

Azerbaijan's Energy Security

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Abstract

Energy security is a new paradigm in contemporary times where most of the growing economies are depending on the efficient supply of oil and gas. The world demand for oil and gas continues to rise and energy-rich countries or a region are vying for lucrative production. Going 29 years of independence, Azerbaijan is one of the emerging energy-rich countries' of the Southern Caucasus in the Caspian Sea. The discovery of vast energy reserves in the Caspian basin has become the focus of world attention and it became vocal for Azerbaijan in the energy sector. Most of the findings are located in its Caspian section. The discovery of Azeri-Chirag- Gunashli oilfield with its approximate 6 billion barrels reserves and Shah Deniz gas field marks the turning point in the growth of the energy sector in Azerbaijan. Today, Azerbaijan is a net exporter of oil and gas its economic development is base on the production of hydrocarbon. In this juxtaposition, the paper analyzes Azerbaijan's importance of oil and gas and the tenet of energy security which resides in the production and efficient supply to meet its economic development requirement.

Keywords: Energy Security, Azerbaijan, Oil and Gas Production, Export, Revenue.

Introduction

The disintegration of the Soviet Union in 1991 led to the independence of Azerbaijan a Southern Caucasus country in the Caspian region. After independence, Azerbaijan restructures its social and political aspects through the development of energy reserves in its Caspian flank. The strategic location of the country substantiates to realize Baku's energy policy in the long-term processes. The strategic position of Azerbaijan facilitates the implementation of its energy policy successfully. Geographically, Azerbaijan is proximate to Europe with a tremendous market prospect and to some degree political rivalry between the West and the regional power Russia and Iran shape Baku's policy. It reflected in its policymakers to frame a more cooperative engagement to exponential growth both with the neighbouring countries and Western countries. Azerbaijan's multi-vector policy and inclusive energy cooperation with global firms play a vital role in developing its energy sector. Through cooperation with several entities, it sign an agreement for joint venture, consortium, and Production Sharing Agreements, Azerbaijan garnered millions of dollars in investment in the exploration and production of the energy deposit.

More than 90 percent of Azerbaijan exports are oil and gas that generate huge revenue for the country's economy. This is possible because of the successful implementation of its market-oriented policy, making it a conducive environment for a foreign firm to invest and engage in a new site, and the construction of several export routes. The signing of Agreement with eleven international companies representing eight countries for the development of Azeri-Chirag-Gunashli oilfield in 1994 commonly known as the 'Contract of the Century' was the foremost mega-project in Azerbaijan energy history. The BP-led Azerbaijan International Operating Company (AIOC) and Turkish State Company BOTAS, Georgia signed an agreement in 1999 connecting the Baku-Tbilisi-Ceyhan pipeline to carry thousand barrel per/day (Kalicki) started its construction in 2003. The success of the Baku-Tbilisi-Ceyhan pipeline in 2006 alleviates the independent route without curtailing from monopolistic control of Russia's Gazprom (where most of the Azeri's oil was exported through the Russian northern pipeline). In 2006, the gas pipeline Baku-Tbilisi-Erzurum (BTE) with a capacity of 20 billion cubic meters of natural gas was set into operation (Kiryelyte). The successes of these two pipelines enhance the Azeri oil and gas transport independently.

Energy security and the relevance of oil and gas

Energy security is a worrying trend in the developed countries as well as for the emerging economy in the world in the present scenario. Energy security is as important as food security. Energy is a critical resource due to its uneven allocation in the world which relies on the expense of this fossil fuel. The economic dependence on energy supply to produce goods and services and enhance the social and economic aspects of a country prove the relevance of energy security. The potential risk that is related to energy security in the present is intensive as they are non-renewable resources,

- “The predicted upcoming production peak of hydrocarbon resources for the modern economy and,
- The security of their supply.” (Milina)

In the mid-1990s the Azerbaijan energy sector drafted its main body legislation on resource production hydrocarbon, electricity, heat and, price control. Azerbaijan's key energy policy was set out in 2004 under the State Programme on Development of the Fuel-related Energy Complex (2005-2015) in the country. As a result, it invested in the extraction of natural gas and oil to reduce electricity shortages and enhancing energy security. Today Azerbaijan is the net exporter of oil and gas and the revenue generated from these export were redirected towards the renewable energy project also developing in its social and economic sector. The importance of oil and gas for Azerbaijan is immense as they form the backbone of the economy. Over the year Azerbaijan has been developing its national interest, in economic and, strategic targets. In the energy sector there consists of the Upstream project which overlooks the exploration, drilling to find oil and gas extraction. In December 2013 Shah Deniz consortium finalized to invest in the development of Shah Deniz gas and condensate field at 28 billion USD and creates 15,000 jobs opportunity specifically for Azeri's. The Midstream projects process the transportation and storage of oil and gas whereas the Downstream projects facilitate the refining process and market the finishing products. To Azerbaijan, energy security means having efficient production and supply and finding new markets to sell it's oil and gas to sustain its economy and to consider all stakeholders interest in both international companies and major powers and to become the main supplier of oil and gas to international markets, especially in Europe.

Table: 1. Azerbaijan oil production 2013-2019

Year	Oil production in million tonnes
2019	38.1
2018	39.2
2017	39.1
2016	41.4
2015	42.0
2014	42.5
2013	43.8

Source: BP Statistical Review of World Energy 2020, p.17

Table: 2. Azerbaijan gas production 2013-2019

Year	Gas production in million cubic meter
2019	35600
2018	30490
2017	28597.9
2016	29367.1
2015	28977
2014	29617
2013	29456

Source: SOCAR, Economic and Statistics, gas production <http://www.socar.az/socar/en/economics-and-statistics/economics-and-statistics/gas-production>

Table.3. Oil and gas export 2014-2019

Year	Oil export in million tonnes	Gas export in million cubic meters
2019	31.2	11486
2018	32	9911.8
2017	33	8856.9
2016	35	8049.1
2015	36	8145.2
2014	35.3	8093.2

Source: "Energy of Azerbaijan" Statistical yearbook 2019 by State Statistical Committee of the Republic of Azerbaijan, p.51, SOCAR, Economic and Statistic, oil production

Table 1 and 2 shows the annual production of Azerbaijan oil and gas from 2013-2019. Oil production in the year 2013-2015 has been increasing whereas from 2016-2019 the production is declining. On the other hand, the gas sector shows an incremental growth in its production throughout the proceeding years. Energy export data table 3 shows that majority of the country's energy production is exported and in the gas sector its shows a trend of increasing development.

Azerbaijan exponential revenue growth and investment in the non-energy sector

Azerbaijan generates billions of USD as revenue from energy export. The State Oil Fund of Azerbaijan (SOFAZ) was established in 1999 for energy management to resolve any challenge by developing a sound framework for energy income managing. The Fund generates from energy taxes were transferred to the state budget and then invested in a strategic project. "Oil Fund is accountable to the President of Azerbaijan who has the power to appoint or dismiss the Fund's director and the President must appoint members to its Supervisory Board." (Karayianni) By January 2019 SOFAZ received 138 billion USD as revenue from the ACG oilfield. Azerbaijan 2019 target revenue is 15,450 billion Manat and expenditure estimated at 11,595,238.4 thousand Manat (6,280,726 thousand USD). (SOFAZ)

Following the total revenue generated in 2019 from the energy-related sector, from hydrocarbon sale after deducting all the expenditure in clearance, taxes, etc Azerbaijan garnered 13, 218,752.6 thousand Manat, acres fees paid by foreign firms tune to 4692 thousand Manat, revenues from transportation is 190 40 thousand Manat, revenue from SOFAZ management asset is 1442, 495.1 thousand Manat and, oil and gas agreement generate 765, 170 thousand Manat. And the total revenue generated in the year 2019 is 15,450,149.7 thousand Manat. (SOFAZ) The importance of energy resources for Azerbaijan is crucial by looking at the revenue it has collected from various energy departments. If the amount is converted in dollar it will tune to billions of US dollars.

However, there are certain drawbacks despite having huge revenue. Implementation in certain social and economic sectors in the country seems minimal. It states that 60 percent of the State budget comes from oil revenue and only 4.2 percent is allocated to healthcare and 39.9 percent to the construction sector in 2019. (Ibadoghlu) According to the World Bank, Azerbaijan's economy grew by 2.2 percent up in 2019, an improvement since 2014, and non-energy sector growth by 3.3 percent with the agriculture and services sector as the major contribution. (Azerbaijan Overview) The non-energy sectors in Azerbaijan are indirectly funded by the oil sector in the construction and transport industry. However, the function of the private sector in Azerbaijan is mostly reliant on government contracts for public investment. In the social sector, it finances to improve the social conditions of refugees and Internally Displaced Person (IDPs) and financing the state program for international competitiveness in higher education policy.

Conclusion

There are certain drawbacks for Azerbaijan which rely solely on hydrocarbon revenue to regulate national development. Oil reliance has been found to distort the institutional growth because oil rentals impede transparency and restraint. (Bayulgen) According to the Corruption Perception Index (CPI) 2019, Azerbaijan ranks 126 in the world and score 30 out of 100. There is a social and economic disparity between the urban and rural communities were in some rural areas electricity was not adequate although the country is the net producers of oil and gas. There is criticism on the political governing elite where power is mostly concentrated on certain oligarch and family lineage. Despite all the political clout energy resources have been used as a foreign policy in global interaction to maintain its energy security.

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