

Oil strategy

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 Bibiheybat, 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.

Until 1994, Azerbaijan produced nearly one milliard tons of oil in its onshore and offshore deposits. The commercial offshore 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 Azerbaijani 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. Heydar Aliyev expressed this principle 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" "Chirag" "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) that 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.

Haydar Aliyev, who knew Azerbaijan`s oil potential, endeavored to construct a pipeline through a more favorable rout. Haydar 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 Haydar 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, 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 untill 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, 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-Tbilisi-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 21st century."*

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.

24 February 1995 - Azerbaijan International Operating Company (AIOC) founded.

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.

25 July 2003 - First pipe of BTC pipeline buried in Sangachal Terminal.

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.

27 January 2009 - Energy Summit on Nabucco project opened in Budapest, Hungary.

29 January 2009 - A session “Energy Outlook – 2009” at the 39th World Economic Forum.

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.