cases/papers/pipeline.pdf
[25] Steve Le Vine, ibid, 350.
[26] Конвенция о Режиме Проливов 20 Июля 1937 г., Монтре (Швейцария), статья 2, 23.01.2008, http://law7.ru/base42/part2/d42ru2878.htm, 18.04.2011.
[27] Brenda Shaffer, Energy Politics, Philadelphia University of Pennsylvania Press, 2009, p. 100.
[28] Steve Le Vine, ibid, 350.

through the straits is physically impossible. In this case, there was a need for a pipeline bypassing the Turkish straits.[29]

In January 1994, Turkey has prepared a new proposal for the security of straits and offered them to the UN Committee on Safety at Sea International Maritime Organization. After processing a number of standards from the Committee, in May 1994 the Turkish proposals were accepted.[30] Many large oil companies to voluntarily recognize the new rules of passage through straits, made by Turkey.[31] Russia is also had to adopt new standards.

As a result, it became necessary to build a pipeline to bypass the Straits with access to the Mediterranean. Such corridors is the Baku-Tbilisi-Ceyhan with the volume of more than 50 million tons per year. On November 18, 1999 during the OSCE Summit in Istanbul presidents of U.S., Azerbaijan, Turkey, Georgia and Kazakhstan have signed a document confirming the support of these states for the construction of the Baku-Tbilisi-Ceyhan.[32]The signing of this agreement had a great strategic importance. Thereby was obtained political support from the U.S government which played a crucial role in implementation of this project.

Members of the consortium to build the pipeline and their shares were distributed as follows: BP (34.76%), SOCAR (25%), Statoil (8.71%), Unocal (8.90%), TPAO (6.87%), ENI (5%), TotalFinaElf (5%), Itochu (3.40%) and Amerada Hess (2.36%).[33] Construction of the pipeline, stretching more than 1,730 km, began in 2002 and was completed in 2005. Already in December 2006, Azerbaijan was able to abandon the use of the Baku-Novorossiysk pipeline, at a time when Russia began to require the full use of Azerbaijan the pipeline or how to pay for the transportation of 5 million tons a year.

Thanks to the fact that interest of Western countries to Azerbaijan has increased, that enabled a balanced foreign policy and pursue a more independent course. For the first time after many years, it had been political stability in the country. Since the signing of agreements on the Azeri-Chirag-Guneshli, Azerbaijan has to date signed some 30 PSA. If we analyze all contracts, it is possible to see some trends that have an impact on this process. Azeri, Chirag, Guneshli offshore block is still provide a major oil production in Azerbaijan. Despite the presence of other fields, the beginning of their development is not started due to differences existing between the riparian countries on the Caspian Sea Stratus. Discussion continues on the ownership of the deposit Kapaz /Syardar with Turkmenistan and on the fields Araz, Alov and Sharg with Iran. Meanwhile researchs work in some fields have been suspended in the late 90's due to unprofitability due to low oil prices,

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29 Rovshan Ibrahimov, Azerbaijan: Happiness is the Availability of Export Corridors, http://www.usak.org.tr/EN/makale.asp?id=552.

30 Андрей Болдырев, Российско-турецкие отношения и Конвенция Монтрё, 13.02.2010, http://journal-neo.com/?q=ru/node/84, 18.04.2011.

31 Brenda Shaffer, ibid, 100.

32 Steve Le Vine, ibid, p. 356.

33 Баку-Тбилиси-Джейхан-Хроника проекта// Caspian Energy, № 3, June-August, 2002.

which were formed at that time. It is worth noting that the exploration work on many wells were in times when oil prices on world markets reached their bottom and in the range of 8-12 dollars per barrel. In such circumstances, to conduct exploration and manufacture of hydrocarbons offshore deposits are not commercially attractive business. However, with increasing attention to the price of oil fields has increased again. Along with this, many promising fields were gas and a few of them were found large reserves of natural gas.

Azerbaijan New Oil Strategy

After production of oil Azerbaijan GDP has grown substantially over this period. In 2005 GDP growth was 26.4% in 2006 - a record 32,5% in 2007 - 25% in 2008 - 10,8%. In the past two years, the economic boom was sharply reduced and the growth of GDP in 2011 amounted to 0.2%, and in the first six months of 2012 consists only 1.5%. This is due primarily to the deliberate reduction of oil production from the Azeri, Chirag, Guneshli block. The Government of the Republic is trying to reduce dependence of economy from the energy sector and to develop non-oil. This policy is bearing fruit, in a word for six months in 2012 non-oil GDP increased by 11.5%, which allowed compensation decline in growth in gross domestic product in the oil sector. This practice is expected to continue.

That is why the oil policy of Azerbaijan began to reconsider their policies. Azerbaijan hopes to the extent possible to reduce crude oil exports and increase the production and sale of finished oil and chemical products. Work on creating the necessary infrastructure is both domestically and abroad. In the implementation of the new oil strategy of Azerbaijan is an important role national oil company SOCAR. SOCAR which becoming one of the biggest energy company in the word has two refineries, located in Baku total processing capacity of which up to 20 million tons a year.[34] In addition to these, a number of property companies are building trusts, companies vehicles, automation and integrated installation, research and design institutes. The company employs about 60,000 people, SOCAR controls about 6,800 oil wells on land and 1400 at sea, an oil fleet of over 300 vessels, 6 floating oil drilling platforms.[35]

It should be noted that in the Soviet times, Azerbaijan had experience in exploration of oil on the territory of the former Soviet Union and in the other states. With the tremendous experience and high level specialists the company recently started independently operating its own fields, and now intends to elevate its activities to the international level. The company is not limited to the extraction and export of their own resources, while more and more actively involved in the energy markets in the region of the Black Sea.

SOCAR acquired nearly 100 hectares in the Kulevi Terminal located on the shores of the Black Sea. In addition to that, the Georgian government added further

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[34] Oil and Gas in Azerbaijan, http://www.azerb.com/az-oil.html, 22.04.2011.
[35] Баку и Нефть. Современность, ibid.

200 hectares to the territory of the terminal. The company intends to produce refineries to be displayed on the Black Sea in the future, with the possibility of exporting oil to the seaside Black Sea states. It should be noted that currently power of the transshipment of the Kulevi terminal is 10 million tons (2 million tons of oil, 3.0 million tons of diesel, 4 million tons of fuel oil). It's planned to increase the handling capacity of the terminal to 20 million tons, and increase the tank fleet to 380 thousand cubic meters.[36] The terminal started own activity in 2007. In addition, SOCAR established SOCAR Energy Georgia Company which has opened the petrol stations on the Georgian territory. SOCAR is the main distributor of natural gas in Georgia. To date, over 150 thousand subscribers in different regions of Georgia get gas, dispersing by SOCAR.[37] SOCAR provides 70-75% of the gas market in Georgia and virtually all of the gas system of the country.

SOCAR is also increases own activity in Turkey. In early December 2007, SOCAR President Rovnag Abdullayev and chairman of the Turkish oil company Turcas Erdal Aksoy signed a protocol to establish a joint company. In particular, SOCAR acquired as part of an alliance with Turcas and Injaz 51% of Turkey's largest petrochemicals company Petkim. SOCAR intends by 2015 to increase the income of this company with $ 1.9 billion to $ 4 billion at the time of the acquisition of the production capacity of Petkim was 3.2 million tons per year. By 2015 this will rise to 6.3 million tons. Today Petkim production covers about 25% of the market in Turkey.[38] In addition to this acquisition and expansion is the company SOCAR plans to build for the needs of Petkim new refinery capacity to 10 million tons of oil annually. October 25, 2011 during the visit of President Ilham Aliyev was held in Izmir ceremony of laying the foundation of a new oil refinery. Thanks to investment in the company SOCAR's share in the Turkish market of chemical industry will increase from 25% to 40%. One of the biggest projects that SOCAR is planning to implement in Turkey, is the construction of the Trans Anatolian pipeline (TANAP). The idea has arisen due to limited pipeline infrastructure to transport the internal order of 10 billion cubic meters of gas to the Turkish and European markets. The volume of gas that will be transported by TANAP at an early stage - from 2017, when the gas starts to flow in the second stage of field development, "Shah Deniz", will be 16 billion cubic meters of gas. Subsequently, the plan to increase the capacity of the pipeline.

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[36] State Oil Company of Azerbaijan Republic: Transition from National to Transnational Company or Demand of Time? , 18.02.2007, http://www.turkishweekly.net/columnist/2487/state-oil-company-of-azerbaijan-republic-transition-from-national-to-transnational-company-or-demand-of-time.html, 18.04.2008.

[37] Дочерняя структура Госнефтекомпании Азербайджана (ГНКАР) – ООО « SOCAR Georgia Gas» продолжает работы по газификации населенных пунктов Грузии, 04.02.10, http://www.oilru.com/news/160555, 19.04.2011.

[38] ГНКАР Намерена Приобрести Нефтеперерабатывающий Завод в Европе, 25.09.2008, http://www.1news.az/economy/20080925104535367.html, 19.04.2011.

SOCAR is also actively developing its relations with other countries. Starting in 2011, opened its first petrol station Ukraine, planning to increase their number.[39] In addition, SOCAR in 3 years, plans to open 300 petrol stations in Romania.[40] SOCAR does not limit its activities only in the Black Sea region, but actively creating relations with the countries of Europe, Africa, Middle East and Asia, a subsidiary of SOCAR Trading opened its office in Singapore. A complete this office is to enter the markets of Asia to trade crude oil. Through this representation of SOCAR is trying to increase the share of its presence in Asian markets and it does so at the expense of long-term contracts.[41] To ensure uninterrupted supply of oil to Asian markets and expand trade in the strategic product in the Gulf, together with SOCAR Aurora Progress began the construction of oil storage and terminal capacity of 645,000 cubic meters of oil storage in Fujairah (UAE). The terminal in Fujairah includes 20 reservoirs and has the capacity for handling gasoline, naphtha, middle distillates and other oil products.[42]

In 2011 SOCAR has acquired core assets structure of the Swiss «Esso Switzerland», which belonged to Exxon Mobil. The deal amounted to 330 $ million. As a result of the transaction, SOCAR has received in the management of a network of 170 filling stations, enterprise management pipelines and terminals, as well as the unit is engaged in marketing activities for the implementation of the management of petroleum products in Switzerland, companies involved in aircraft refueling and refueling vehicles using liquefied petroleum gas.[43]

As can be seen SOCAR is not going to limit their activities only in exploration and production of hydrocarbons in Azerbaijan. The company transformed into an integration company with activities in all areas related to energy. Increasingly manifests itself abroad, spending different profiles. SOCAR understands that Azerbaijan's resources are limited and therefore follow company policy is to move the production of petrochemical products and its sales in international markets. Thereby, SOCAR will be able to increase revenues from energy and more efficient to use its potential.

Another priority in energy policy for Azerbaijan is to create an infrastructure for oil from Central Asia, especially Kazakhstan. For quite a long time, Kazakhstan exports its oil from the Tengiz oil field by Azerbaijan and Georgian railways to the Black Sea ports. However, the volume of oil transported on this route isn't sufficient. Azerbaijan to calculate export Kazakh oil, mainly from the Kashagan field, via the

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[39] SOCAR открыл 5 АЗС в Украине, 19.01.2011, http://www.1news.az/economy/oil_n_gas/20110119043532267.html, 19.04.2011.

[40] ГНКАР Откроет в Румынии Около 300 Бензоколонок, 02.04.2011, http://www.1news.az/economy/oil_n_gas/20110402124523008.html, 20.04.2011.

[41] А. Фатулла, Благоприятный год для нефтяников, 14.01.2012, http://www.zerkalo.az/2012-01-14/economics/26344p2-socar

[42] Нефтяной терминал SOCAR в ОАЭ является стратегически важным проектом, 03.05.2011, http://www.trend.az/capital/energy/1870251.html

[43] Ростислав Белый, Азербайджанская Госнефтекомпания приобрела активы в Швейцарии, 02.07.2011, http://www.profi-forex.org/news/entry1008129356.html

Baku-Tbilisi-Ceyhan pipeline. Kazakhstan is also interested in diversifying export corridor to the West. Currently, the export is made through Russian territory to Novorossiysk port. Given the limited amount of existing pipelines and the challenges faced by tankers passing through the Turkish Straits, there is a need for the use of corridors with access to the Mediterranean Sea. In consequence of that, on 7-8 August 2007during the visit of Azerbaijani President Ilham Aliyev to Kazakhstan, between the Azerbaijani oil company SOCAR and Kazakhstan's KazMunayGas signed an agreement on strategic cooperation in oil and gas industry and the Memorandum on mutual cooperation on the Trans-Caspian project. According to the agreement, both countries plan to establish a transport corridor through which the crude oil produced at Tengiz and Kashagan will be supplied in the Kazakh side from the Eskene in Kuryk, and thence across the sea by tankers to Baku. Oil will come to Sangachal terminal where it will be pumped into the Baku-Tbilisi-Ceyhan oil pipeline and along it achieved to Mediterranean sea. It is expected that at the initial stage of this will exported to 20 million of Kazakh oil per year.[44]

As you can see the basic perspective of the oil sector in Azerbaijan is constructed in two directions: first, a decline in exports of crude oil and the start of production and sales of petro-chemical products, both domestically and abroad, turning the country into a transit point for oil from Central Asia world markets. In addition, the system is being established for the transportation of crude oil to Asian markets. It does not really required the implementation of Azerbaijani oil in these markets. SOCAR is successfully implementing oil purchased from other producer countries and trying to further expand these activities. As it can be seen the oil sector, changing in its shape and purpose and continue to be one of the main sectors of Azerbaijan economy.

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[44] Ровшан Ибрагимов, Влияние возможной реализации трубопроводных транспортных проектов в Каспийском море на изменение геополитической и геоэкономической ситуации в регионе, Международные Исследования, Общество, Политика, Экономика,Журнал, No 3/4 (8/9) 2011, 96.

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