

ENERGY SECTOR BOOMING, AZERBAIJAN PURSUES GLOBAL ROLE

AN INTERVIEW WITH SHAHRIYAR NASIROV

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Global Insider: Energy Sector Booming, Azerbaijan Pursues Global Role

An interview with Shahriyar Nasirov
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The Russian energy giant Gazprom announced in January that it [had signed a deal to double gas purchases](#) from Azerbaijan. In an email interview, Shahriyar Nasirov, a doctoral candidate at the University of the Basque Country and a research fellow in the energy department of the Orkestra-Basque Institute of Competitiveness, discussed Azerbaijan's energy sector.

WPR: How has Azerbaijan's energy sector evolved over the past 10 years, and what are its current strengths and weaknesses?

Shahriyar Nasirov: Azerbaijan's major strengths are the existence of a stable legal framework and attractive environment for foreign investors in the energy sector, and the provision of a predictable legislative and regulatory framework for oil contracts. Thanks to these factors, total energy production has increased almost three-fold every year for the past 10 years. Azerbaijan's already significant oil and gas revenues, valued at \$40 billion in 2010, are expected to reach \$200 billion in 2024. The construction of the world's biggest pipeline projects -- the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the South Caucasus gas pipeline -- helped to eliminate transport constraints and end Azerbaijan's dependence on Russian transit routes. The huge inflow of foreign investment combined with the country's skyrocketing oil revenues and the construction of regional energy projects, have led to a growing self-confidence in Azerbaijan regarding its geopolitical role.

Yet, despite these successes, several weaknesses will hamper Azerbaijan's efforts to further develop its energy sector. It still lacks legislation and independent institutions to regulate energy sector operations in a fair, transparent and predictable manner; petroleum refinery plants need rehabilitation; and environmental legislation is needed. The unresolved legal status of the Caspian Sea remains another major challenge to further development of Azerbaijan's offshore oil and gas reserves, especially regarding potential undersea pipeline projects from Kazakhstan and Turkmenistan.

WPR: Who are the main investors in Azerbaijan's energy sector, and who are its major customers?

Nasirov: More than \$60 billion has been invested in Azerbaijan's oil and gas industry since the first oil contracts were signed in 1994, with investors coming mainly from the U.K., the U.S., Japan, France, Norway and Turkey. The U.K. is the single largest foreign investor in Azerbaijan, mostly through the company BP and its partners, which have invested \$30 billion. BP operates several of the biggest oil and gas projects in Azerbaijan: the Azeri-Chirag-Gunashli offshore bloc of oil fields, the Shah Deniz gas field, the BTC pipeline and the Sangachal oil terminal.

Azerbaijan's net oil exports were routed mainly to Europe: Italy, Austria, Germany, the Czech Republic and Switzerland; with gas exports going to Turkey, Georgia, Iran, Greece and Russia.

WPR: How does Azerbaijan fit into the regional and global energy picture, and how is that likely to evolve?

Nasirov: Azerbaijan contributes directly to Europe's energy security and is an alternative route for Russian exports to Europe. Geostrategically, Russia wants to stay influential in Azerbaijan in order to dominate energy exports to Europe from the region. Meanwhile, China's growing economy has increasingly raised the pressure on Beijing to seek new energy markets, and Azerbaijan, with its convenient geographic location and proximity to China, may be the obvious choice. □