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I. GENERAL INFORMATION ON AZERBAIJANI ECONOMY

After restoration of independence in 1991, the Republic of Azerbaijan began to realize its sovereign rights in economic field and to implement independent policy. The main directions of this policy are organization of the economic system based on different types of property, transition to market economy and integration into the global economy.

Economically, the years after the independence can be divided into two main periods. The period of 1991-1995 was characterized by economic chaos and regression. The period after 1996 is known for an increase in macroeconomic stability and dynamic economic development.

As the result of far-sighted policy and intensive activities of the President of Azerbaijan, the national leader Heydar Aliyev, significant results were achieved in the fields of socio-economic development and integration into the global economic system within a short period of time – in spite of unfavorable initial conditions. The great achievement was that the Azerbaijani model of the state system establishment and development was established over the past period.

One of the main tasks of the country’s leadership in that period was efficient use and reallocation of the benefits from rich oil and gas endowment. In order to solve this task, in 1999 the national leader Heydar Aliyev adopted the Decree promoting cooperation with international companies in this field. Additionally, in order to channel the revenues from oil exports to the priority sectors of the economy and important social and economic projects, the State Oil Fund was established. At the current moment, international organizations evaluate positively Oil Fund’s activity and its provision of transparency.

In the beginning of economic recovery, the country lacked oil exporting infrastructure. In order to fill this gap, in 1996 Azerbaijan signed an agreement allowed its oil exports via Baku-Novorossiysk pipeline. In 1999 the new pipeline Baku-Supsa was put into use; additionally, an agreement on construction of Baku-Tbilisi-Djeyhan, which is currently the major oil exporting pipeline.

Oil-gas sector played dominant role in developing other sectors of economy. Considered economic policy led to macroeconomic stability and sustainable economic growth, as the result, reforms started in all economic fields, new measures are taken in order to improve social welfare of population.

Developing entrepreneurship, attracting domestic and foreign investment by establishing favorable business and investment environment, obtaining non-oil sectors’ development had been specific feature of implementing economic policy at this stage. As the result of fulfilling expedient measures, entrepreneurship section was formed and the role of private sector in social-economic development increased considerably.

Implemented measures in providing diverse forms of property contributed positive effects to sustainable economic growth. However, despite at the beginning of privatization specific weight of private sector in GDP was less than 10%, currently special weight reached to 85%. Thus, implementing of Heydar Aliyev strategy overcame recession that appeared during the first years of independence and from 1995 in Azerbaijan new stage of development.
recovery and dynamic development stage began. In 1995-2003 Gross Domestic Product increased 90.1%, revenues of government budget more than 3 times, international reserves 85 times, industrial production 25.2%, agricultural production 53.9%, foreign trade 4 times, average monthly real wages 5.6 times, and inflation decreased to 2-3% and total capital investment amounted more than 20 billion USD.

After maintaining independence as the major priorities of foreign economic policy, the Republic of Azerbaijan formed relationship with international finance-credit and economic institutions. Azerbaijan had been admitted nearly to of all international institutions, including in 1992 IMF, World Bank, EBRD, Islam Development Bank, in 1999 Asian Development Bank. The main directions and specifications of social-economic policy strategy, which is continued successfully and improved by the President of the Republic of Azerbaijan, Ilham Aliyev, is to transit to market economy and to form social, diversified national economy, which possesses ability of self-development and to integrate to world economy.

As the result of implementation of this policy, obtained successes are strengthened, macroeconomic stability was secured, diversification of the economy, development of non-oil sectors and regions accelerated, efficient usage of strategic international reserves was secured, the stability of national currency and confidence of banking system increased, conservative external debt strategy implemented, support from government to entrepreneurship intensified, social welfare of population improved sustainably.

In order to implement comprehensive and sustainable measures aimed at economic diversification, the following President’s decrees and edicts were adopted and successfully implementing: the State Program of Socio-Economic Development of the Regions of Azerbaijan (2009-2013), the State Program of Poverty Reduction and Economic Development in the Republic of Azerbaijan (2008-2015).

In order to use existing economic potential of regions completely and efficiently, improve social-economic situation and provide of equilibrium development of the economy, state program that are implemented successfully describe attention of the President to economic development of regions, it caused complex development of regions, of which recovery and expanding infrastructures, creating new producing and processing enterprises, social-cultural institutions, opening new workplaces and improving social-welfare of population.

The new stage aims at increasing the competitiveness of the national economy, efficient integration into the world economic systems and ensuring a long-term dynamic socio-economic development in the country. Mr. Ilham Aliyev, the President of the Republic of Azerbaijan, has identified the tasks which are important for the achievement of this goal in his economic policy decrees. These particularly concern the strengthening and efficient utilization of the economic potential of Azerbaijan, including development of non-oil sector (formation of oil-independent national economy in Azerbaijan), entire and efficient utilization of the potential of each and every region in Azerbaijan, the establishment of favorable conditions for the opening of numerous workplaces, private business development, increasing the scope, quality and target groups of social services, the reduction of poverty, etc.

The President of the Republic of Azerbaijan Ilham Aliyev successfully and confidently continued and made it rapid and sustainable progress, development strategy determined and led to bright future of the citizens by national leader Heydar Aliyev, and made it rapid and sustainable progress.

Despite recession occurred in major developed economies during global financial-economic crisis, Azerbaijan preserved macroeconomic stability, economic growth, reduction of poverty, and increasing social and economic welfare of population. At the same time, taking the first place in economic growth among regional countries, Azerbaijan took upper stages for so-called indicator. However, in 2009 economic growth of GDP grew by 9.3% and growth per capita grew by 7.9% compared with 2008. Total GDP was formed by 64.1% by production sector and 28.3% by service sector; these sectors’ growth was respectively 10 and 9.1%.

Growth in oil-gas sector was 14.3%, moreover, in non-oil sector went up by 3.2%, industry – 12.8%, transportation – 9.3%, communications – 13.1%, trade – 9.9%.

Government feels specific priority to agriculture and as the result of comprehensive measures, value added in agriculture grew by 3.5% in comparison with 2008.

Finally, during 2004-2009 GDP in real value increased for 2.8 times, GDP in current prices amounted to 43 billion USD, GDP per capita rose from 2004 to 2009 more than 2.2 times and amounted 4874.1 USD. During this period real income of households increased 2.0 times, income per capita 85%, average monthly wages 3 times, minimum pension 3.8 times, minimum wages more than 6.3 times.
During 2004-2009 foreign trade increased 2.8 times, of which export 3.9 times, import 1.7 times, non-oil export 2.4 times. In 2009 both revenues and expenditures of government budget rose 7 times compared to 2004, during this period 32886 new enterprises were established, 840 thousands new jobs were created.

As the result of comprehensive measures, poverty was reduced for 4.1 times, as from 44.7% to 11% for the last 5 years.

The success of Azerbaijan was reflected in the reports of international organizations. Moreover, Azerbaijan is ranked 51 in the Global Competitiveness Report for 2009-2010, which is above other CIS countries. Furthermore, even in the current economic situation Standard&Poor’s increased the Azerbaijani rating’s forecast from “stable” to “positive”.

Dominant tasks of next stage will be sustaining of macroeconomic stability and economic growth. Within these purposes, provision of qualifying economic growth is priority. Aiming to these tasks, expanding of diversification of the economy, government wants to minimize dependence from oil sector, to transit to innovative economy, promote intensive production in agriculture, developing of economy in clusters. Moreover, comprehensive measure will go on in order to strength energy, food and ecological security.

Improving business environment, establishing economic areas and industrial zones, advice and information providing, strengthening government support to entrepreneurship and developing business relationship, development of entrepreneurship and regions will accelerate.

Increase of social and economic welfare of population remains the main direction and priority of social-economic policy for the coming years.

http://www.azerbaijan.az/portal/Economy/General/general_e.html
II. THE ENERGY BACKBONE

Azerbaijan has become a steady presence on the radar screen for both foreign investors and the Western public in general as a predictable and responsible partner. From an exotic unknown it has turned into a place of common knowledge and considerable interest for businesses all over the world.

This resulted from Azerbaijan’s active policy of engagement into the international community pursued since the restoration of independence in 1991. This policy was supported by the world’s fastest-growing economy at 26.4% in 2005 with even higher figures in 2006. All other major economic indicators point out to a similar growth, with average salary growing at 21.9% (2005).

Azerbaijan has been long known for its “flames bursting out of ground”, as witnessed by many Western observers including the Venetian traveler Marco Polo. Hence, another explanation for the country’s name, besides it being the cradle of Zoroastrianism, or fire-worshipping.

By the late XIX century with the discovery of huge oil reserves Azerbaijan (part of the Russian Empire at the time) quickly became the most prominent of oil industry centers in the world, providing for circa 50% of the global energy supply. A number of foreign oil powerhouses, including Shell, Rothschild, the Nobel brothers, and many others had considerable investments in Azerbaijan.

With the collapse of the Empire and Azerbaijan becoming briefly independent in 1918-1920 the nation’s importance as an energy producer grew. Yet, after its incorporation into the newly-established Soviet state all the business and investment opportunities had to go through Moscow.

In the World War II times Azerbaijan was the main supplier of oil and oil products to the Soviet Army and it was particularly for that reason that of all parts of a Soviet Union-map-shaped birthday cake given to him by his entourage, Adolf Hitler has chosen a piece of chocolate representing Baku.

Azerbaijan’s restoration of independence in 1991 meant a new stage in the development of the Caspian, despite Soviet explorer’s predictions that the region would become a non-factor in the global energy balance. Discoveries of considerable off-shore oil and gas reserves led to the Azerbaijan’s re-emergence as a prominent exporting as well as transit country. In 1994, in a deal called Contract of the Century, Azerbaijan has invited a consortium of largest international energy companies, including BP, Amoco, Total, Elf, Lukoil, Itochu and others to participate in jointly developing Caspian hydrocarbon reserves. Most prominent among them is the Azeri-Chirag-Gunashli field with proven crude oil reserves exceeding 5.4 bln barrels.

It is significant that in Azerbaijan production-sharing agreements (PSAs) are confirmed by the Parliament and, as laws, constitute inalienable part of the national legislation. They also take precedence over all other legislative acts of the country. In the 23 PSAs signed as of today, the Government of Azerbaijan is represented by the State Oil Company, responsible for the implementation of the state policy in the fields of oil and gas.

Despite effectiveness of the current regulatory acts in the energy sector, the Government continues to improve the related legislation. These efforts also include establishment in December 2004 of a new Ministry of Industry and Energy to regulate and improve the related legislation. These efforts also include establishment in December 2004 of a new Ministry of Industry and Energy to regulate further development in this field.

With “second oil boom” well underway Azerbaijan, as a result of energy-based transformation of the economy, remains in a leading position among post-Soviet states in terms of per capita foreign direct investments portfolio, exceeding 20 bln USD in FDI, including 15 bln into the oil sector. The country’s oil production averaged over 320,000 barrels per day in 2005.

Azerbaijan also became a pilot national project of the British Government-sponsored Extractive Industries’ Transparency Initiative (EITI).

Energy transportation system and the transportation network in general emerge steadily and have taken next step in 2006 with the arrival of first oil to Ceyhan, the exit point of Baku-Tbilisi-Ceyhan main export pipeline with a peak capacity of 1 bln barrels per day. Progress of Baku–Tbilisi–Erzerum gas pipeline to carry natural gas from Shahdeniz field will not only contribute to the diversification of the hydrocarbons’ supply to the world markets, but also, along with Baku-Tbilisi-Akhaltsikhe-Kars railway project will be vital in terms of further integrating regional emerging democracies into Europe.

Azerbaijan, with its strategic location on the crossroads between East and West, North and South, continues to remain instrumental in promoting security and stability in the vitally important region of South Caucasus and the Caspian. Azerbaijan State Caspian Shipping Company - Caspar with a fleet of almost 40 ferries, dry-cargo ships and other vessels (notwithstanding over 30 tankers), Azerbaijan Airways – Azal with a score of direct routes and many more flown by international partners, with 2 international airports operational and 3 more under construction, all of these add to Azerbaijan’s prominence as transportation hub.

To make sure that the oil revenues are transparently and effectively accumulated and managed, State Oil Fund of Azerbaijan (SOFAZ) was created in December 1999. The main purpose of the Fund is to avoid
macroeconomic distortions and provide for restructuring and balancing the economy. It also finances selected educational and refugee-related social programs. With reserves exceeding USD 1 bln, SOFAZ is a good guarantee that the citizens of Azerbaijan will live in prosperity long after the hydrocarbon reserves are gone.

III. FOREIGN DIRECT INVESTMENT

Azerbaijan has a very permissive national regime for FDI (Foreign Direct Investment), with foreign investors enjoying a non-discrimination regime, with banking and privatization being open for them. FDI-friendly law climate includes: guarantee against deterioration of legislation; guarantee against nationalization and requisition; guaranteed compensation of damages; guarantee of repatriation of profits.

Pursuant to the 1992 Foreign Investment Law, foreign investment may take one of the following forms:

- **Participation in enterprises and organizations established with legal entities and citizens of the Republic of Azerbaijan on a shared basis;**
- **Establishment of enterprises wholly-owned by foreign investors;**
- **Purchase of enterprises, property, buildings, structures, shares in enterprises, other shares, bonds, securities, and certain other property, which, under the law of the Republic of Azerbaijan, may be owned by foreign investors;**
- **Acquisition of rights to use land and other natural resources, and also other proprietary rights, and**
- **Conclusion of agreements with legal entities and citizens of the Republic of Azerbaijan providing for other forms of foreign investments.**

A company may start operating in Azerbaijan from the moment of state registration, which is done by the Ministry of Justice. There are no specific rules set for incorporation of a foreign company in Azerbaijan besides usual legalization and translation requirements.

Law of the Republic of Azerbaijan recognizes the following types of commercial legal entities: general partnership, limited partnership, limited liability company, joint stock company, and several additional ones.

All these have to take into account that Azerbaijani laws provide for the following basic land rights: ownership, lease, and use.

Certain types of activity also require license. Following the 2002 reform their number has been reduced to 30 (not to be mixed with special licensing).

Azerbaijan pursued a successful economic stabilization program, with annual growth exceeding 10% since 2000. In 2009 Azerbaijan's gross domestic product increased by 9.3%, with growth in 2010 estimated at 9.0%.

The World Bank named Azerbaijan “Top Reformer” in its “Doing Business 2009” report, reflecting its significant efforts to simplify its domestic regulatory requirements.

Azerbaijan is considered one of the most important spots in the world for oil exploration and development. Proven oil reserves in the Caspian Basin, which Azerbaijan shares with Russia, Kazakhstan, Turkmenistan, and Iran, are comparable in size to North Sea reserves several decades ago.

Azerbaijan is the leading FDI destination in the region. The 2005 UNCTAD Trade & Investment publication quotes Azerbaijan as the No 1 globally as per the FDI Inflow Performance Index. Azerbaijan is also in top 20 in equity capital attraction in absolute terms.

http://azeriamerica.com/AzeriInvestment.htm
IV. ECONOMIC POLICIES

As a result of progressively-developing reforms to fight corruption and further improve investment climate for 2005 Azerbaijan was no. 1 globally in terms of the FDI Inflow Performance Index and is among the top 20 in the world in equity capital attraction in absolute terms. Intensity of foreign investments in Azerbaijan’s economy remains steady today, with over 5 bln in 2006.

Considerable efforts are made by the Government to tackle the inflation issue, with inflation down to 9.6% in 2005 and less than 8% for the nine months of 2006. Since the adoption of National Strategy for the Information and Communication Technologies in 2003 and its core documents, such as the ones on e-signature, e-commerce, postal communication and others the ICT sector started growing rapidly and the communications’ share in GDP reached 2.3% in 2005. The largest FDI stock is in the mobile connection, followed by a number of enterprises with the foreign capital in land lines operating companies, internet providers and cable TV. High dynamics are characteristic for these sectors, with 125, 000 land lines established in 2004 (over 10% growth), rapid digitalization of the land lines, number of mobile subscribers having exceeded 1.5 mln in 2005. With a number of telephone sets being 13 per 100 inhabitants the most pressing issue is broader use in the rural areas. Internet users’ number has exceeded 400,000 and is constantly growing. Further development of the telecommunications services is achieved through the construction of the Trans-Asia-Europe fiber-optic cable.

The two mobile operators are Azercell and Bakcell, with Azercell being by far the largest (at over 1,200,000 subscribers and covering about 80% of the territory). New operator, Azerphone, joined them in March 2007.

The Government is doing its utmost to broaden employment opportunities, with President Ilham Aliyev’s program being well underway.

Special attention is paid to the issue of sustainable development, with Presidential decree-established National Committee pursuing the implementation of national programs on sustainable development in forestry, poverty reduction, regional development, pastures, ecology, etc.

Despite the economy being built upon the hydrocarbons, Azerbaijan pays great attention to other prospective energy sources in its medium and long-term strategy for the power sector. Presidential Decree of October 2004 mandates a new state program on usage of alternative energy sources. It is a significant element of the 10-year program of the fuel and energy sector development, which has been implemented for two years now. It also includes rehabilitation of existing power plants.

Azerbaijan is also among the world’s oldest agricultural centers. The country’s diverse climate allows for a variety of crops to be cultivated. Current share of agriculture in the GDP is slightly over 12%, yet rapid development of the sector (with annual growth exceeding 10%) makes for an optimistic forecast. Following rapid collapse of the economic ties after the break-up of the Soviet Union, Azerbaijan proceeded with broad-scale privatization of its agriculture (near 100% now). The Government’s intention to develop the agriculture as one of the pillars of the economy goes in line with the declared policy of increasing number of jobs, since farming remains among the principal occupations in terms of scale of employment in the regions.

Extended efforts were applied by Azerbaijan to restore the vineyards destroyed by the Soviet leadership during its ill-conceived anti-alcohol campaign. World-renowned brands of grape combined with millennia-long traditions of wine-making have produced a remarkable array of wines, both red and white, which made Azerbaijan well-known, if not famous, among the fine spirits’ connoisseurs.

Azerbaijani agriculture is traditionally strong in cultivating non-food products, such as cotton, silk, and tobacco. The best results of the Soviet period have been already exceeded in producing fresh fruit and vegetables, as well as cattle and poultry, tea, fish and hazelnuts.

The ambitious Program of Regional Development has its most striking implications specifically in the agriculture. It envisages speedy development of agriculture and food processing as one of its key components. Tax holidays imposed by the Government on the agricultural producers continue to positively impact the development.

Food processing in Azerbaijan is centered on three main elements consisting of meat processing, dairy production, processing and canning of fruit and vegetables. All of these are extremely important in the Government’s policy of import substitution.

Despite declining share of food products in the overall volume of Azerbaijani imports, which resulted partly from the successful policy of support to local agricultural producers, considerable reserves remain unutilized. These include further expanding markets for traditional Azerbaijani products such as fruit juices, preserves, wine and brandy, beyond the traditional area of the former Soviet space. Another challenge is the renovation and rehabilitation of the dilapidated Soviet-era storing and processing facilities.
Azerbaijan’s food and food-processing exhibitions become more and more popular in the region and beyond. Overall, strong, ecologically sound and gene engineering-free agriculture is one of the main factors providing for a diversified and, in our case, less oil-dependent economy, as well as for the full implementation of the employment policy in the rural provinces of Azerbaijan.

V. FINANCE

1. Taxation

Taxation in Azerbaijan envisages two different tax regimes: one for the oil and gas sector (The PSA also provide for a special tax regime, namely excluding the energy companies from any existing or future taxes with the exception of Profit Tax), and statutory tax regime for others.

Other applicable taxes include: road tax, simplified tax for the small businesses—with revenues less than USD 26,500 in three months (4 percent in Baku, two percent outside of Baku), dividend withholding tax of 10 percent, other withholding taxes for those entities with no permanent presence in Azerbaijan (10 percent interest, 14 percent rent and royalty, 6 percent freight income, 6 percent telecom services, 4 percent financial leasing and insurance, 10 percent other income).

2. Banking system in Azerbaijan

Banking system is considered an important element of financial system of Azerbaijan. Today banks leave behind other financial mediators for volume of their assets and capital, as well regional coverage.

An advanced two-stepped banking system, which is based on market principles, (the National Bank of the Republic of Azerbaijan in the first step, in the second commercial banks and other non-bank credit organizations) functions in the republic. In the first stage of reforms, measures of restructuring and recovery of state banks were taken, institutional formation of private banking system ensured. In this phase low requirements concerning capital, very liberal terms for entering the system were determined and soft regulating instruments were applied to regulate the bank activity. As a result of these processes banking system started to be enlarged in institutional manner and number of private banks increased rapidly.

Measures of intensive recovery of private banks implemented since 2000 in the next stage of bank reforms contributed to consolidation of durability of banking system and improvement of the financial mediation function.

Regular growth of demand of private banks to minimal capital by National Bank and propaganda of consolidation process strengthened capital base of private banking system, ensured enlargement of banking system.

Since 2002 important stage of restructuring of banking system started to be carried out. Taking into consideration entry of big oil revenues in the country, as a logical result of successful oil strategy, and in this base, as the banks were ready to an effective transfer of their financial resources to the strategic goals, development strategy was made for 2002-2005.

Major goals of strategy were effective and safe transformation of oil revenues to non-oil sector, to increase chances of access of population and regions to bank services and in this base to develop financial mediation function of banking system for poverty reduction, strengthen durability and reliability of banking system, ensure free and healthy competition atmosphere in bank services market. Finance-bank sector plays exceptional role in formation of economy diversified in base of great economic power and financial resources of the country and directing resources to capitalization of non-oil sector.

To get strategic targets determined certain duties have been set such as improvement and adaptation to international standards of legislation base of banking, increasing reliability and health of banking system, enlarging possibilities of access to bank services, lifting the level of transparency in banking system and strengthening the market discipline, organizing an effective bank control.

Radical reforms and institutional development in all directions of the banking system have brought to deep quantity and quality changes in the sector. The total result of reforms is formation of the banking system fully conforming to the international standards in financial stability parameters, risk management practice and services spectra.

To stimulate depositing in the sector and increase population’s confidence in the sector, the deposit insurance system was created in 2007; the sum of deposits protected by the Deposits Insurance Fund reached 30000 AZN rising 6 times.

As result of the successful development and modernization strategy, as well pre-crisis preventive management and ‘financial immunization’ measures, the bank-finance sector kept the balance in the fight against global crisis, protection of financial stability was assured. Thus, the banking system in Azerbaijan met the global crisis with high capitalization level and liquidity indices. Unlike many countries, Azerbaijan’s banking sector did not undergo any failure and special tension, protecting its parameters and stability.

To enhance the access of population in regions to the finance banking services, Azerpocht LLC, which covers over 1200 regional mail branches and sections, was reconstructed and licensed to provide financial services.

Banks offer wide range of services and retail bank services rapidly develop. Bank products are offered to customers via the latest technologic means as internet-bank, mobile-bank, automated bank corners.
The radical network of bank system and accesses to financial services are intensively enlarged, banks begin actively operating in the international financial market. As of April 1, 2010, the number of structures of banks operating abroad reached 9. 3 representations of influential financial institutions of the world were opened in the country, which will bring to application of the most advanced banking technologies in Azerbaijan.

By April 1, 2010, 47 banks, 631 bank branches function in Azerbaijan. 1 of banks was founded with participation of state capital, 23 of foreign capital.

To the same date, 98 non-bank credit organizations operate in the republic along with banks.

Growth of real money incomes of population, development of trust in bank system, improving the legal bases of protection of interests of creditors and depositors, in particular launch of ‘Deposits Insurance Fund’ were the criteria characterizing rapid growth of deposits of population.

As of April 1, 2010, bank deposits of population is 2, 4 bn AZN. 33,3% of which is long-term deposits (higher than a year).

Along with population, bank deposits of corporative customers increase dynamically. By April 1, 2010, bank deposits of corporative customers is 2,1 bn AZN.

Dynamic development of volume of special and involved funds of the banks has created effective conditions for enlargement of active operations. As of April 1, 2010, the volume of bank assets is 12 bn AZN.

Crediting plays special role in structure of bank assets. As of April 1, 2010, bank credits to customers is 8, 5 bn AZN, which makes 70,5% of bank assets. Special weight of private sector in structure of credit investments is higher than 82% (7 bn AZN).

http://www.azerbaijan.az/portal/Economy/BankSystem/bankSystem_e.html
3. Budget of Azerbaijan

The budget of the Republic of Azerbaijan is one of the fastest growing in the world. During the last 5 years, budget incomes increased 5.9 times, and more than 10 times in last 10 years. In 2002-2007, annual growth of the budget income averaged 17%, and in 2007 the growth reached the all-time high-57%.

Azerbaijan is a unitary state. There are local budgets, but they are not independent and are formed from the central budget. All the taxes and duties collected are accumulated into the single budget. The only exception is Nakhichevan AR, which collects the taxes to its budget, and is also supported from the central budget.

The high growth rates of state budget is not limited to this year’s indicators, the similar increase is also expected in the next years. The state budget incomes for 2010 are predicted to reach 7.5 bln AZN. This signifies that the average annual growth of the budget in coming years will be 14%.


Dedicated to symbolizing to history and future.

The banknote has been printed on white paper with the size of 148 x 70mm. The back side of the banknote features maps, representing Azerbaijan’s integration into Europe, and ornaments of ancient Azeri carpets, with the front side of the banknote featuring the either traditional musical instruments (1 manat), books and statues of Azerbaijani writers (5 manat), Shirvanshakh palace and the Maiden Tower at the background of the old Walled City in Baku (10 manat) ancient weapons (sword) and armor (shield and helm) (20 manat), stairs representing rising and development, the sun as the symbol of power and light, chemical and mathematical symbols representing science (50 manat), ancient and contemporary architectural monuments, symbols of economic growth (100 manat). Coins denominated at 1, 2, 5, 10, 20, 50 qapik (1 manat=100 qapik) have also been modeled after eurocents.
VI. AZERBAIJANI INDUSTRY

The industry is one of the most developed areas in Azerbaijan. It covers fuel and energy, chemistry, mechanical engineering, metallurgy, food industry, light industry and other areas. The industrial development began in mid-1950s as the result of the national leader Heydar Aliyev's efforts.

As the result of radical changes in the national economy, the period from 1995 to 2008 saw serious successes in the field of industry. The conclusion of production sharing agreements on September 20, 1994 on oil and gas fields with large foreign companies encouraged rapid development of oil and gas industry. It should be noted that processing industry was developing along with the production.

Lately, Azerbaijan began to manufacture cash registers, microcalculators, telephones, consumer electronics, plastic doors and windowpanes, oil pipes and other products. The manufacturing of numerous products, which were previously imported from foreign countries, in Azerbaijan allowed expanding the range and availability of products and eliminating the dependence on exportation.

This encouraged business activities and development of small businesses in Azerbaijan. The ‘open door’ policy of the national government resulted in raise of the number of foreign and joint enterprises in 3 times. Nearly 200 enterprises with foreign investments from 63 countries are currently operating in Azerbaijan and thousands of new workplaces were opened. The obvious increase in the number of newly established economic enterprises, the expansion and dynamic development of small businesses and business undertakings of individuals all indicate at the ongoing strengthening of non-state sector's role in the national economy.

The specific weight of non-state sector in gross production of industrial products increased from 5.5% in 1995 to 75% in 2008.

The main objective of the state policy in the field of industry for the medium future will be the ensuring of steady and rapid production growth, structural improvement and increasing efficiency. The main activities will include the modernization and reconstruction of equipment facilities, increasing the competitiveness of national products, the flow and efficiency of investments, intensified development of non-oil sector and encouraging of development processes in the processing industry.

The dynamic development of oil sector will create the opportunities for the accelerated development of non-oil sector as well. At the same time, the favorable investment environment in non-oil sector, privatization processes and other reforms, will encourage non-oil sector development during 2008-2012.

At the same time, special attention will be paid to the following activities for the development of non-oil sector:

- Intensification of restructuring and privatization processes;
- Continuation of restoration of the activity of enterprises who have potential sale markets and whose activity is deemed economically expedient;
- Intensification of the transition to international standards at the base of latest technologies;
- Development of free competitive environment;
- Intensification of the attraction of investments;
- Development of traditional national creative works;
- Strengthening and improvement of the material and technical basis of scientific-research institutes which correspond to the contemporary market requirements, for the purposes of the development of applied sciences.

http://www.azerbaijan.az/_Economy/_Industry/_industry_e.html
Industrial spheres of the Republic of Azerbaijan

The Republic of Azerbaijan has an industry owning the strong traditions of production and human resources and great scientific and technical potential. The industrial enterprises of Azerbaijan that survived the depression in the first years of independence recovered and moved to a new stage of development as the result of the wise policy of national leader of the Azerbaijani people Heydar Aliyev. The profound wide-scale reforms conducted in the economics of the country promoted the high achievements in the sphere of industry within the last few years. The industrial production increased by 2.7% at that period. The rise was due to the development of the positive trends established in the sphere of industry in 1997 and intensifying ever since.

The industrial sphere accounted for 37.8% of GDP of Azerbaijan in 2003. The structure of the industrial production was as follows: mining -56.4% (including crude oil and natural gas-56.1%), production of coke and oil products -15.5%, chemical industry-3.4%, metallurgy-2.7%; production of machine and equipment-1%; production of electric equipment and machines-0.1%; medical technique, measure device, optic devices, watches and equipment-0.08%; production of motor cars, trailers -0.05%; production of ready-made metal goods-0.3%; production of other nonmetal mineral substances-1.7%, polygraph and publishing activity, increase in the mass media-0.4%; electric energy, gas and water production and distribution-10.2%; weaving industry-0.6%; clothes manufacture-0.2%; production of foodstuffs including drinks -3.4%; production of tobacco wares-0.7%; leather, leather goods and footwear-0.1%; production of furniture -0.05%.

Azerbaijan also pays much attention to the development of the processing along with production industry. Within the last five years the production of goods including 33.7% including foodstuffs by 28.3%, wood production-by 2, paper goods-by 29.7%, chemical goods-by 2.3, building materials-by 4.2, metallurgy-by 3.

As the result of the innovative policy conducted in the processing science serious structural changes occurred in the said sphere. The production of cash apparatuses, meters, calculators, telephones, housing electric equipment, plastic door and window units, special drilling plants for the transportation of oil and other products were developed, certain part of a number of goods previously imported from foreign countries especially a number of foodstuffs are already produced in Azerbaijan.

Over 3 thousand new industrial enterprises were established in the country in 1993-2003 and their number reached 5536 as of January 1, 2004. As the result of the open doors policy established by national leader Heydar Aliyev and still conducted nowadays, the number of foreign and large companies increased by 3 through the said years. The said sphere amounts for 192 foreign companies representing 63 states and thousands of new jobs were created in the country. Industrial sphere accounted for 74% of investments put into the national economics in 2003. The significant increase in the number of newly formed production structures, the expansion of small enterprises and dynamic development, the engagement of individuals in the entrepreneurial activity is accompanied with the gradual rise in the role of the private sector. Thus, weight of the industrial production increased up to 5.5% in 1995, 48.4% in 2000 and 56.3% in 2003 in the common production of the private sector.

Significant work is done to meet the demands for the energy sources among the population and within the economics of the country. The State Program for the development of energy complex of the Republic of Azerbaijan worked out by the Ministry of Energy and Industry was adopted by order No 635 of February 14, 2004 of the President of the Republic of Azerbaijan for the effective satisfaction of the growing demand for energy sources and ensuring the energy security of the country, thus proving to be an example of care shown by the President of the Republic of Azerbaijan Ilham Aliyev. The implementation of the said program will create conditions for the increase in the effectiveness of the activity and to general development of all the spheres of fuel and energy complex of the country, will provide for the improvement of the electric energy and gas supply to the population, the intensification of the business activity in the industrial spheres of the national economics and for the rapid development of small entrepreneurship.

Major objective to develop the field of industry in 2008-2011 includes production of science-based, high-tech, competitive and export-oriented industrial outputs meeting world standards, expansion of state support actions, improvement of state regulation system in industry complex, identification and increasing of investment sources and resources, mobilization of natural riches and labor resources and assurance of sustainable development of industry.

Dynamic development of oil sector and improvement of supply of regions with energy resources, favorable investment conditions created in non-oil sector, privatization, financial support to small and medium entrepreneurship and other reforms will assure more intensive development of non-oil spheres.

The following actions will be taken to achieve major objective in industry sector:
- Identification of directions of development of non-oil sector of industry;
- Reconstruction of industry structure in accordance with selected development directions and its coordination with investment requirements;
  - Recovery of industrial institutions under public property or control packet of shares of which belongs to the state;
  - Reconstruction of production in technological aspect;
  - Identification and increasing of investment sources and resources;
  - Supporting development of industry due to preferential budget funds;
  - Improvement of tax and customs policy, support to export and protection of domestic market;
  - Training of specialized workforce;
- Supporting production of competitive industrial outputs and promotion of creation of export-oriented production by creating the industry town, strengthening of integration in this field into the regional and world economy and joining the scientific-technical innovation processes in the world.

The following actions will be continued towards development of oil-gas production sector:
- Search and exploration of new fields;
- Involvement of discovered fields in full-scale development;
- Drilling new wells in fields under development and restoration of wells not operating;
- Application of new equipment and techs to increase oil-producing coefficient in fields under development;
- Construction, reconstruction and modernization of oil-gas production, transportation and refining systems;
- Widely use achievements of science and techniques and advanced experience.

The following actions will be continued for development of energy industry:
- Expanding the use of alternative and restored energy sources;
- Building new stations and delivery nets;
- Implementation of reconstruction works at stations and energy delivery system;
- Saving fuel;
- Reducing technical and technological losses in energy production and delivery;
- Carrying out structural changes in energy sector and improving management system;
- Supporting entrepreneurship in energy sector.

http://www.azerbaijan.az/_Economy/_Industry/_industry_e.html
VII. AGRICULTURE

The Republic of Azerbaijan occupies the western part of the South Caucasus on the Caspian Sea shore. It covers an area of 86.6 thousand square kilometres (12% - forests, 1.6% - water basins, 52.3% - agricultural lands, 34.1% - other lands). The Republic of Azerbaijan is bordered on the south by Iran (756 km) and Turkey (13 km), on the north by Russia (390 km), on the north-west by Georgia (480 km) and on the west by Armenia (1007 km). It occupies position 44 in the world for its size and position 42 for the population. There are at least 8400 rivers in the Republic of Azerbaijan. Sown areas occupy 1630.8 thousand hectares of 36.0% of agricultural lands, of which 1102.0 thousand hectares of 67.6% are irrigated. According to regular reports of the State Committee for Statistics of the Republic of Azerbaijan, the population of Azerbaijan totals 8265.7 thousand (as of 01.01.2004), of which 4254.3 thousand (51.0%) are urban population, and 4011.4 thousand (49.0%) - are rural.

The intensification of agricultural works during the last few years has led to rise of employment in the agricultural sector. So, 1112.8 thousand persons were employed in agricultural and forestry industries in 1995, which formed 30.8% of able-bodied population. The figure increased up to 1497.0 thousand persons in 2003 (40.0% of able-bodied population). It should also be noted that while the number of persons involved into economic activities increased by 134.0 thousand persons or 3.7% during the reported period, the number of persons involved into agricultural and forestry sectors increased by 384.2 thousand persons or 34.5%. This means that not only the persons directly involved into agricultural production, but also teachers, engineers, cultural, medical, legal, defence and other workers, also began their activities in various agricultural spheres. Such factors as lack of previous agricultural and management experience, superficial knowledge of agricultural technologies and agrotechnics, have led to diseconomies in production processes.

However, the Ministry for Agriculture together with other interested ministries, committee and agencies of Azerbaijan, as well as the international organizations, have continuously provided farmers with the essential legal, economic and professional knowledge and implemented target programs for increasing awareness.

All these are the results of activities of the Azerbaijan national leader Heydar Aliyev, who initiated, organized and launched the economic reforms as the only way out from economic decadence and towards improvement of social welfare.

The national leader of Azerbaijan - Heydar Aliyev - always considered agriculture as the superior sector of the national economy and did enormous efforts towards agricultural development at all stages of his power. Among the first steps aimed at the economic development were the implementation of agrarian reforms, provision of lands and liberty to villagers, the establishment of favourable conditions for business development in rural areas, exemption of farmers from all taxes except for land taxes. These measures have increased the interest of villagers to production of agricultural products. So, agriculture has formed 15.9% of GDP during the last few years and this figure increased by 70.5% (1904.3 billion AZM) in 2003 against figures of 1995.

The analysis of gross agricultural product (in actual existing prices) reveals growth by 91.6% during the reported period, including 93.0% in plant cultivation and 89.5% in cattle breeding.

The share of plant cultivation products in gross agricultural product increased from 58.6% in 1995 to 59.1% in 2003, while the share of cattle breeding products decreased from 41.4% to 40.9% during the same period.

It also becomes clear from analyses that private producers increased the production in line with the free market requirements during the last few years and, as the result, 80-85% consumption by local population falls at local-made products, which in turn increases the incomes of farmers and villagers.

The minimum requirements for potatoes, melons and gourds, as well as fruits, are met mostly by domestic production.

The supply of local meat, milk and eggs has significantly improved during the last few years. Azerbaijan has exported sausages, dairy products and eggs to the foreign countries during the last two countries.

According to the State Committee for Statistics report n 2003, 97% agricultural products were manufactured by population and villagers (farmers).

The rise in gross agricultural product has encouraged growth of monthly salaries of employees. The State Committee for Statistics reports that average monthly salaries of agricultural workers increased by 82.2 thousand AZM (in 3.5 times) from 33.5 thousand AZM in 1995 to 115.7 thousand AZM in 2003. This is however 3.3 times lower than average salaries in Azerbaijan, 5.9 times lower than salaries in industries, 6.7 times lower than salaries in construction and 3.8 times lower than salaries in transport industries.

However, individual progressive farmers have average monthly income of 400-500 thousand AZM and more.
The analysis of financial performance of agricultural enterprises demonstrates that 1079 or 47.0% of 2295 agricultural enterprises were unprofitable in 1995. In 2003, 452 out of 1779 enterprises were unprofitable, which means that the specific weight of unprofitable enterprises reduced by 25.4%. The profitability of agricultural products was respectively: -4.7% (losses); 0.9%, including 3.2% in field of plant cultivation, 27.7%, and in the field of cattle breeding - 36.8% (losses); -1.9% (losses).

The researches have demonstrated that even though the agricultural sector was developing recently, there are still urgency problems of intensification of business development in the regions, efficient utilization of labour resources, natural and economic potential, as well fighting unemployment and poverty reduction.

This is why the decree #24 of the President of the Republic of Azerbaijan of 11.02.2004 "On approval of the State Programme for Socio-Economic Development of the Regions of Azerbaijan during 2004-2008" envisions the increase of gross domestic product in all spheres, including agriculture by 10-15%, raising investments from all sources of financing up to USD 16.8 billion, of which 60% falls at the regions.

The Ministry for Agriculture will further make every effort for regional development, steadier supply of agricultural products to the domestic market and increasing the welfare of population, as well as for the implementation of the decree #24 of the President of the Republic of Azerbaijan of 11.02.2004 "On approval of the State Programme for Socio-Economic Development of the Regions of Azerbaijan during 2004-2008".

http://www.azerbaijan.az/_Economy/_Agriculture/_agriculture_e.html
Priority directions in the agrarian sector

Directions of development of the agrarian sector:
- Assurance of effective use of land and water resources;
- Restoration of irrigation and melioration supply in agriculture;
- Strengthening the logistics of the agrarian sector;
- Supporting coordinated development of raw material production and processing spheres of the agrarian sector;
- Stimulating growth of production of competitive product;
- Improving the financial state of the agrarian sector;
- Improving the legal basis of the agrarian sector;
- Improving the scientific-methodical and personnel training system of the agrarian sector.

Diagram 2. The volume of surplus value created in agriculture sector, mln. AZN

Source: Reports of the State Statistical Committee and forecasts of the Ministry of Economic Development

http://www.azerbaijan.az/portal/Economy/Agriculture/agriculture_e.html?agriculture_02
VIII. FOREIGN TRADE

The establishment of trade laws has provided the opportunities for the extension of trade cooperation in the Republic of Azerbaijan. Several laws and normative-legal acts were adopted for the purposes of regulation of interstate trade relations.

These include,

- The law of the Republic of Azerbaijan "On customs tariff" of June 20th 1995,
- The decree of the President of the Republic of Azerbaijan "On further liberalization of foreign trade in the Republic of Azerbaijan" of June 24th 1997,
- The decree №80 of the Cabinet of Ministers of the Republic of Azerbaijan "On custom duties and custom clearance fees in export-import operations of the Republic of Azerbaijan” of April 12th 2001,
- The law of the Republic of Azerbaijan “On Export control” of October 26th 2004,
- The law of the Republic of Azerbaijan “On special economic zones” of April 14th 2009; and etc.

http://www.azerbaijan.az/_Economy/_ForeignTrade/_foreignTrade_e.html
XI. NEW OIL STRATEGY OF AZERBAIJAN

«The Azerbaijani state has been implementing its new oil strategy since 1994, and the essence and key principle of this strategy is to use Azerbaijan's rich natural resources, including its oil and gas, more efficiently, for the good of the Azerbaijani people...»

Heydar Aliyev National Leader of Azerbaijani People

Azerbaijan is one of the most ancient oil countries in the world and she has passed a long way of development in its 150 year historical period. Commercial oil refining has begun since the XIX century in Azerbaijan. The oil gush in Bibi-heybat, in Baku, in 1848 founded the commercial production of "Dark gold". Already in 1899, Azerbaijan was the first in the world in oil production and refining oil, it produced half of the oil of the world.

Till 1994, Azerbaijan produced nearly one milliard tons of oil in its onshore and offshore deposits. The commercial off-shore production of oil began in Azerbaijan. This fact takes a special place in the world oil industry. The experience of the Azerbaijani oilmen gained from oil and gas production makes Azerbaijan famous in the world oil industry in the 20th century.

Azerbaijan’s oil was one of the decisive factors in the victory over the Nazi Germany in the Second World War.

Those years the Azerbaijani oilmen totally had produced 75 million tons of oil. During the Second World War Baku produced 80% of fuel, 96% of different lubricants all over the former Soviet Union. As a result, every 5 soviet aircraft, 4 tank and truck that solved the destiny of war worked on the Azerbaijani fuel. The Azerbaijani people gained a chance to use this oil for its own benefit after gaining national independence, at the late of the XX century. This opportunity was realized by Heydar Aliyev who came to the leadership of Azerbaijan government at the demand of the Azerbaijani people.

In the 90s of the previous century, Azerbaijan suffered a deep crisis in political, economic and military spheres connected with the collapse of the Soviet Union. Heydar Aliyev used the oil factor in the solution of such difficult problem and developed the oil strategy of Azerbaijan. Oil strategy is a long term national development program aimed at drawing the country’s energy recourses to the economic turnover by cooperating with the big foreign companies on the principle of mutual benefit. Taking into account the interests of the present and the future generations in developing its oil strategy. This principle was expressed by Heydar Aliyev like this: "oil is the greatest wealth of Azerbaijan and it belongs not only to the present of Azerbaijan, but also to the future generations".

The contract signed within the frames of the oil strategy of Azerbaijan concerned the development of "Azeri" "Chiraq" "Gunashli" in the Azerbaijani Sector of the Caspian Sea with the foreign companies. The negotiations related with the preparation of the contract were continued in Baku, Istanbul and Houston over a year, and the contract became ready for the signature in September 1994. Due to the Production Sharing Agreement (PSA) this contract takes into account development of energy reserves in the mentioned oil deposits with 11 great oil companies representing 8 countries of the world. Soon this contract became famous as the "Contract of the Century". This contract founded Azerbaijan’s new oil strategy and present rapid development. Some days before the signature of the contract the President of Azerbaijan Heydar Aliyev estimating that this contract is one of the decisive factors for the protection of sovereignty and development of the national economy stated: "The Presented project today guarantees the economic interests of the Republic of Azerbaijan and the Azerbaijani people and it will do the same in future, and that is why, I decided to sign this contract"

The contract was signed on September 20, 1994 and assisted to the newly independent Azerbaijan to maintain and strengthen its independence, helped to broaden its international image, and it had exceptional impact on the economy. At present, every 20 September is celebrated as the "Day of oilmen".

Before the signature of the "Contract of the Century", the energy recourses, in three deposits were estimated 511 million tons of oil, 160 milliard cubic meters of gas. But the last researches proved that the capacity of these deposits are nearly one milliard tons of oil and three hundred milliard cubic meters of gas. Since 1994, $ 18.4 milliard has been invested in the framework of the contract.

Early oil production from these three deposits, in the framework of the "Contract of Century" started in November 1997. Hitherto 123 million tons of oil and 26 milliard cubic meters of gas have been produced from
those deposits. Since 1999, Azerbaijan has begun to gain its own benefit from the contract oil. The oil produced until 1999 was spent to reimburse the invested capital. Until May, 2008, Azerbaijan has shipped 26 million ton profit oil (217 tankers) to the world market.

Since Azerbaijan began to produce oil within the frame of its oil strategy, the output began to increase in the country. For example, if the country produced 9 million tons of oil in 1997, in 2005, 22.2 million tons in 2006 Azerbaijan broke the initial record (in 1941, 23.5 million ton), producing 32.3 million tons, in 2007 42.6 million tons of oil. Totally, the international experts estimate that Azerbaijan`s reserves of oil is 6 milliard ton.

Incomes gained from the profit oil are accumulated in the State Oil Fund of Azerbaijan Republic (SOFAR) which was established in December 1999 with the decree issued by the Azerbaijani President Heydar Aliyev. The main purposes of establishment of the fund are to increase economic development, to finance social-economic projects by using the capital gained from the profit oil. SOFAR has stabilizer and collector functions. At the same time SOFAR provides assistance for human and non oil sectors development. An observation council of SOFAR provides public surveillance and transparency in oil income. Executive and legislative authorities and representatives of public are represented here. According to the reports of April 1, 2008, 3 billion 336 million US dollars have accumulated in the fund`s budget and more than 4 billion US dollars have been spent for the implementation of different strategic projects in previous years.

Possibility of opening of new oil-condensate deposits in the Caspian Section of Azerbaijan, gives an opportunity to increase production of oil and to increase it to 66-67 million tons within the next few years. But in the initial period of works in the framework of the "Contract of the Century" some foreign investors did not invest in the construction of the export oil pipeline because they were concerned that oil reserve could be lesser than estimated in Azerbaijan. Because of that, the Baku-Novorossiysk pipeline in 1998 and Baku -Supsa in 1999 were used to deliver oil to the world and European markets. The delivery capacities of these pipelines together were 20 million tons per year.

Heydar Aliyev, who knew Azerbaijan`s oil potential, endeavored to construct a pipeline through a more favorable rout. Heydar Aliyev worked hard on this mission and he achieved in the construction of the Baku-Tbilisi-Ceyhan gas and oil pipeline. In 2002, the construction of this pipeline was started. It is not accidentally that this huge project was named after Heydar Aliyev, because he rendered exceptional contributions to the construction of this pipeline. The Baku-Tbilisi-Ceyhan pipeline is distinguished from other pipelines for its importance and scale. On June 2006, the main export pipeline was put into operation, the length of this pipeline is 1769 km, and the capacity is 50 million tons (one million barrel per a day). Four billion US dollars were invested for the construction of this pipeline, and 22 thousands workers worked at this construction. The oil reaches from Baku to Ceyhan seaport (Turkey) for 10 days.

Since 1994, the "Contract of the century" has founded Azerbaijan`s oil strategy and 27 oil agreements have been signed with foreign oil companies until today.

There are 30 perspective deposits to be delivered jointly. 15 agreements are on the Caspian Section and 12 of them concern the onshore deposits. In this agreement 43 companies representing 21 countries of the world are partners of the Azerbaijani Republic. It is estimated that 60 billion of US dollars will be invested for the exploration, constructions and transportation of hydrocarbon reserves.

Due to the oil strategy the infrastructure of the petro-chemical and oil refining industry, which forms the bases of the national economy, was formed. It meets the world standards along with it the sub-spheres of the infrastructure of the oil-making were created which also meet the same standards. The experience obtained from oil refining and oil processing, as well as the qualified specialist`s potential of the Azerbaijani government began to make big investments to the said spheres of the foreign countries. At present, oil refining terminal in Georgia, oil refinery plant in Turkey belong to SOCAR which represent the Azerbaijan government. The Azerbaijani oilmen and engineers are conducting oil explorations in Moldova.

After the signature of the "Contract of the Century", Heydar Aliyev founded the tradition of holding exhibition-conferences, called "Caspian petro-chemical and gas" which is global importance. Its goal is to call the attention to the Caspian oil and to stimulate co-operation and to apply new technology for production and transportation of oil and gas. The last conference, which celebrated its 15th jubilees, hundreds of progressive companies were represented from all over the world. Exhibition-conferences have played a great role in the realization of the oil strategy.

"The Contract of the century introduced Azerbaijan to the world as an oil country and "Shahdeniz" gas-condensate deposit located in the Azerbaijani Section of the Caspian Sea once more introduced Azerbaijan as a gas producer. In 2007, according to estimations this deposit has one trillion of gas reserves. Presently, "Shahdeniz" is the second big project after the Baku-Tbilisi-Ceyhan oil pipeline project which is being implemented and has real results. In December 2006, large-scale works began for the exploration of the deposit. At the moment, per-day production is 19 million cubic meters of gas and 4.5 thousands tons of condensate."
In 2005, the construction of another large-scale project, the Baku-Tbilisi-Erzurum gas pipeline started. It provides the export of gas from "Shahdeniz" to the world market, and in 2007 it began to be exploited. The pipeline is of 971 km length, 1066 mm diameter and 20 billion cubic meter of delivery capacity. 383 million cubic meters of gas have been delivered to Georgia and 2,8 billion cubic meters to Turkey since its start of operation.

Since the beginning of production (2006) until present, 5,9 billion cubic meters of gas and 1,6 million tons of condensate have been produced in "Shadeniz". It caused provided the gas supply of the country with its internal resources. If Azerbaijan produced 5,0 million cubic meters of gas in 2007, it increased to 16,9 billion cubic meter. It is estimated that increase of gas production from "Shahdeniz" will be 8,0 billion cubic meters in 2008, 22 billion cubic meters in 2015, and 35 billion cubic meter after full scale production.

Big projects realized in the framework of the oil strategy of Azerbaijan like the Baku-Tbilisi-Ceyhan and Baku-Tibilisi-Erzurum oil and gas pipelines are conditioned the birth of large-scale projects like the Transcaucasian and NABUCCO projects. They are important factors from political and economic point of view for Azerbaijan as a transit country.

Thus, the new oil strategy of Azerbaijan is a useful profitable program nationally, regionally and globally. Predicting all this, President Heydar Aliyev said in the ceremony of the signature of the "Contract of Century": "I am happy to take place in drafting and signature of this contract. I perceive the responsibility which I undertook and I hope that the future generations will appreciate it."

Realization of the oil strategy which started with the "Contract of the Century", Azerbaijan founded more reliable economic and political partnerships. Capital began to flow to other sectors of economy and the present day growth as been provided.

Heydar Aliyev, founder of the oil strategy of Azerbaijan, talking about the "Contract of the Century" in one of his interviews, said that it grew along "a narrow and dangerous path". Today, this path changed into the development way of Azerbaijan. Evaluating the oil strategy of Azerbaijan, one point of the nationwide leader Heydar Aliyev is relevant: "The oil strategy of Azerbaijan has already given its fruits and is one of the factors of free and independent development of Azerbaijan in the 21\textsuperscript{st} century

http://www.azerbaijan.az/_Economy/_OilStrategy/_oilStrategy_e.html
1. Contract of century

"The proper fulfillment of the obligations envisaged in "The Contract of the Century" and the successful implementation of our new oil strategy is one of the main guarantors of the eternity of the independence of the Azerbaijani state..."

Heydar Aliyev National Leader of the Azerbaijani People

The Agreement has been signed in Gulistan Palace of Baku on September 20, 1994 which was later named as the Contract of the Century due to its tremendous importance. Production Sharing Agreement related to the development of “Azeri – Chirag - Guneshli” deepwater oil fields has been reflected on 400 pages and 4 languages. 13 companies (Amoco, BP, McDermott, Unocal, SOCAR, LukOil, Statoil, Exxon, TPAO, Pennzoil, Itochu, Ramco, Delta) from 8 countries (Azerbaijan, USA, Great-Britain, Russia, Turkey, Norway, Japan, Saudi Arabia) have participated in signing of the Contract of the Century. This Contract has paved the way towards to the signature of other 26 contracts with 41 oil companies from 19 countries.

After the signature of the Contract of the Century, the parties to this document have established working structures – the Steering Committee, Azerbaijan International Operating Company (AIOC) and the Consulting Council. They have initiated its activities as they have been granted with legal competencies at the basis of the Special Decree signed by the President of Azerbaijan on December 2, 1994.

The speech made by President Heydar Aliyev at the signing ceremony of the Contract of the Century on September 20, 1994 is a meaningful historic document which enables us to use the language of political analysis and not just of the political interests. It reflects many principal key points and sound thinking laid in the core of intentions and decisions made by head of the Azerbaijani State.

Heydar Aliyev has recalled to the participants the importance of the past – the history of Baku oil industries which is known by principal achievements and useful consequences. Going point by point, his speech has consisted of solid milestones.

“The Development of oil industry ... gave a strong impetus to the development of Baku and Azerbaijan as a whole”.

“The Democratic State was created ... in 1918. This State has strived to use the resources which belong to the people to its wellbeing”.

Later on, “the Soviet Socialist regime has been established. ... Azerbaijan lived in the conditions of that regime being as a part of the Soviet Union. The most important wealth of Azerbaijan – the Oil has been used in the interests of the Soviet Union”.

“Starting from 1920, drastic changes have occurred in the destiny of Azerbaijan. The economy of Azerbaijan has been developing and the strong industrial potential has been created in the Republic. Our oil industry has passed long historical pathway.”

I think that it is necessary to bring today this fact into the attention of our guests and recall it in front of the Azerbaijani people. It is the pride and the glory of the Azerbaijani people which says about the achievement of our people, our oil workers in world economy.”

“Azerbaijan became the Independent Republic... A new epoch has begun in the life of Azerbaijan. And the history of our oil industry has got a new foundation, that’s to say, the third stage... During the new stage, expressing the will of the Azerbaijani people, we undertake necessary measures to use its natural resources”.

“The economy of Azerbaijan is in deep crisis. Big difficulties have also emerged in oil industry. All of us must unite efforts, work hand-in-hand to implement the Contract, sort out from this crisis, and develop Azerbaijani economy and to elevate the wellbeing of people to the necessary level”.

The Contract of the Century has made the history as the first comprehensive economic decision taken by Heydar Aliyev which has defined the main priority in the policy of his Presidential administration – the oil strategy. But even under those times, the significance of the Contract of the Century was not limited to the expected financial profits. Early 90-ies, Azerbaijan has started to get out gradually from the catastrophic situation at the basis of Heydar Aliyev’s project as well as the complexity of unnamed reasons which were always present in his policies and were seen by his wise supporters. In those years, the Azerbaijani State had to inherit the historical Azerbaijani statehood by assuming full responsibility not only for its own short period of
existence, but also all experience of the Azerbaijani history. In this light, the Contract of the Century of the Century became the quintessence philosophy which united the consistent ideas of those times and values laid down in the heart of the Heydar Aliyev policy – to serve for the sake of people’s wellbeing.

Heydar Aliyev was traditional in his thinking. He sought himself as spearheading the classic style mission to run the democratic policy taking its roots from the antiquity – Plato and Aristotle. The purpose of such policy is to ensure the wealth for the nation and not the personal freedom to individuals.

By signing for the first time such a large-scale agreement with major western oil companies, independent Azerbaijan established grounds for international cooperation in the Caspian Sea, made it possible to attract more foreign investors to Azerbaijan and provided an impetus for signing oil and gas contracts. Today, the activities jointly fulfilled within the frameworks of the signed 23 international oil agreements have created great possibilities for Azerbaijan. The activities have brought up-to-date technology to Azerbaijan, reorganized the infrastructure of the oil industry, developed transportation and service areas, trained qualified, professional national personnel and opened thousands of work places.

On November 12, 1997, a solemn ceremony was held at the Chirag-1 Platform on the occasion of early oil under "The Contract of the Century". On that day, national leader Heydar Aliyev arrived at the Chirag-1 Platform by helicopter and opened a symbolic valve of a device that had been especially prepared and filled with oil. Heydar Aliyev smeared some oil on his face according to an old and pleasant tradition of our oilmen.

Over past years, the implementation of "The Contract of the Century" has provided $9bln in investment to the oil industry alone in Azerbaijan. So far, 225mln barrels (more than 35mln) of oil and 7bln m3 of associated gas have been produced at the Chirag field. This is a significant achievement reflecting the successful fulfillment of oil production at the Chirag-1 Platform. A new record was achieved in August 2004 by producing 154 thousands barrel oil per day. This is a positive effect of successful drilling and water injection. Today, 250 people are working at the Chirag-1 Platform and 85 percent of them are Azeri citizens. The conditions for overall oil production have fundamentally changed over the last decade. As a result, the level of oil production has increased from 10 mln to 15mln tons from 1993 to 2003. Significant activities were conducted under the "Early oil" project on the Azeri-Chirag-Gunashli fields. Accordingly, the underwater pipelines and a new modern terminal complex were constructed in Sangachal to transport the early oil and gas onshore. On January 18, 1996, a bilateral transportation agreement for early oil produced at the Azeri, Chirag and Gunashli fields of Azerbaijan through the territory of the Russian Federation were signed in the State Parliament of the Russian Federation between national leader Heydar Aliyev and Prime Minister of the Russian Federation Victor Chernomyrdin. As a result, in 1997, the Baku-Novorossiysk Northern Route Export Oil Pipeline was restored and put into operation. During this period, roughly 17mln barrels of Azeroil were sent to the world market through the Northern Route Export Pipeline System. The Northern Route Export Pipeline System consisting of 231 kilometers pipeline and pump, oil pump and control-measurement stations has not lost a single day of activity.

The construction of the Baku-Supsa export pipeline is a significant factor in the development of the new oil strategy, which established national leader Heydar Aliyev and the realization of the "East-West" energy corridor.

In April 17, 1999, a ceremonial meeting was held in Georgia dedicated to the official opening of the Supsa ground terminal, which is part of the Baku-Supsa export pipeline transporting Caspian oil to the West. National leader Heydar Aliyev, President of Georgia Edward Shevardnadze and President of Ukraine Leonid Kuchma participated in this historical event, which was a new and significant stage in the development of Azeri-Georgian friendship and cooperation, strengthening its independence and sovereignty, enlarging the integration of our countries and the world economy and leading to the initial transportation and filling of Azeri oil into the tankers.

Over the past years, roughly 31mln tons of Azeri oil has been successfully transported by the Baku-Supsa Western Route Export Pipeline and delivered to the world market. The Western Route Export Pipeline from Baku to Supsa with a length of 830 kilometers and eight facilities has proved very successful since its operation six years ago. The pipeline's other significant achievement is that its personnel consist only of Azeri and Georgian citizens. Some of them have replaced foreign employees in their positions. The primary result is that
Azeri oil produced from the Chirag field is exported through Supsa to the world market under the name "Azeri Light".

Exploration activities played a significant role in the implementation of 'The Contract of the Century'. A number of activities under the program have been conducted including seismic studies, surveys to find locations for platforms, underwater pipelines and pipeline construction, environmental surveys and ecological conditions and other activities. The completion of refurbishment activities for the Dada Gorgud semi-submersible drilling rig and subsequent ceremony sending the rig into operation on August 24, 1996 were also historical events.

National leader Heydar Aliyev wrote in the visitor's book after visiting the huge drilling rig: "... Today, this rig has been given the name Dada Gorgud, a name that is dear and sacred for our people. I wish a long life and good luck to the rig. I appreciate the people who refurbished and modernized the rig..."

A significant part of the new oil strategy was the expedition of exploration and drilling activities for oil and gas in the deep-water areas of the Azerbaijan sector of the Caspian Sea.

Bearing this in mind, after the refurbishment of the Dada Gorgud drilling rig, the construction and putting into operation of the updated floating semi-submersible drilling rig Istiglal in 1998, the new jack-up drilling rig platform Gurtulush in 2000 and the most contemporary drilling rig in Azerbaijan - the cutting edge Heydar Aliyev drilling rig - enable us to work in all deep sectors of the Caspian Sea and are considered great successes for the Azeri oil industry. In August 30, 2001, a ceremony for the signing of a decree on the first stage of full-field development of the Azeri-Chirag-Gunashli fields was held in the Presidential Palace. National leader Heydar Aliyev participated in the ceremony. The Phase-1 project was directed at the central part of the contract area and covered the construction and installation of a 48-wellhead Production, Drilling and Quarters platform, the construction, installation of an adjacent gas-compressor and water injection platform, expanding the Sangachal Terminal and the pipeline from the platform to Sangachal.

Currently, jacket legs, piles and a seafloor template have been installed and the preparation of the topsides has been completed. They are expected to ship to sea after the testing processes this September. Jacket legs of the compressor and water injection platform were shipped from the construction and installation area of the Baku Deep-water Jackets Plant named after Heydar Aliyev to its permanent location in the Azeri field on June 31 this year. The rig was successfully delivered to the rig on August 1 and launched into the water. The rig is currently being installed. The jacket was entirely c30 rig to be installed in the Caspian Sea after the Central Azeri Platform jacket. The jacket has 12 piles each and is 128 meters long with a total weight of 6,120 tons. The total weight of the jacket is 13,250 tons together with the pontoon tanks; the height is 143 meters and the water depth at the installation location is 128 meters.

The subsea 30" oil pipeline consisting of 187 kilometers has been constructed up to the shore and will transport early oil from the Central Azeri Platform. Construction of the 28" gas pipeline was successfully completed. The annual maximum oil production from the Central Azeri Platform will be 18.7mln tons as a result of Phase-1. Thus, current annual oil production from the Azeri-Chirag fields will be increased from 6mln tons to 24-25mln tons. Now, over 9,500 local Azeri citizens work at all of the project's construction areas. This number is more than the number of Azerbaijani citizens planned to be involved in the project at the start, constructed within Azerbaijan using SOCAR construction infrastructure. This is the second largest rig to be installed in the Caspian Sea after the Central Azeri Platform jacket. The jacket has 12 piles each and is 128 meters long with a total weight of 6,120 tons. The total weight of the jacket is 13,250 tons together with the pontoon tanks; the height is 143 meters and the water depth at the installation location is 128 meters.

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are production and one will re-inject cuttings into formations. The project depth of the wells is from 3,900 to 4,500 meters. After the successful completion of the first four pre-drilling wells in the East Azeri, pre-drilling activities started in West Azeri. Early Oil production is expected from the West Azeri in the 2nd quarter of 2006 and from the East Azeri in the 2nd quarter of 2007. The realization of this project will increase oil production to 40mln tons in 2007-2008.

A significant part of the new oil strategy is the construction and realization of the Baku-Tbilisi-Ceyhan pipeline. This project is the primary part of the East-West energy corridor and is one of the major projects to be conducted in Azerbaijan in the 21st century.

The chief architect and individual who personally laid the foundations for this project and its realization was Heydar Aliyev.

In 1998, Heydar Aliyev and the presidents of Turkey and Georgia signed the first decree in Ankara regarding the construction of the Baku-Tbilisi-Ceyhan main export pipeline. The negotiations and surveys enabled an intergovernmental agreement to be signed by the presidents of Azerbaijan, Turkey and Georgia at the OSCE Istanbul Summit of November 18, 1999 on the transportation of crude oil through the Baku-Tbilisi-Ceyhan Main Export Pipeline.

As a result of Heydar Aliyev’s political and diplomatic efforts, the Istanbul Decree supporting the development of the project and aimed at its early implementation was signed by the presidents of Azerbaijan, Kazakhstan, Georgia and Turkey with the U.S. president as a witness.

President of the Azerbaijan Republic Heydar Aliyev signed a Decree on "Actions on Construction and Operation of the Baku-Tbilisi-Ceyhan Main Export Pipeline” on December 29, 1999 and decided to take a number of significant steps to implement the project.

On August 1, 2002, the BTC Co. was founded in London with the blessing of Heydar Aliyev for the construction and future operation of the pipeline. On September 18 of the same year, the foundation of the Baku-Tbilisi-Ceyhan pipeline was laid in the Sangachal Terminal with the participation of the presidents of Azerbaijan, Georgia and Turkey and U.S. Energy Minister Spenser Abrahams and construction began.

The Baku-Tbilisi-Ceyhan pipeline is the only engineering facility of its kind. The pipeline is 1,760 kilometers long - 443km will pass through Azerbaijan, 249km through Georgia and 1070km through Turkey. Along with the pipeline construction, the followings activities are included in the project: the expansion of the Sangachal Terminal, construction of a huge terminal in the Ceyhan port meeting all modern standards and the construction of eight pump stations. The implementation of the project in 2005, which is capable of transporting 50mln tons of crude oil per year and 1mln barrels per day, will be a significant historical event for Azerbaijan, Georgia and Turkey.

Heydar Aliyev's activity in settling financial questions related to the Baku-Tbilisi-Ceyhan pipeline and the completion of the process is unparalleled. In order to finance Azerbaijan's share in the project, financial means were allocated from the newly established Oil Fund in accordance with Decrees No. 739 (July 30, 2002) and No. 811 (November 1, 2002) issued by President Heydar Aliyev.

Located in the East-West energy corridor and as one of its important elements, the Baku-Tbilisi-Ceyhan pipeline is a requirement of time and an important factor for establishing economic development in the transit countries and energy safety. As a result of his unparalleled activity in realizing the export oil pipeline, the Baku-Tbilisi-Ceyhan pipeline was named after Heydar Aliyev, the creator of the new oil strategy of independent Azerbaijan and architect of the Baku-Tbilisi-Ceyhan pipeline. Thus, the pipeline will be an eternal symbol of the brotherhood between Azerbaijan, Georgia and Turkey.

Ilham Aliyev, the political successor of Heydar Aliyev's policy, who closely participated in and directly managed the preparation and realization of "The Contract of the Century project", now serves his people as the president of the Azerbaijan Republic. Ilham Aliyev currently performs a great deal of work, pays attention to every detail and does his best to accelerate the realization of these projects to promote the economic development of Azerbaijan.

The Contract of the Century has inevitably led to the changes of social actions scale in Azerbaijan: the nation has got a chance to leave chaos and collapse behind by influx of large financial means inside the country – the Azerbaijani nation has been given the vital mission with its concrete contents. Its importance has envisaged implementing the effective modernization with two significant conditions: to preserve the independence and use moral and spiritual forces of the people. The Contract of the Century became the driving force of such exact modernization which was seen as the outing of practical energy of any individual while the control over processes was continuously ensured by the State. In this understanding, the meaningful word of “the Contract” got a long-term operational meaning.
After several years, the implementation of the Contract of the Century gives sound grounds to think about the potential force of the Azerbaijani people. This force depends on invisible reserves of human energy, strong will and aspirations towards the greater achievements.

http://www.president.az/browse.php?sec_id=57

2. "The contract of the century" successes, achievements, facts and numbers...

The contract area is 432.4 sq. km. Currently, oil reserves in the contract area are estimated at 900mln tons, associated gas reserves at 150bln m³, non-associated gas reserves at 136bln m³ and condensate reserves at 23mln tons. Investments have been estimated at $12-13bln.

The following are the primary activities that have been fulfilled under the agreement:

* Seismic-acoustic profiling, bathymetry work on an area of 450 sq. km at a scale of 10,000km for the installation of platforms and oil pipeline construction on February-May of 1995; * On August-December of 1995, 3D seismic surveys of an area of roughly 990 sq. km was provided by the Baku scientific-survey vessel supplying up-to-date equipment and the seismic profiling of a 26,400 km length was developed for the first time in the Caspian Sea;

* The Khazardenizneft (now Dada Gorgud) semi-submersible floating drilling rig was refurbished and modernized in July 1994-September 1995 and is able to drill up to a depth of 7,250m in waters with a depth of 50-475m;

* Istiglal (formerly Shelf-5) semi submersible floating rig was refurbished and modernized in March 1997-November 1998 and is capable of drilling up to a depth of 7,600m in waters with a depth of 50-700m; * In 1996-1997, three appraisal wells were drilled; from 1998-2000, two more appraisal wells were drilled;

* The Chirag-1 Platform was restored within the early oil production project in accordance with Western standards; the reconstruction work was provided at the platform and drilling equipment was installed;

* Intergovernmental contracts on the transportation of crude oil were signed between Azerbaijan and Russia on January 18, 1996 and between Azerbaijan and Georgia in March;

* In the beginning of 1996, a technical survey was made along the northern pipeline route and where the Sangachal Terminal was to be constructed by the Azeri-Fugro Joint Enterprise together with the Complex Marine Geological Survey Establishment (CMGSE) and Denizneftgazlayihe SSRDI;

* In 1997, two subsea pipelines from the Chirag-1 Platform were constructed - a 24” oil pipeline with a length of 176km to the Sangachal Terminal and a 16” gas pipeline with a length of 48.2km to Neft Dashlari (Oil Rocks). A modern oil terminal in Sangachal (four reservoirs with 25,500 m³ each) was constructed and put into operation;

* Construction and restoration activities on the northern route pipeline were completed (Azeri portion - 231km length) and Azeri oil was transported to Novorossiysk port (Russian Federation) for the first time on October 25, 1997;

* In 1998, construction of the western route 20” pipeline with a length of 837km, eight pumping stations and an oil measuring system was completed. A new oil terminal was built in the Supsa port (Republic of Georgia), and the oil pipeline was provided with a centralized control and communications system. So, in April 17, 1999, the Baku-Supsa oil pipeline was put into operation;

* Most of SOCAR's enterprises and facilities were substantially repaired, modernized and improved according to world standards including the Derrick Barge Azerbaijan and other vessels providing services to the oil industry. In addition, facilities for infrastructure were restored and put into operation according to Western standards;

* The Israfil Husseinov pipe-laying vessel was outfitted with modern equipment and constructed the pipelines;

* 19 exploration and water injection wells were drilled in the Chirag-1 Platform from August 1997 to September 2004. Currently, the average daily production of exploration wells is 18,000 tons. From the well's commencement to 01.09.2004, a total of 35.0mln tons of oil and 7bln m³ of gas have been produced; * In order to provide a water drive in the field, a pump-compressor equipment was installed at the Chirag-1 Platform to inject water into the wells and a process to inject water into formations began in May 28, 2000 (currently, the productivity of the rig is 11.5 thousand tons per day);

* All of the associated gas produced from the fields during the production processes (roughly 150bln m³ on the basis of estimations) is donated to Azerbaijan. Over 6bln m³ of associated gas has been donated to Azerbaijan by the end of the Q2 2004;

* The Azeri portion of profit oil under the contract reached 4.8mln tons;

* Services of local contractors were used at the maximum level during the past decade. The amount of investments spent for local companies in Azerbaijan under these projects was $1,051 mm in the end of Q1 2004;

* The oil projects implemented in Azerbaijan provided new places of employment. Now, thousands of Azeri citizens have been hired to implement oil projects including under "The Contract of the Century";
- At BP offices, operator of the project - 1,111 people;
- During the exploitation of the Early Oil project - 500 people;
- Construction contractors of the Azeri project - 9,500 people;
- During construction work of the BTC project - 2,370 people.

* ACG project utilizes the latest technology in field areas and deep-water development meeting international standard. Many technologies have been used for the first time during offshore development in the Caspian Sea. Examples of these technologies are: directional drilling technology used during drilling processes, drilling technology on an acute angle, completion technologies in the production process, cutting edge drilling technologies that are performed automatically without human interference and heavy jacket and platform offshore installation, etc.

* One of the achievements obtained as a result of applying these cutting edge technologies in contract areas was made in the operations sphere. We obtained roughly 21,000 barrels of oil per day from 14 wells in the Chirag-1 Platform as a result of applying worldwide engineering and technological standards. Such great production is the horizontal drilling method that we applied to most of the wells. Drilling horizontal wells enables the majority of the oil bed to be covered and leads to an increase in production. Thus, the A18 well drilled with a record direction should be especially mentioned. The total depth of this well is 6,730m with a deviation from vertical direction of 5,500m;

* Foreign companies have played a great role in educating our specialists in learning new techniques and technologies. They fulfill significant activities in training Azeri specialists. The majority of Azeri specialists working in these companies have learned English properly. BP has opened a training center in the Sangachal area. The training center prepares specialists for all fields of the oil industry. The center is able to train 400 specialists per year;

* The Sangachal Terminal was constructed in Azerbaijan to deliver crude oil from the Chirag-1 Platform under the Early Oil Project. Four reservoirs were constructed for 25.5 thousand tons of oil over two years. Currently, the terminal's industrial capacity is able to process 23,000 m3 of watery and out-of-specification oil per day;

* The existing potential of the Baku Deep-Water Jackets Plant (BDWJP) named after Heydar Aliyev has been improved by contractors and reached international standards. The topsides of the Chirag-1 Platform were refurbished here. Currently, preparations for jacket legs, topsides and the deck of the Central Azeri Platform are performed in the area within the frameworks of the Azeri project. The jacket legs constructed in BDWJP and installed in the Caspian Sea in 2004 for the Central Azeri are the heaviest facilities to be constructed in the basin over the last decade - 14,130 tons;

* Companies implementing major oil and gas production projects in Azerbaijan continue to meet the highest health and safety standards during their activities with SOCAR. Safety performance in all areas of construction has been very high. High results have been obtained during all construction activities, transportation and lifting operations and during exploitation test activities;

* SOCAR and its foreign partners were able to protect the environment at the maximum level and implement their activities in compliance with international standards during their activities under the ACG project. During all of their activities, they met the requirements established by the Environmental and Social Impact Assessment (ESIA) Documents prepared for each section of the project and approved by the Ministry of Ecology and Natural Resources of the Azerbaijan Republic. Therefore, the cooperative goal to cause "No Damage to the Environment" is a chief and inseparable part of the operations. Since 2000, a complete System of Environmental Management has been implemented and completely corresponds to internationally recognized ISO 14001 standards. This means that the environmental performance process is open to the public.

"The Contract of the Century" will bring significant benefits to the Azeri government and people. According to estimations, the incomes from the oil revenues given a variance of oil prices are extremely effective and attractive from a commercial point of view. So, if the oil price is $16 per barrel, the benefit from the project is approximated at $ 27bln. If the oil price is $20 per barrel then the benefit from the project is $ 45bln. If the oil price is $24 per barrel then the benefit from the project is $64bln. All these incomes will serve the "Oil Strategy", the foundation established by Heydar Aliyev, national leader of the Azeri people. "The Contract of the Century", which is a part of this oil strategy, will serve the prosperity of the Azeri government and people.

3. Transport routes of Azerbaijani oil (Baku-Novorossiysk, Baku-Supsa)

The way to transport Azeri energy resources to the global markets was one of the major trends of the new oil strategy established by National Leader Heydar Aliyev. Caspian oil is currently transported by 2 routes: Baku-Novorossiysk and Baku-Supsa pipelines.

A contract on the transportation of Azeri oil via Russia to the Black Sea port of Novorossiysk was signed in Moscow February 18, 1996. The trilateral contract concluded between the International Operating Company of Azerbaijan, SOCAR and Transneft reflected all legal and technical issues stipulating for the transportation of oil till the port of Novorossiysk. Russia confessed by paragraph 2 of the said contract that Azerbaijan is not the owner of oil and the producer of oil is its owner. That must be regarded as the important achievement reached by the new oil strategy of Azerbaijan. According to the initial provisions of the contract Azeri oil was transported by the north pipeline to the global markets on October 25, 1997.

Baku-Novorossiysk pipeline extends to 1330 kilometers with 231 kilometers in Azerbaijan. It is 720 mm in diameter.

The establishment of the alternative routes for transportation of oil was another important element in the oil strategy of the national leader. The alternativeness of the oil transportation not only put an end to the economic dependence of Azerbaijan on any other state but also corresponded to the national interests of the country. Considering all these facts the National Leader of Azerbaijan Heydar Aliyev carried out a wise and farsighted decision despite all difficulties and pressure. President of Azerbaijan Heydar Aliyev and President of Georgia E. Shevarnadze agreed on the establishment of Baku-Supsa pipeline in Tbilisi March 8, 1996. The trilateral contracts signed between International Operating Company of Azerbaijan, SOCAR and Georgia stipulated for the first Azeri oil from Azeri, Chyrag and Guneshli fields to be transported by the Baku-Supsa oil pipeline.

The first Azeri oil started to be transported by the Baku-Supsa pipeline on April 17, 1999. The major advantage of the pipeline was the transportation of net Azeri light oil to the global markets. At the same time the lower prices of the transportation of oil to Supsa and Novorossiysk were also the positive feature of the route. Thus, the pipeline transported oil for the price of USD 15.67 to Novorossiysk and USD 13.14 to Supsa.

The Baku-Supsa pipeline extends to 837 kilometers to the west and 530 mm in diameter. Both pipelines transported 48.7 million tons from 1999 till 2005 to the global markets and was introduced into the global markets.

Despite the positive and negative properties of both pipelines, national leader of Azerbaijan J. Aliyev adopted a wise decision on the necessity of the export of oil by both two pipelines. At the same time the oil potential of Azerbaijan forecasts the production of 45-50 million tons of oil in 2010. That also caused the necessity for the establishment of the main oil pipeline for the full export of oil. The perspective of the transportation of Kazakh and Turkmen oil through Azerbaijan also increased the necessity. Considering all that, national leader Heydar Aliyev initiated works for the implementation of Baku-Tbilisi-Ceyhan

http://www.azerbaijan.az/portal/Economy/OilStrategy/oilStrategy_05_e.html
4. Baku-Tbilisi-Ceyhan Oil Pipeline Named After Heydar Aliyev

The transportation of oil to the global markets is one of the major trends of Heydar Aliyev’s oil strategy. Great work was carried out for the implementation of the strategically important Baku-Tbilisi-Ceyhan pipeline project to ensure the transportation of oil to the global markets due to the protection of the national interests of Azerbaijan, the development of large-scale international economic cooperation and the increase of oil production in the country and the talks had a successful result. First the exact idea of the establishment of the main oil pipeline was determined at the Trabzon meeting of the presidents of Azerbaijan, Georgia and Turkey on April 26, 1998. The three Presidents announced openly that Baku-Tbilisi-Ceyhan must the head export pipeline thus declaring the political decision on the implementation of the project. The first agreement on the said project was reached by the signing of the Ankara declaration supporting the establishment of the head export pipeline with the route Baku-Tbilisi-Ceyhan by the Presidents of Azerbaijan, Turkey, Georgia, Kazakhstan and Uzbekistan and US Energy Minister in Ankara on October 29, 1998.

As the result of all that a contract on the transportation of crude oil by Baku-Tbilisi-Ceyhan pipeline via Azerbaijan, Georgia and Turkey was signed during the OSCE summit at Chyraghan Palace of Istanbul November 18, 1999. It was signed by H. Aliyev, E. Shevarnadze and S. Demirel. The Istanbul Declaration was signed between Azerbaijan (Heydar Aliyev), Turkey (S. Demirel), Georgia (E. Shevarnadze), Kazakhstan (Nursultan Nazarbayev) and Turkmenistan (S. Niyazov) under the witness of the USA (B. Clinton) to support the Baku-Tbilisi-Ceyhan pipeline and to attract Kazakhstan and Turkmenistan to the project. The construction of Baku-Tbilisi-Ceyhan pipeline was initiated on the Sangachal terminal on September 18, 2002 as the logical continuation of this process.

Thus, Baku-Tbilisi-Ceyhan, the major achievement of the new oil strategy worked out by national leader Heydar Aliyev, was on the point of coming into life.

The Azerbaijani section of the BTC pipeline joined Georgian one in October of 2004. It should be mentioned that the pipeline extends to 1769 kilometres (with 443 kilometres in Azerbaijan, 248 kilometres in Georgia and 1067 kilometres in Turkey), it is 1070 mm in diameter. The pipeline has the annual capacity of 50 million tons with the total cost of USD 2.95 billion. The project comprises the following shareholders: BP (30.1%), SOCAR (25%), UNOCAL (8.9%), Statoil (8.71%), TRAO (6.53%), ENI (5%), TotalFinaElf (5%), Itochu (3.4%), Inpex (2.5%), ConocoPhillips (2.5%) and Amerada Hess (2.36%).

In the future BTC will not only promote the access of Azeri oil to the global markets but will turn to the major pipeline of the Silk Road and Turkic countries.

The selection of the direction of the pipeline was the result of the great policy of Heydar Aliyev and the pipeline will join the oil pipelines system as the artery of the world.

The future prospects of oil production in Azerbaijan are connected with the program of the full-scale development of two more fields included into the Contract of the Century. The Central Azeri oil was produced within the first stage of the program in 2005.

The project of the third phase is the last stage in the full-scale development of the Azeri-Chyrag-Guneshli fields. Therefore it was planned to conduct the joint development of the deep water Guneshli field and western Chyrag, to establish two platforms (drilling and technological works) and at the same time to drill 24 wells in the drilling platforms.

The great Shahdeniz gas condensate field was discovered in 1999 as the result of the successful conduction of the new oil strategy, the high level of investments in the oil industry and the application of modern technique and technology in the oil operations. The Shahdeniz field and BTC pipeline projects comprise SOCAR (Azerbaijan)-10%, Statoil (Norway)-25.5%, BP (Great Britain), TotalFinaElf (France)-10%, Luk-Acip (Russia Italy)-10%, OLIK (Iran)-10%, TPao (Turkey)-9%. The discovery of the Shahdeniz gas field created conditions for the development of gas industry in Azerbaijan and transformation of the country into one exporting gas along with oil in the 21st century. During the official visit of the President of Azerbaijan Heydar Aliyev to Turkey, Azerbaijan and Turkey signed a contract on the sales and purchase of the natural gas of Azerbaijan on March 12, 2001. Azerbaijan and Georgia signed a contract on the transit, sales and transportation of natural gas via Georgia was signed on September 29 of 2001.

This head oil pipeline has an important technical, economic and political role. Thus, it will promote the establishment of the new relations of Azerbaijan, the reestablishment of relations of the Azerbaijani people and will cause the strengthening and development of the foreign policy of Azerbaijan.
At present time construction of Baku-Tbilisi-Ceyhan main export pipeline named after Heydar Aliyev came to an end and it is being filled with oil. It is solemnity of new oil strategy of Azerbaijan started with signing of "Contract of century" on September 20, 1994 and worked out under leadership of great leader Heydar Aliyev. Azerbaijani people, foreign guests partaking in the project were waiting for this eminent day for more than 10 years. Lastly, that day has come, legend of three seas has already been realized, and big oil of Azerbaijan goes to world market.

10 million barrel crude oil is required for filling 1770-km line, which begins from Sangachal terminal near Baku, reaches Ceyhan terminal of Turkey in coast of Mediterranean Sea by passing through Georgia, with "black gold". This oil will be produced from "Azeri-Chirag-Gunashli" wells in Azerbaijan sector of Caspian. More than 6 months are required to fill the pipeline in stages along the entire route and loading the first tanker with oil in Ceyhan is planned for fourth quarter of 2005.

A solemn ceremony to mark the opening of the Azerbaijan section of the Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export Pipeline has taken place today in Sangachal oil terminal near Baku.

Present at the Heydar Aliyev BTC pipeline's opening ceremony were Presidents Ilham Aliyev of Azerbaijan, Ahmet Necdet Sezer of Turkey, Mikhail Saakashvili of Georgia, Nursultan Nazarbayev of Kazakhstan, as well as US Energy Secretary Samuel Bodman, BP's group chief executive, Lord John Browne and other high-ranking officials from France, Ukraine, Japan, Norway and other countries.

http://www.azerbaijan.az/_Economy/_OilStrategy/_oilStrategy_e.html
5. Projects;

2. The Garabah Perspective Structure, 10.11.95.
3. The Shah Deniz Perspective Structure, 04.06.96.
5. The Lenkoran Deniz, Talish Deniz Perspective Structures, 13.01.97.
6. The Nakhchivan Perspective Structure, 01.08.97.
7. The Absheron Sea Block, 01.08.97.
8. The Oguz Sea Block, 01.08.97.
9. The D-222 Perspective Azerbaijan Block, 03.07.97.
10. The Kur Dashi Sea Block, 02.06.98.
11. The Three Blocks of South West Gobustan, 02.06.98.
12. The Block including Muradkhanli, Jafarli and Zardab Oil Fields, 21.07.98.
13. The Sea Block including Inam Perspective Structure, 21.07.98.
14. The Exploration Block including Araz, Alov and Sharg Perspective Structures, 21.07.98.
15. The Kursangi / Garabagli, 15.12.98.
16. The Exploration Block including Atashgah, Yanan Tava and Mugan Deniz Perspective Structures, 25.12.98.
17. The Exploration Block including Zafar and Mashal Perspective Structures, 27.04.99.
18. The Block including the Padar Area and the Adjacent Prospective Structures, 27.04.99.
20. The Block including the Parsaat Oil Field and Areas Adjacent, 04.06.2003.
21. The Block including Lerik Deniz and Janub Perspective Structures, 27.04.99.
22. The Block including the Zikh and Hovsan Oil Fields, 09.01.2001.
23. The Block including the Garachuhur Oil Field, 18.06.2004.
25. The Block including the Kurovdag Oil Field, 04.11.2004.
6. Significant steps of New Oil Strategy

20 September 1994 - Production Sharing Agreement (PSA) signed on Azeri, Chirag and deepwater portion of the Gunashli (ACG) fields.

12 December 1994 - PSA on Azeri Chirag and Gunashli fields ratified by the Milli Majlis and enacted as law.


9 October 1995 - Steering Committee approved Early Oil project and two options of early oil export routes - Northern route through the Russian territory and Western route through Georgia.

18 January 1996 - Governments of Azerbaijan and Russian Federation signed an intergovernmental agreement on the transportation of Azeri oil through the Baku-Novorossiysk pipeline.

8 March 1996 - Governments of Azerbaijan and Georgia signed intergovernmental agreement on transportation of the Azeri oil through the Baku-Supsa pipeline.

5 September 1997 - Azerbaijan Working group founded for preparing activities regarding Baku-Tbilisi-Ceyhan (BTC) export pipeline.

7 November 1997 - First oil produced from Chirag-1 Platform.

12 November 1997 - Sangachal Terminal opened; early oil production declared national holiday.

24 March 1998 - First oil produced from ACG fields transported to Novorossiysk.

15 May 1998 - Memorandum on mutual understanding signed by three governments in Istanbul serves as the foundation of negotiations on the BTC pipeline project.

29 October 1998 - Ankara Declaration supporting BTC main export pipeline signed.

12 December 1998 - West Route Export Pipeline (WREP) started operations.

8 April 1999 - First oil transported to Supsa terminal.

13 April 1999 - Istanbul protocol on completion of the Baku-Ceyhan negotiations signed between Azerbaijan and Turkey.

June 1999 - BP Company became the operator of the ACG fields.

13 July 1999 - First 1 mln barrels of oil filled in tankers and delivered.

18 November 1999 - Intergovernmental Agreements and Host Government Agreements (HGA) on the BTC project were signed by the presidents of Azerbaijan, Georgia and Turkey.

26 May, 31 May and 21 June 2000 - Intergovernmental agreements on the BTC project were ratified by the Azerbaijan, Georgia and Turkey governments.

October 2000 - June 2001 - Initial engineering work provided on BTC project.

May 2001 - Milli Majlis of the Azerbaijan Republic ratified Intergovernmental Agreement on the South Caucasus Pipeline project.

July 2001 - August 2002 - Detailed engineering work provided on BTC project.
30 August 2001 - ACG Phase-1 project sanctioned.

29 September 2001 - Intergovernmental Agreements on the South Caucasus Pipeline project and Host Government Agreements signed between Georgia and Azerbaijan.

May 2002 - Turkish parliament ratified Intergovernmental Agreement on the South Caucasus Pipeline project signed between Turkey and Azerbaijan.

June 2002 - Investing companies defined on the BTC project.

1 August 2002 - BTC Co. founded.

18 September 2002 - ACG Phase-2 and BTC projects sanctioned.

October 2002 - Environmental and Social Impact Assessment (ESIA) document on the BTC project approved by Azeri and Turkish governments.

30 November 2002 - ESIA document on BTC project approved by Georgian government.

December 2002 - ESIA document on the South Caucasus Pipeline project approved by Georgian government.

January 2003 - Construction of BTC facilities commenced.

March - April 2003 - Process completed for allocation of land areas in Azerbaijan, Georgia and Turkey for the BTC pipeline.

April 2003 - Construction of BTC project commenced in Azerbaijan, Georgia and Turkey.


November 2003 - International Finance Cooperation, a member of the World Bank Group and European Bank for Reconstruction and Development, adopted resolution on allocating financial support for the BTC pipeline construction project.

3 February 2004 - BTC partners signed portfolio of documents on financing the construction of the pipeline Baku-Tbilisi-Ceyhan MEP with more than 25 leading international banks and financial institutions.

21 September 2004 – A solemn ceremony at Heydar Aliyev palace on the occasion of the 10th anniversary of the "Contract of the Century".

18 October 2004 – A ceremony for merger of part of Baku-Tbilisi-Ceyhan main export pipeline passing through Azerbaijan and Georgia territories.

22 November 2004 – A solemn ceremony on the 55th anniversary of oil rocks.

26 May 2005 – A solemn ceremony on the commissioning of Azerbaijani part of Baku-Tbilisi-Ceyhan main export pipeline named after Heydar Aliyev.

08 June 2005 – The opening ceremony of the 12th international exhibition and conference “Caspian Oil, Gas, Oil processing and Oil chemistry” in Baku.

12 October 2005 - A solemn ceremony on the completion of construction of Georgian section of the Baku-Tbilisi-Ceyhan (BTC) oil line and filling the line with crude oil.
22 March 2006 - The opening ceremony of the 13th International Exhibition and Conference "Caspian Oil and Gas, Refining and Petrochemicals-2006" in Baku.

6 June 2006 - A solemn opening ceremony of the 13th International Exhibition and Conference "Caspian Oil and Gas, Refining and Petrochemicals-2006" took place on June 6 at the Heydar Aliyev Sport-Concert Complex in Baku.

13 July 2006 - Inauguration of the Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export oil Pipeline, the largest energy project of the 21st century, was held in the Turkish city of Ceyhan.

5 June 2007 - The opening ceremony of the 14th International “Caspian Oil and Gas Exhibition Incorporating Refining and Petrochemicals” was held at Heydar Aliyev Sport and Concert Complex in Baku.

18 November 2007 – The inauguration ceremony of the Turkey-Greece natural gas pipeline.

3 June 2008 - The opening ceremony of the 15th International “Caspian Oil and Gas Exhibition and Conference”.

14 November 2008 - The 4th Energy Summit dedicated to energy security issues took place at the Gulustan palace in Baku.


29 January 2009 - A special session on “Oil and gas geopolitics – a map in transition” of Davos Forum. The meeting attended by representatives of the European Union and world’s energy giants ENI, Total, Exxon/Mobil, Statoil Hydro dealt with regulation of oil production, energy giants’ increasing interests on Russia and Mid-East, future changes in the energy field.

2 June 2009 - The Sixteenth International “Caspian Oil, Gas, Oil Refining, Oil Chemistry Exhibition and Conference” began at the Heydar Aliyev Sport and Concert Complex.

16 September 2009 - A solemn ceremony to celebrate the 15th anniversary of the signing of the Contract of the Century was hold at the Buta palace.

5 November 2009 – A ceremony dedicated to the 60th anniversary of Oil Rocks.

1 June 2010 - The opening ceremony of the 17th Caspian International Oil and Gas Exhibition and Conference.

24 November 2010 – The meeting with managers of State Oil Company.
X. NATURAL GAS

The availability of the significant oil and gas reserves in Azerbaijan is the fortune of our people and the major factor in the development of the country for the welfare of the people and their present and future.

Heydar Aliyev

I. Exploration and Production


According to the *Oil and Gas Journal*, Azerbaijan has proven natural gas reserves of roughly 30 trillion cubic feet (Tcf) as of January 2010.

In 2009, Azerbaijan produced 583 billion cubic feet of natural gas and consumed 374 billion cubic feet. Almost all of Azerbaijan's natural gas is produced from offshore fields. The country's leading natural gas field is the Shah Deniz natural gas and condensate field, which started producing in 2006. The Gunesli field, part of the ACG oil and gas fields system, provides associated gas to the Azerigaz system for domestic use via an undersea gas pipeline to Sangachal Terminal at Baku. The Sangachal Terminal, located south of Baku, is one of the world's largest integrated oil and gas processing terminals. It receives, stores, and processes both crude oil and natural gas from the ACG fields and from Shah Deniz, then ships these hydrocarbons through the BTU and SCP pipelines for export.

Azerbaijan's natural gas production increases in the future are expected to come from the continuing development of the Shah Deniz field, which is the largest natural gas discovery since 1978. According to BP (the project's technical operator) Shah Deniz contains potential estimated reserves of roughly 35 Tcf of natural gas. Shah Deniz is located offshore in the Caspian Sea, approximately 60 miles southeast of Baku.

Phase 1 of the Shah Deniz field's development was completed in 2006 and includes a fixed offshore platform, 2 subsea pipelines to bring the hydrocarbons ashore, and a new onshore gas-processing terminal adjacent to the existing oil terminal at Sangachal, near Baku. The Shah Deniz consortium members (most of whom are also members of AIOC) began producing natural gas for export during spring 2007. The field produced 110 Bcf in 2008 and increased output to approximately 250 Bcf in 2009.

Phase 1 output is expected to peak at 304 billion cubic feet as well as 45,000 bbl/d of condensate in 2010. According to IHS Global Insight, the field is expected to eventually yield around 882 Bcf for export.

Phase 2 of the Shah Deniz development is expected to have peak capacity of 700 Bcf but its completion was delayed to 2016 as a result of lack of a transit agreement between Turkey and Azerbaijan. Negotiations on Phase 2 have been going on for years, but stagnated recently. In November 2010, however, a new round of negotiations between the Shah Deniz consortium and potential buyers resumed. A number of West European utilities are seeking to secure supplies for the Nabucco pipeline, which, if completed, will transport Caspian natural gas to Europe via Turkey. Key supply source for the Nabucco pipeline is Azerbaijan’s Phase 2 of the Shah Deniz project. In addition, the Italy-Turkey-Greece Pipeline (ITGI) as well as the Trans-Adriatic Pipeline (TAP) is expected to carry Shah Deniz gas to Europe.

Sector Organization

Azerigaz, a SOCAR subsidiary, is responsible for natural gas processing, transport, distribution, and storage, mainly in the domestic market. Azneft, another SOCAR subsidiary, is responsible for exploration,
development and production from the older onshore and offshore natural gas fields owned directly by SOCAR. AIOC is the largest foreign joint venture in association with SOCAR, and is involved in the development of the ACG oil and gas fields and the Shah Deniz gas field. Statoil and BP are the operators of the Shah Deniz gas field, and are the largest shareholders in the Shah Deniz consortium, each holding 25.5 percent. Other shareholders include Total, LUKoil, SOCAR, OIEC of Iran, each at 10 percent, while TPAO holds 9 percent.

2. Natural Gas Exports

Azerbaijan became a net exporter of natural gas in 2007 with the startup of the Shah Deniz natural gas field; in prior years it had been importing natural gas from Russia. In 2009, Azerbaijan exported an estimated 209 Bcf, mainly shipping it via the South Caucasus Pipeline (SCP). However, volumes of natural gas are also exported to Russia via the Gazi-Magomed-Mozdok Azerbaijan Energy Data, pipeline and a small volume of natural gas is shipped to Iran via the Baku-Astara pipeline. Azerbaijan delivers a small volume of natural gas to Iran. In exchange, Iran supplies Nakhchivan, Azerbaijan’s exclave situated between Iran and Turkey.

South Caucasus Pipeline (SCP). The main conduit for Azerbaijan’s natural gas exports is the 555-mile SCP, also known as the Baku-T’bilisi-Erzurum pipeline (BTE), which runs parallel to the BTC oil pipeline for 429 miles, most of its route, before landing in Erzurum, Turkey. The pipeline began exporting in 2007, and has the capacity to transport about 770 Bcf of natural gas, according to IHS Global Insight. The Shah Deniz consortium owns and operates the pipeline.

Gazi-Magomed-Mozdok Pipeline. This 150-mile pipeline transports natural gas from Azerbaijan to Russia under an agreement signed by SOCAR and Gazprom in 2009. Prior to 2007, this pipeline used to transport natural gas from Russia to Azerbaijan, but the agreement allowed for the pipeline flow to be reversed, making Azerbaijan an exporter of natural gas to Russia. Gas exports to Russia began in 2010 at approximately 35 Bcf per year.

Baku-Astara Pipeline. Due to tensions between Azerbaijan and Armenia, Azerbaijan in late 2006 began a swap deal with Iran that provides natural gas to Azerbaijan’s geographically separate Nakhchivan exclave. Azerbaijan ships natural gas into Iran via the Baku-Astara Pipeline and then delivers the gas via a new 30-mile pipeline into the exclave. Iran receives a 15 percent commission on transit fees. In early 2010, Iran and Azerbaijan signed an additional gas supply deal for increased volumes of gas from Azerbaijan to be delivered to Iran for its own consumption, and volumes are likely to increase with the renovation of the pipeline and upgrades to the Astara gas compressor. In late November 2010, Azerbaijan and Iran signed a memorandum of cooperation on natural gas supplies and electricity swaps, which likely will expand energy trade between the two countries.

XI. GREAT SILK ROAD

1. Azerbaijan and the Silk Road

In the early medieval period and later, the Great Silk Road was a key economic factor connecting the empires of China, Byzantium and the Arab Caliphate, and dozens of countries that fell within the spheres of influence of these empires. This great network of cooperation covered southern and even northern parts of Europe too.

Within these immense boundaries, the Great Silk Road helped to develop towns, agriculture, private farming and silk production, and established land and sea transport routes. This was a unique economic process in the history of Eurasian civilization.

Azerbaijan can be taken as an example to illustrate these arguments about the Great Silk Road. Azerbaijan serves as a bridge in the Caspian region, connecting the Caucasus, Middle East and north-eastern Europe. Before the Mongolian wars, Azerbaijan, as a Caspian country, was one of the richest states in the Middle East. Medieval historian Hamdu Allah Qazvini (1280-1349) wrote that during the ‘rule of the Seljuks and Atabays’ and also under the ‘Shirvan shahs’ Azerbaijan’s annual state income stood at 25 million dinars. The state budgets of five neighboring countries were: Arabian Iraq – 30 million dinars; Iraqi Ajam - 25 million dinars; Rum (Byzantium) – 15 million dinars; Georgia and Abkhazia - 5 million dinars; and Arminiyyat al-Akbar - only 2 million dinars. Another medieval scholar, Yaqut al-Hamavi (1179-1229), had earlier described the historical reality reflected in these figures as follows: ‘Azerbaijan is a vast country and a great state’ (in Arabic: ‘Azarbayjan balad kabir wa daula azim’).

Such a strong economy had to be well founded. Among other reasons, the Great Silk Road and Azerbaijan’s own silk industry had played a great part. Marco Polo, who journeyed to the East in 1271-1291, wrote about Azerbaijan’s capital, Tabriz: ‘Taurus [Tabriz] is a huge city… Its residents are engaged in trade and craftsmanship. They produce fine silk clothes, which are very expensive. Goods are brought in from India, Bodak (Baghdad), Mosul, Kremozor (the Bay of Hormuz), and other places. Latin merchants, especially those from Genoa, flood the city with their goods. Unlike today’s Iranian historians; Marco Polo did not call Tabriz an Iranian city. He wrote: Persia is 12 days travel from Tauris [Tabriz].’ This situation saw no substantial change in the 14th-15th centuries or afterwards. The only change was that Europeans started to make more trips to northern Azerbaijan for silk. Rui Gonzalez, while on his way home from Amir Timur’s (Tamerlane’s) capital Samarkand in the early 15th century, wrote: ‘In Shamakhi, silk is produced in very large quantities. Even merchants from Genoa and Venice come here to buy silk.’ Ambrogio Contarini, a plenipotentiary envoy who was sent by the Republic of Venice to Agqoyunlu Sultan Uzun Hasan’s palace in Tabriz, said that in his country the Shamakhi (Shirvan)-made silk was known as ‘Talaman silk’. As a Caspian state, Azerbaijan traded silk with Russia as well. With the emergence of capitalist manufacturing in Europe in the 16th and 17th centuries, the demand for Eastern raw materials and markets grew sharply. However, the route to the Indian Ocean via the Atlantic Ocean was controlled by the Portuguese, and the Ottoman Empire was in control of the route running through the Mediterranean and Black seas.

There were two important factors that made visits of some foreign merchants in Azerbaijan possible:

a) One of the old routes of the Great Silk Road ran through the Caspian Sea and Azerbaijan. In fact, this route has been in use throughout history. Guillaume de Rubruques, who was sent by French King Louis IX to meet the Mongolian Khan Mongke in 1253-55 (20 years before Marco Polo’s visit), returned to his country via this route - through the ‘Edil Sea’ and the ‘Iron Gate’ built by Alexander - from the north to
the south. In 1474, Ambrogio Contarini, the Venetian envoy, led a large delegation from the south to the north (Tabriz-Shamakhi-Derbent). Even the Safavid envoy to Europe, Oruj bay Bayat, preferred this route.

b) Azerbaijan was an open country for trade and cooperation. It had an environment of religious and moral tolerance. The head of the German-Holstein embassy, Prof Adam Olearius (1636-39), also mentioned this. He said: ‘Unlike Russia, Azerbaijan is not a closed country. By paying the required customs duty to the state, locals and foreigners can freely travel in the country. They can also do business and trade here.’ To be honest; the people there [in Azerbaijan] were very friendly. When asked who we were, we would reply: “We are Christians.” And this answer would be enough for them.’ European diplomats and merchants preferred the Volga-Caspian route to the Black Sea route (via Georgia and Crimea), although the latter was shorter.

2. Restoring and developing of the Great Silk Road

Owing to efforts of Heydar Aliyev in Azerbaijan there was held international forum for restoring and developing of Great Silk route, in which representatives of 42 countries of the world took participation, among which 8 were represented by presidents. As H.Aliyev noticed at this forum on September, 1998: "Baku summit will play its historical role in decision of co-operation, provision with peace, prosperity in every country and all Eurasian space".

The main purposes of developing of Great Silk Route are expressed in the following:
- Developing of trade-economic relations of the regional countries;
- Developing of transport connections of international transportation of trucks and passengers;
- Creation of propitious conditions for transit transportation;
- Acceleration of delivery terms and saving of transported truck;
- Harmonization of transport policy;
- Privileges on tariffs on transportation and collection of taxes;
- Coordination of relationships between different fields of transport;
- Tariff policy on international and internal tariffs on truck and passenger transportation;
- Development of the programs of coordinated actions for organization of multi-modal (combined) transportation.

It must be noticed that geographic situation of Azerbaijan and its role in Great Silk route are one of the main (central), if take into consideration the fact that there are well developed all kinds of transports and main roads (air, sea and automobile) in the republic.

3. General historical background on "East-West Transport Corridor"

TRASECA (Trans-Europe-Caucasus-Asia), an EU supported program envisages rebirth of the Great Silk Road after hundreds of years and a system regrouping of transport-communication networks of European, Caucasian and Asian states.

A Great Silk Road is a common historical name of the trade routes stretching from China to the Northern Africa and Spain which functioned from the II century b. c. until XVI century A. D. An international commission under auspices of the UNESCO started to study perspectives and opportunities of implementation of the idea of restoration of the Great Silk Road in 1980 yet, which begins from Sinan, a Chinese city on the coast of the Eastern Chinese Sea. The issues of development and directions of the project were discussed at the forums and seminars held in Moscow (1989), Samarkand (1990), Urganch (1991) and Donetsk (1992).

In May 1993, an international conference was held in Brussels with the participation of the delegations from the five Central Asian and three Caucasian states and a project of TRASECA was proposed here by the European Union. A program of technical support for the project was agreed in that conference. The technical support program endorses the issues of development of the transport corridor stretching from Europe to the Black Sea, then to the Central Asia through the South Caucasus and Caspian Sea.

The favorable geographic position of the Republic of Azerbaijan and being one of the important points for this transport corridor and its foreign policy supporting the integration into the world community contributed to the implementation of the TRASECA project into life.

The idea of the implementation of the TRASECA project culminated on September 8-9, 1998, in Baku, the capital of the Republic of Azerbaijan.

"The international conference dedicated to the restoration of the historical Silk Way" was held on this date. Representatives from the 32 states and 13 international organizations signed an important document, "Major multilateral agreement on international transport for development of European-Caucasian-Asian transport corridor" reflecting the technical and economic issues of the implementation of the European-Caucasian-Asian transport corridor. President of the Republic of Azerbaijan Heydar Aliyev rendered priceless services for the signature of this document.

President of Azerbaijan Heydar Aliyev held a meeting connected with the results of the conference dedicated to the restoration of the GSK 2 days after its completion. It was noted at the meeting attended by the high authorities of the government that taking into account rise of the importance of the Eurasian transport corridor in the 21st century, taking serious preparatory measures in this sphere, purchase of new transport equipments and establishment of new service spheres were of great importance.

Eurasian transport corridor, intensive functioning of the Transcaucasian corridor was also of great importance for the socio-economic life of Azerbaijan and solution of its importance.

It was manifested with incomes from cargo carriages, establishment of a long-term reliable market for sea, railroad and pipeline transports, restoration of the infrastructures connected with the cargo carriages, openings of new jobs, solution of the issues of the economic security of Azerbaijan and development of Baku as the biggest port situated on the centre of this arterial way and coast of the Caspian Sea.

It is not accidental that the head-quarters of the permanent secretariat of the TRASECA intergovernmental commission reside in Baku, the capital of Azerbaijan, one of the main points of the GSK. The office of the permanent secretariat of the TRASECA intergovernmental commission started to function in Baku on February 21, 2001. The new office, serving the organization of the coordination of the works conducted in the framework of the TRASECA program is to regulate the carriage and movement of the international cargoes, resolve the issues connected with the legislative and finance-economic environment in the states parties to the Major Agreement.

In April 1999, after wrapping up the ceremonies on the occasion of the 50th anniversary of the NATO, a discussion of draft dedicated to the restoration of the Great Silk Road was held in the US Congress. The heads of state and foreign ministers of the Caucasian and Central Asian and Caucasian countries attended the discussions. The discussions were held at the initiative of Sam Brownback, US congressman.

Such an initiative from the US Congress attested the US intention to join the restoration of the Great Silk Road.

Next step in the implementation of the TRASECA project was made in meeting held in New York connected with the regional cooperation of the countries situated on the Silk Road on September 8, 2000.

The summit was organized by the East-West Space Sciences Centre and East-West Institute of the US Maryland University. The project was to serve to establish material and moral dialogue between the East and
West, Republic of Azerbaijan took a number of serious steps for completion of this mission. Setting into function successfully the oil pipelines of Baku-Novorossiysk and Baku-Supsa could be considered valuable contributions of the Republic of Azerbaijan for the restoration of the Silk Road.

Active participation of Azerbaijan in the realization of the Great Silk Road is one of the successful achievements of the country gained in the years of independence. This regional transport corridor already competes with the other regional transport corridors in profitable and secure passage of the cargoes among the European-Caucasian-Asian countries and played a serious role in the development of the economy of the country and surface transport infrastructures.

Next discussions in order of strengthening of the contacts between East and West, function of the GSK were made in the conference "East-West energy transport corridor is reality" held Washington on February 25, 2003. The international conference was organized at joint initiative by the US-Azerbaijan Chamber of Commerce, US-Georgian Business Council and US-Turkish Council. The major issue discussed in the conference was the construction of the Baku-Tbilisi-Ceyhan main oil pipeline and Baku-Tbilisi-Erzurum gas pipeline which were to deliver the Caspian energy resources to the world market.

It is to note that the construction of the Baku-Tbilisi-Ceyhan oil pipeline started on September 18, 2002 and on October 16, 2004, the Azerbaijani and Georgian parts of the pipeline were connected. On the same day the construction of the Baku-Tbilisi-Erzurum gas pipeline started as well. BTC was officially opened on July 13, 2006 and is capable to deliver one million barrel oil a day.

Baku-Tbilisi-Erzurum gas pipeline started to pump in the beginning of 2007. Thus, delivery of the Azerbaijani gas to Europe was assured and the country entered to the world economy as a gas exporter. At the present, Baku-Novorossiysk, Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines together with the Baku-Tbilisi-

Erzurum gas pipeline create the South Caucasus Pipelines System (SCPS), which deliver the Caspian energy resources to the world market. SCPS is the main artery of the whole East-West transport corridor. Implementation of these projects is estimated a substantial support to the world integration tendencies. The projects are also characterized as a major support for the TRASECA project supported by the EU, acceleration of the restoration of the Great Silk Road.

It is to note that the Azerbaijani gas started to be exported to Italy as a result of the connections of Turkey and Italy gas systems at the end of 2007. On the other hand, NABUCCO gas pipeline, planned to provide delivery of the Caspian energy resources to the Central European markets, which is to be constructed by 2010, will become the biggest project connecting the East and West. According to this project, Baku-Tbilisi-Erzurum transport system, starting to function from the early 2007, will be connected with the Trans-Caspian gas pipeline which is to be constructed and this system in its turn, will integrate into the relevant infrastructures of the EU countries via the Turkish gas infrastructure.

The Republic of Azerbaijan took another step to ensure overall development of the East-West transport corridor and other kind of transport in the end of 2006. This is a project of the construction of the Baku-Tbilisi-Gars railroad. The railroad of 127 km length will connect Turkey with the Caucasian main railroad. Gars-Akhalkalak route will in fact the shortest railroad connecting the South Caucasus and Europe. These big projects stretched from Asia to Europe originate from Azerbaijan.

Successful results of the steps taken for the development of the European-Caucasian-Asian transport have resulted in development of alternative projects. The North-South transport corridor could be an ideal example. This project was out in forward by India, Pakistan, Oman, Iran and Russia.

Functioning of this project envisages delivery of cargoes from India to Bandar-Abbas port of Iran and their passage to Russia and other countries via Iran and Azerbaijan by means of railroad.

Actively taking part in this project, Azerbaijan considers it useful from the point of view of protection of national interests and development of other kinds of transport.

It is to note that Azerbaijan has started to implement big investment projects for development of its internal transport infrastructures since 2004. It is enough to mention the fact that $ 2 billion have been assigned for enlargement and reconstruction of road-transport infrastructures.

## XII. AZERBAIJAN IN FIGURES

### Main socio-economic indicators

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<tr>
<td>Population size (end of the year), thsd. persons</td>
<td>8 553,0</td>
<td>8 897,0</td>
<td>8 997,6</td>
<td>9 111,1</td>
<td>9 235,1</td>
<td>9 356,5</td>
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<td>Gross domestic product</td>
<td>12 522,5</td>
<td>40 137,2</td>
<td>35 601,5</td>
<td>42 465,0</td>
<td>52082,0</td>
<td>53995,0</td>
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<td>Industrial products, total volume</td>
<td>9 308,8</td>
<td>29 773,3</td>
<td>22 563,6</td>
<td>27 978,2</td>
<td>35026,9</td>
<td>33945,3</td>
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<td>Funds directed to fixed capital</td>
<td>5 769,9</td>
<td>9 944,2</td>
<td>7 724,9</td>
<td>9 905,7</td>
<td>12 799,1</td>
<td>15 406,9</td>
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<tr>
<td>Agriculture, forestry, fishing and hunting, total volume</td>
<td>1 867,7</td>
<td>3 541,3</td>
<td>3 895,2</td>
<td>3 968,1</td>
<td>4 685,0</td>
<td>5 036,7</td>
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<td>Freight turnover in transport sector, mln. ton</td>
<td>128,3</td>
<td>183,1</td>
<td>190,4</td>
<td>196,5</td>
<td>203,6</td>
<td>210,6</td>
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<td>Passenger conveyance in transport sector, mln. passengers</td>
<td>1 000,3</td>
<td>1 242,2</td>
<td>1328,1</td>
<td>1 387,3</td>
<td>1 491,9</td>
<td>1617,4</td>
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<tr>
<td>Information and communication services</td>
<td>480,8</td>
<td>950,6</td>
<td>1 081,9</td>
<td>1 179,6</td>
<td>1 272,9</td>
<td>1 439,7</td>
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<td>Retail trade turnover</td>
<td>4 548,2</td>
<td>10 585,4</td>
<td>11 493,4</td>
<td>13 261,7</td>
<td>15 880,3</td>
<td>17 559,1</td>
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<td>Catering turnover</td>
<td>74,0</td>
<td>290,6</td>
<td>335,1</td>
<td>417,8</td>
<td>565,5</td>
<td>680,0</td>
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<tr>
<td>Provision of population with paid services</td>
<td>960,7</td>
<td>3 393,0</td>
<td>4 088,2</td>
<td>4 724,5</td>
<td>5 332,4</td>
<td>5 828,1</td>
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### Data of Statistics

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<td>External trade turnover, mln. US dollars</td>
<td>-</td>
<td>-</td>
<td>27551,1</td>
<td>33160,7</td>
<td>44161,7</td>
<td>43813,2</td>
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<td>of which:</td>
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<tr>
<td>Export</td>
<td>-</td>
<td>-</td>
<td>21428,0</td>
<td>26 560,1</td>
<td>34405,7</td>
<td>34160,3</td>
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<tr>
<td>Import</td>
<td>-</td>
<td>-</td>
<td>6 123,1</td>
<td>6 600,6</td>
<td>9 756,0</td>
<td>9 652,9</td>
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### Data of Customs

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<tr>
<td>External trade turnover, mln. US dollars</td>
<td>8 558,4</td>
<td>54 926,0</td>
<td>20 824,5</td>
<td>27 960,8</td>
<td>36 326,9</td>
<td>33560,9</td>
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<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Export</td>
<td>4 347,2</td>
<td>47 756,0</td>
<td>14 701,4</td>
<td>21 360,2</td>
<td>26 570,9</td>
<td>23908,0</td>
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<tr>
<td>Import</td>
<td>4 211,2</td>
<td>7 170,0</td>
<td>6 123,1</td>
<td>6 600,6</td>
<td>9 756,0</td>
<td>9 652,9</td>
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<tr>
<td>Revenue of state budget</td>
<td>2 055,2</td>
<td>10 762,7</td>
<td>10 325,9</td>
<td>11 403,0</td>
<td>15 700,7</td>
<td>17 281,6</td>
</tr>
<tr>
<td>Expenditure of state budget</td>
<td>2 140,7</td>
<td>10 774,2</td>
<td>10 503,9</td>
<td>11 765,9</td>
<td>15 397,5</td>
<td>17 105,6</td>
</tr>
<tr>
<td>Population’s income</td>
<td>8 063,6</td>
<td>20 735,4</td>
<td>22 601,1</td>
<td>25 607,0</td>
<td>30 524,6</td>
<td>34 723,9</td>
</tr>
<tr>
<td>Income per capita, manat</td>
<td>962,2</td>
<td>2 378,3</td>
<td>2 560,4</td>
<td>2 866,1</td>
<td>3 371,7</td>
<td>3 784,3</td>
</tr>
<tr>
<td>Average nominal monthly wage per employee, manat</td>
<td>123,6</td>
<td>274,4</td>
<td>298,0</td>
<td>331,5</td>
<td>364,2</td>
<td>396,0</td>
</tr>
<tr>
<td>Number of registered unemployed, person</td>
<td>56 343</td>
<td>44 481</td>
<td>41 100</td>
<td>38 966</td>
<td>38 330</td>
<td>36 791</td>
</tr>
<tr>
<td>Prices of consumer goods and tariff indices of service:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>as % to previous year</td>
<td>109,6</td>
<td>120,8</td>
<td>101,5</td>
<td>105,7</td>
<td>107,9</td>
<td>101,1</td>
</tr>
<tr>
<td>PPI of industrial commodities (average annual, compared to previous year, per cent)</td>
<td>117,3</td>
<td>123,4</td>
<td>80,6</td>
<td>130,5</td>
<td>133,5</td>
<td>104,5</td>
</tr>
</tbody>
</table>
1) Information on value terms is given in current prices
2) Data are précised
Note
3) Taking into account volume and estimated statistical value of factual exported crude oil and natural gas crossed country border but not made official in the customs committee in the reporting period.

4) Because of the fact that date of customs making official on crude oil and natural gas export does not coincide with date (date of country border cross) of these products actual export, data on volume of exported crude oil and natural gas made official in the customs authorities during the reporting period were included in the reporting period were included in the volume of country total export.

<table>
<thead>
<tr>
<th>Years</th>
<th>Mln. manats</th>
<th>Mln. US $</th>
<th>Per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>manat</td>
<td>US $</td>
</tr>
<tr>
<td>2005</td>
<td>12 522.5</td>
<td>13 238.7</td>
<td>1 494.3</td>
</tr>
<tr>
<td>2006</td>
<td>18 746.2</td>
<td>20 983.0</td>
<td>2 208.2</td>
</tr>
<tr>
<td>2007</td>
<td>28 360.5</td>
<td>33 050.3</td>
<td>3 296.6</td>
</tr>
<tr>
<td>2008</td>
<td>40 137.2</td>
<td>48 852.5</td>
<td>4 603.7</td>
</tr>
<tr>
<td>2009</td>
<td>35 601.5</td>
<td>44 297.0</td>
<td>4 033.2</td>
</tr>
<tr>
<td>2010</td>
<td>42 465.0</td>
<td>52 909.3</td>
<td>4 753.0</td>
</tr>
<tr>
<td>2011</td>
<td>52 082.0</td>
<td>65 951.6</td>
<td>5 752.9</td>
</tr>
<tr>
<td>2012</td>
<td>53 995.0</td>
<td>68 730.9</td>
<td>5 884.5</td>
</tr>
</tbody>
</table>

State budget revenues and expenditures

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>profit tax of natural entities</td>
<td>317.4</td>
<td>581.9</td>
<td>590.2</td>
<td>715.7</td>
<td>813.0</td>
</tr>
<tr>
<td>profit tax of legal entities</td>
<td>355.4</td>
<td>1 329.2</td>
<td>1 429.9</td>
<td>2 134.0</td>
<td>2 252.0</td>
</tr>
<tr>
<td>tax on land</td>
<td>15.3</td>
<td>26.2</td>
<td>35.3</td>
<td>35.3</td>
<td>30.6</td>
</tr>
<tr>
<td>property tax</td>
<td>40.4</td>
<td>66.2</td>
<td>101.8</td>
<td>103.9</td>
<td>105.1</td>
</tr>
<tr>
<td>value added tax</td>
<td>599.9</td>
<td>2012.8</td>
<td>2082.5</td>
<td>2222.7</td>
<td>2 366.9</td>
</tr>
<tr>
<td>excise</td>
<td>141.0</td>
<td>485.1</td>
<td>514.9</td>
<td>480.2</td>
<td>531.5</td>
</tr>
<tr>
<td>tax on mining</td>
<td>53.5</td>
<td>121.9</td>
<td>130.1</td>
<td>129.8</td>
<td>125.8</td>
</tr>
<tr>
<td>tax related with foreign economic activities</td>
<td>205.2</td>
<td>418.1</td>
<td>291.8</td>
<td>433.1</td>
<td>592.5</td>
</tr>
<tr>
<td>other taxes</td>
<td>28.1</td>
<td>86.8</td>
<td>90.3</td>
<td>140.6</td>
<td>157.5</td>
</tr>
<tr>
<td>other returns</td>
<td>299.0</td>
<td>5 197.7</td>
<td>6 136.2</td>
<td>9305.4</td>
<td>10 306.7</td>
</tr>
<tr>
<td>Expenditure – total, mln. Manats</td>
<td>2 140.7</td>
<td>10 503.9</td>
<td>11 765.9</td>
<td>15397.5</td>
<td>17 105.6</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>national economy</td>
<td>444.7</td>
<td>4 373.9</td>
<td>4 889.9</td>
<td>6803.2</td>
<td>6 960.8</td>
</tr>
<tr>
<td>social and cultural</td>
<td>843.3</td>
<td>2 763.0</td>
<td>2 901.4</td>
<td>3447.2</td>
<td>3 827.5</td>
</tr>
</tbody>
</table>
### Provision with credit of economy (end of the year, million manats)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total credit to economy</strong></td>
<td>1 440,9</td>
<td>8 407,5</td>
<td>9 163,4</td>
<td>9 950,3</td>
<td>12 720,5</td>
</tr>
<tr>
<td><strong>of which:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>short-term</td>
<td>913,2</td>
<td>2 360,0</td>
<td>2 567,1</td>
<td>3 051,2</td>
<td>3 885,2</td>
</tr>
<tr>
<td>in per cent to total</td>
<td>63,4</td>
<td>28,1</td>
<td>28,0</td>
<td>30,7</td>
<td>30,5</td>
</tr>
<tr>
<td>long-term</td>
<td>527,7</td>
<td>6 047,5</td>
<td>6 596,2</td>
<td>6 899,1</td>
<td>8 835,3</td>
</tr>
<tr>
<td>in per cent to total</td>
<td>36,6</td>
<td>71,9</td>
<td>72,0</td>
<td>69,3</td>
<td>69,5</td>
</tr>
</tbody>
</table>