

AZERBAIJAN'S ENERGY POLICY

Saturday, 22 May 2010 | Written by The Editor

Within the territory of Azerbaijan, oil has been exploited for domestic consumption for well over 1,000 years. In 1846 the first successful industrial oil well was drilled on the outskirts of Baku, the Azerbaijani capital – more than a decade before



‘Colonel’ Edwin Drake struck oil in Pennsylvania, USA. By the turn of the century Baku had become the world’s biggest oil producer, attracting an influx of foreign oil companies who established operations in and around the city. Azerbaijan is likewise home to the very first oil pipelines, constructed around the Absheron peninsula, not to mention the Baku-Batumi pipeline, which when launched in 1907 was the longest of its kind in the world.

A century on, and Azerbaijan has once again come to be regarded as a key player in global energy politics. This re-emergence, which began in the mid-1990s and has strengthened ever since, can be primarily attributed to three factors: huge remaining oil and gas reserves, a location at the crossroads of Europe and Asia (linking major supply routes across the region) and a transparent system of energy revenue management. Hardly a day now passes without some mention in the media of the country’s key role in ensuring Europe’s energy security.

Azerbaijan’s proven (as opposed to potential) oil reserves have been estimated at seven billion barrels, currently allowing for a peak production capacity of roughly one million barrels per day. As for natural gas, proven reserves are estimated at just under one trillion cubic metres, and in 2007 the country became a net exporter following the launch of the Shah Deniz gas field. Although not game changers in

global perspective, these figures do enable Azerbaijan to play a vital role in its neighborhood, where demand for oil and gas continues to increase.

As far as energy export routes are concerned, the Azerbaijani government has pursued a policy of diversification, thus avoiding over-dependence on any single country, which in the event of conflict could disrupt energy supplies. Alongside the Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) pipelines, Azerbaijan's two leading westbound outlets for oil and gas respectively, new routes have been constructed toward Black Sea ports in both Russia and Georgia; a new gas pipeline to Iran is also under way. Late last year Azerbaijan signed an agreement to export its gas to Russia – a striking reversal of roles, given that until just a few years ago Azerbaijan was importing natural gas from Russia to meet domestic demand. Moreover, negotiations are currently being held over the construction of facilities at Georgian ports which will enable liquefied natural gas (LNG) to be shipped to potential consumers such as Bulgaria and Romania.

Of course, Azerbaijan continues to export much of its oil and gas toward European markets, mainly via the BTC and BTE pipelines. In addition, Azerbaijani gas is now re-exported through Turkey's domestic gas network to Greece and Italy. Meanwhile Azerbaijan's political leadership has given its full support to the construction of the Nabucco gas pipeline, which when complete will effectively extend the BTE pipeline from Turkey to Austria.

However, exploiting energy resources is one thing – building a solid framework to manage energy revenues is quite another, and often more of a challenge. Having observed the difficulties encountered by other energy-rich countries, in 1999 the government established its State Oil Fund. Oil revenues are accumulated in the Fund, which in turn exercises responsibility over the management of those revenues, transfers to state budgets (in emergencies) and investing in strategic projects. So far, oil revenues have been used to solve housing shortages created by the Armenian occupation of Azerbaijani territories, establish an overseas

scholarship for some 5,000 Azerbaijani students and build a water pipeline extending toward Baku. Azerbaijan was the first country to join the Extractive Industries Transparency Initiative initiated by former Prime Minister Tony Blair, and in 2007 the State Oil Fund was recognised by the UN for its transparency and responsiveness.

Based on these achievements, Azerbaijan has now stepped up efforts to develop its abundant renewable energy resources. The government's Agency for Alternate and Renewable Energy was formed last year to coordinate attempts to derive power from the sun, wind and water, which although still incipient could one day service a considerable part of total domestic energy demand. These ambitious efforts are part of a long-term energy policy that envisages a leading role for Azerbaijan in green energy.

The combination of a visionary and focused energy policy with an expanding international significance will pave the way for Azerbaijan to build upon its past successes and sustain its importance, both regionally and globally, as a producer and transporter of energy.