AZERBAIJAN

By Interfax-CNA

In 2003, Azerbaijan's GDP grew by 11%. Industry contributed 37% of GDP, followed by agriculture with 13% and construction with 12%. Investment grew by 71% and foreign investment made up 81% of this total. Inflation grew by 2%, down from 2.5% in 2002.

Industry received 80% of investment (oil and gas production received 76%, refining received 2%, electricity and gas supply received 1.6%). Agriculture, construction, trade and services, communications, transport, and housing construction also received investment.

Azerbaijan's state budget revenues from privatisation grew by 10% to 110 billion manat (US$22.3 million) in 2003, and exceeded the target of AZM100 billion (US$20.3 million). The country privatised 143 joint-stock companies through cash and voucher auctions, and another six companies and government stakes in two joint ventures through investment tenders. There were 976 small enterprises, facilities and nonresidential buildings put into private hands last year.

Although Azerbaijan has reserves of iron, lead, zinc, molybdenum, alunite, gold, silver and industrial minerals (in particular zeolite), it is only a minor ore and metal producer. A few metal deposits were exploited in Soviet times but, since the beginning of the 1990s, ore and concentrate production in Azerbaijan, as well as metal output, has dramatically declined.

Oil and gas remain Azerbaijan's most important natural resources and play a decisive role in the economy. Azerbaijan plans to draw US$10 billion in investments to the country's oil and gas sector over the next three years. Over the past few years, US$17 billion has been put into this sector, including US$12 billion in direct foreign investment.

Iron and steel

In December 2003, the Economy Ministry announced Aldex Ltd of the UK as the winner of a tender offering 99.2% in the Dashkesan Ore-Dressing Company. Aldex is to pay AZM1.2 billion (US$244,000) to the Azerbaijani budget for the shares. The UK company proposed a two-year investment programme that envisages investment of AZM54.45 billion (US$11 million). Aldex promises to create 300 extra jobs. Dashkesan specialises in the production of commodity iron ore. The company is located 300 km west of Baku and employs 402 people.

Birlyk, a small enterprise in Azerbaijan, won an investment tender for the sale of a 66.79% stake in Baky Poladtokme, the country's biggest steel producer. The mill has design capacity to produce 24,500 t/y of steel. It has 372 employees.The winner will pay AZM1.8 billion (US$366,000) into the State budget and turn in 30,000 government privatisation vouchers to the ministry to be written off. Also, Birlyk has promised to invest AZM10 billion (US$2 million) in production development at the Baku steel works. The money will be invested in four stages over 24 months, including AZM300 million (US$61 million) to be transferred to the mill's account in the first stage. This investment will bolster the mill's working capital, finance repairs to compressors, cranes and other equipment, construction of a ventilation and dust cleaning system, environmental projects, and improved social benefits for workers.

Aluminium

Azerbaijan Aluminum is the sole aluminium producer in the country. Its operations include the Ganja alumina refinery, the Sumgait smelter and the Zaglik alunite quarry.

The Ganja refinery is currently producing 27,500 t/mth of alumina, but this should increase to 37,500 t/mth in due course. The alumina is being produced from imported Guinean and Indian bauxites. Transport costs are considerable, so Fondel Metal, which signed a 25-year deal to manage the company in 2001, is thinking about producing alumina from alunite ore, which could be quarried at Zaglik. Initial tests indicate the Ganja refinery could start processing alunite as early as 2004.

Meanwhile, Azerbaijan aims to boost aluminium exports by 60%-70%, from US$58 million in 2003 to US$95 million in 2004. This should go some way towards offsetting the rising cost of raw material imports. Azerbaijan Aluminum will have to more than double raw material imports to US$45 million-US$50 million. Imports of bauxite have been subject to VAT from January 1, 2004.

Azerbaijan Aluminum has asked the government to exempt it from VAT on raw material imports. Fondel Metal pledged to invest an initial US$42 million, followed by US$65 million during the second stage of its programme and US$220–250 million during the third stage. The Dutch company plans to invest up to US$1 billion in total.

The Sumgait smelter is currently producing about 2,400 t/mth of aluminium from its two working potlines. Another two lines are to be introduced, one in September 2004 and one in March 2005, and this should double output to 60,000 t/y. These potlines will cost US$25 million to upgrade. Fondel Metal has already spent US$26 million on the smelter.

Fondel Metal also plans to build a new state-of-the-art, energy-efficient 100,000 t/y aluminium smelter costing at least US$250–US$300 million in Azerbaijan. The Dutch company would put the first, 50,000 t/y stage into operation as early as 2005.

Oil and gas

Oil production in Azerbaijan in 2003 increased by 0.3% to 15.38 Mt. Gas production fell by 0.33% to 5.13 billion m^3, including 1.96 billion m^3 of natural gas, down 3.3%, and 3.17 billion m^3 of associated gas, up 1.9%.

SOCAR, Azerbaijan's state oil company, produced 8.92 Mt of oil in 2003, down 0.2%. SOCAR might increase drilling by 13% in 2004 from 2003. Production and exploration drilling will total 136,000 m.

SOCAR plans to start developing fields that have been dropped by foreign investors, particularly the Karabakh and Ashrafi fields. In any case, work will not begin before 2006-07. A contract for the development of the Karabakh structure was signed in 1995 by SOCAR (7.5%), Devon (1.3%), Lukoil (12.5%), Agip (5%) and LUKAgip (45%). Exploration work confirmed the presence of 40 Mt of hydrocarbon reserves, but this was insufficient to satisfy the companies. Up to US$130 million was spent on exploration work. The contract was annulled on February 23, 1999. The Karabakh field is located in the northern part of the Absheron Archipelago, 23 km north of the Azeri field. Water depth at the contract zone amounts to 180 m.

The contract for the Ashrafi-Dan-Ulduzu block was signed in 1997 by SOCAR (20%), BP (30%), Unocal (25.5%), Itochu (20%) and Delta Hess (4.5%). Reserves here also turned out to be small, at 20 Mt - 40 Mt. Ashrafi was the first field in Azerbaijan to be discovered by foreign companies. The contract expired on March 7, 2000. The field is located north of the Absheron Archipelago, to the west of the Karabakh field. The sea depth at the structure amounts to 160-180 m. Of the 22 contracts signed by SOCAR for the development of prospects, six were torn up at the request of the foreign partners. In addition to the two already mentioned, contracts were annulled for the Lenkoran-Talysh, Oguz, Muradkhanly and Kyurdashi blocks.

Azerbaijan International Operating Co, the operator of the Azeri-Chirag-Gunashli project, produced 6.46 Mt of oil, up 1% from 2002. AIOC will have a budget of US$2.45 billion in 2004 after spending US$2.19 billion in 2003. The Chirag oil platform produced an average daily 131,000 barrels of oil in 2003, compared with 129,000 bbl/d in 2002. In 2004, production is likely to fall to 125,000 bbl/d.

Joint ventures and operating companies that are developing onshore fields in Azerbaijan produced 861,300 t of oil last year, up 12.9% from 2002. Two operating companies produce oil and gas onshore in Azerbaijan: Salyan Oil Ltd (the Kyursengi and Karabagly fields) and Karsau Operating Co (Kyalameddin and Mishovdag). In addition, there are three joint ventures: the Azerbaijani-Malaysian-Turkish Anshad Petrol (Neftchala); Azerbaijani-British Shirvan Oil (Northern Gyurovdag, Central Gyurovdag and Southern Gyurovdag); and the Azerbaijani-German venture AzGerNeft (Ramany).