Effects of oil and natural gas industry on Azerbaijan economy

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Abstract.
When macroeconomic indicators are taken into account, it is seen that Caspian energy resources are important for the Azerbaijani economy to re-adapt to the world economy and to restructure the economy. After the years of independence, the agreements made regarding the energy sector and the activities carried out in this context provided an opening to the economy. The existence of the oil industry in Azerbaijan for many years and the inability to find an alternative energy source to oil have increased the importance of the country and the oil industry. In the article, the effects of the oil sector in the economy of Azerbaijan are mentioned.

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1. INTRODUCTION

After the Republic of Azerbaijan gained its independence in 1991, it experienced economic problems for a while. After the oil agreement called the “Deal of the Century” signed by Azerbaijan with the world’s major oil companies on September 20, 1994, 11 oil companies, mostly oil companies of Western countries, started to operate the oil fields in the Azerbaijani part of the Caspian Sea. As a result of this, rapid economic development was achieved in the country and an important period began in terms of long-term development—growth perspective. The oil sector had the main share in the economic growth experienced in Azerbaijan and the share of other sectors in exports decreased. An oil-dependent structure has emerged in the Azerbaijani economy in terms of production and foreign trade. In 2008, 70% of Azerbaijan's state budget, 80% of its industry and 97% of its exports are based on the oil sector.

In the article, the impact of the oil sector on the macroeconomic performance of Azerbaijan; The change in the production and foreign trade structure of Azerbaijan, the use of Azerbaijan's oil revenues, the role of the agricultural sector in the change of the oil-based production structure, the role of oil revenues in rural development and reducing the poverty rate, how the implementation of WTO demands will affect the agricultural sector in Azerbaijan, and finally the WTO The importance of the multifunctionality of agriculture is discussed in the membership process.

2. Positive Effects

After gaining its independence, Azerbaijan tried to attract foreign capital in a planned way by using the country's natural resources. It would be correct to take the "Contract of the Century" of 1994, just like the date when resources were started to be used by encouraging foreign capital. However, it was necessary to wait until the early 2000s in order to eliminate the problems in the economy of the country and to close the external deficits. In particular, the rise in world oil prices towards the end of the 1990s and the increase in production had positive results for the country. These positive results are listed as economic, political and strategic as follows (Gouliyev, R, 1997: 36).
1. Economic Impacts. The increase in revenues from natural resource exports has led to the social transfers allocated from the budget and the timely payment of salaries, and the improvement of social peace. As a result, the country entered a successful period to overcome the difficult transition period, to make economic reforms and necessary legal regulations (Osman. N.A., Süleymanov. E, 2016: 206-239).

The increase in revenues has increased the credit rating of Azerbaijan by financial institutions. This gave the country the appearance of a risk-free region on behalf of foreign investors, and as a result, a suitable environment was created for providing resources for necessary projects and attracting investment. Especially after 2000, Azerbaijan has been successful in attracting foreign capital. In 2004, at the UN Trade Conference, Azerbaijan ranked first among 140 countries in the foreign direct investment index. This is 35% higher than in 2003, mainly due to the ACG deposits and the successful BTC project (Somuncuoğlu.T, 2011).

The income that the country will gain as a result of the oil agreements is spread over the years and this constitutes a significant part of the country's budget. One of the two biggest agreements for the country, the Agreement of the Century, will generate 140 billion USD in 20 years. On the other hand, when new wells are found in any of the 3 beds (Azeri, Chirag, Gunesli) covered by this agreement, the reserves also increase and this changes in favor of Azerbaijan. He evaluates the total reserves of the wells as 910 million tons and states that Azerbaijan can receive 80% of these reserve revenues. This means that if oil prices are 40 US dollars, the income will be at least 160 billion US dollars (Mopos. A, 2006: 25).

Income tax is also obtained from the sale of the shares of the companies in the Azerbaijan agreements, and the revenues obtained after SOCAR sells its share directly contribute to the budget. On the other hand, profits obtained as a result of utilizing or renting machinery, equipment and other services belonging to SOCAR are also among the income items (Hacizada E.M, 2003: 48).

The country also generates income as a result of its use
as a transit country, as well as the transportation of crude oil from the pipelines that have been implemented. For example, since Azerbaijan is the host country, it earns a fee of 27 cents per barrel of oil flowing through the BTC pipeline.

2. Strategic: In particular, the “Contract of the Century” and the BTC pipeline project have been effective for Azerbaijan both in strengthening its geostrategic position and in developing a development strategy. With the aforementioned agreements, Azerbaijani oil is delivered to the world market under advantageous conditions. In particular, the BTC pipeline is encouraging to other countries in the region. While some of these countries are oil-rich like Kazakhstan, some of them are buyer markets like Western European countries. Exporting resources through these lines increases the importance of Azerbaijan as a transit country. The determination of the Kashagan deposit in the territory of Kazakhstan was the important point of this beginning. As a result, the project named “Kazakhstan Caspian Transportation System” was started for the transportation of the oil of the mentioned country and Total company undertook this project which was completed in 2009 (Мороз. А, 2006: 8).

The BTC pipeline started to attract the attention of Israel, and the country offered to transport the pipeline to the city of Ashkelon and to combine it with the existing pipeline. In this way, it is planned to transport the oil to be sent to the State Port to India and China. On the other hand, the Iranian government has stated that they will join the BTC pipeline if they detect oil fields as a result of their research in the Caspian. As can be seen, the interest in pipeline projects, of which Azerbaijan is the host, is increasing and it has a positive effect on the geostrategic position of this country. At the same time, the weakening of relations between Russia and the European Union, according to the Crimean events, caused the South Stream project to stop. As a result, TANAP and TAP projects started to attract attention (Osman. N.A., Süleymanov. E, 2016: 239-243). It is possible to talk about two advantages of Azerbaijan on behalf of Europe’s energy security.

1. Iran route has become insignificant due to the close
relationship with the USA on energy and it has pipelines that will transport Central Asian energy resources to Europe.

2. Availability of rich natural gas and oil resources (Veliyev.C, 2006: 172). Oil and gas agreements have been historical turning points not only for Azerbaijan, but also for other states in the region. As a result, the great “Silk Road” gained importance again, and the political and economic relations between the countries began to improve, and peace was achieved in the region (Hacizade and Pashayev, 2000: 109). The country has turned into an energy collateral for Europe and has made its geostrategic position important as a transit country.

3. Political: After gaining its independence, the Government of Azerbaijan has developed a series of strategies to ensure its economic freedom and to prevent Russia's military interventions. It was the first policy of the country to attract the attention of Western countries by using natural resources, and the efforts to attract the attention of the states representing these companies with the "Deal of the Century" were successful.

The striking point in the agreements was that Azerbaijan carried out a policy of balance against the countries that put pressure on it. In this context, the country has planned to transfer 10% of its share to Russia's Lukoil company and 5% to Iran's National Oil Company in the biggest project of the "Contract of the Century". However, upon the pressure of the US administration, Azerbaijan gave up on allocating a share to Iran. Despite this, Iran was able to get a share from the union of companies formed for the Shah Deniz gas field (İbrahimov, 2012: 133).

Such a policy of Azerbaijan to alleviate the military pressure of Russia and Iran, and to give a share to the French company, arose from the necessity of changing the negative policy of this country against Azerbaijan in the political arena. On the other hand, the selection of Ceyhan Port in the BTC pipeline strategy is a step taken to protect the political independence of the country. The mentioned project has led to the strengthening of relations with Turkey, Georgia, Kazakhstan and Turkmenistan. However, by establishing a regional alliance with Azerbaijan, Georgia, Ukraine,
Uzbekistan and Moldova (GUAM), he tried to prevent the Russia-Iran-Armenia union established against him. The strategy of attracting the attention of Western countries by using the country's natural resources, acting in harmony with the US strategy in some cases, and sometimes giving place to the dominant countries in the region in their own big projects have had a significant impact on the political situation of Azerbaijan (https://republic.preslib.az/az_a7-8.html).

3. NEGATIVE EFFECTS

The effects we have discussed under this title have been examined in three ways: economic, political and strategic.

1. Economic: The country's natural resources mean easy income for the budget. Increasing incomes lead to higher living standards. However, the economic literature argues that the economy of countries that generate income by utilizing rich natural resources will not be healthy in the long run. This understanding is known as the "heavy burden of resources" paradox and reveals that natural resources alone cannot reduce poverty and bring unemployment to the desired level.

Dependence on oil prices poses a number of threats for the Azerbaijani economy stemming from uncertainties. Because oil prices are greatly affected by global economic developments. It will be risky to make a long-term plan as the fluctuations will affect the country's incomes significantly. At the same time, the rise in prices creates a problem for the non-oil sector by increasing the value of the national currency, while the opposite causes an increase in external deficits, the depreciation of the local currency, and the crisis effect in the economy (Bağırov, 2003: 24). As mentioned, cyclical movements forced the Central Bank of Azerbaijan (ECB) to re-evaluate the national currency, the manat, in February and December 2015. The devaluation, which was realized at a rate of 97% in total, has been the only option of the Azerbaijan economy, which is dependent on oil and natural gas revenues.

2. Political: The projects carried out by Azerbaijan in partnership with Western companies have brought the country an important geostrategic position, but also brought political problems. In other words, the country has started
to follow a policy in the direction of the USA and Europe, acting contrary to the political understanding of Russia. Russia, on the other hand, responded by trying to complicate the oil and natural gas agreements of the country with Western institutions, and especially after the Agreement of the Century, the strategy against Azerbaijan in the Russian and Iranian politics in the region changed. The status problem of the Caspian, which has been going on for years, is one of these strategies. The reason for the mentioned countries to oppose the division of the Caspian was the concern of the emergence of a Western and American political presence in the Trans-Caucasus and Central Asia. Because Azerbaijan, unlike Russia and Iran, had larger natural resources in the Caspian. On the other hand, these countries were trying to turn the sea beds, which are the big beds of the country, into a problematic area by putting forward different positions related to the division of the Caspian.

3. **Strategic:** The operation of oil and natural gas wells provides a number of benefits to the country in terms of strategy and keeps the problems such as environmental pollution up to date. For example, the extraction of oil in the Caspian for many years has caused the fishing industry to be adversely affected and environmental pollution to occur in the coastal areas. On the other hand, the pollution of the coastal part of the Caspian is also effective in the reduction of Baku tourism revenues. However, it will be possible to counter the pollution not only with the activities of Azerbaijan, but also with the activities of the other 4 coastal states.

4. **CONCLUSION**

As a result, in the last 30 years, Azerbaijan has eliminated the danger of losing its economic independence and has made a successful path in establishing a state. The fact that BTC was chosen, such as oil agreements and export pipeline, increased the number of states to support the country, the negative pressures of Russia and Iran to become a sovereign power were balanced, and success was achieved especially in solving the Caspian status problem.

The conclusion states that the natural gas and oil agreements bring about political problems along with the
benefits for the Azerbaijani economy. On the other hand, unlike other sectors, the problems that arise related to natural resources are carried out in a narrow framework. While similar debates, in which the government has a say, are controlled by either the government itself or the institutions affiliated to it, this situation gives oil a politicized and anti-democratic feature. In short, such monopoly in oil trade poses a risk and danger for Azerbaijan, which has just become independent and does not have strong control.

References: