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Orthodox View on the 30th Anniversary of the Azerbaijan's "Contract of the Century"

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Abstract

A 30-year period is sufficient to evaluate the place of the “Contract of the Century” in modern Azerbaijani history and its role in shaping the national economy. Although such evaluations are conducted periodically, we will attempt to conclude the assessment on the occasion of COP29, which Azerbaijan is hosting. This marks the 30th anniversary of the signing of the first contract, and provides a unique opportunity for both retrospective reflection and a forward-looking perspective, filled with hope and optimism for the future.

Keywords: Azerbaijan, oil & gas sector, COP29, “Contract of the Century”, PSA, ACG, GDP, investment, exports, BP, SOCAR

30 years ago, on September 20, 1994, Azerbaijan signed a Production Sharing Agreement (PSA) with foreign companies for the development of the “Azeri-Chirag-Guneshli” (ACG) oil fields located in the Caspian Sea. This historic agreement, known as the 'Contract of the Century ', holds a significant place in Azerbaijan's history, shaping the nation's economy and garnering respect and appreciation. The PSA for the ACG, initially set for 30 years, was extended from September 14, 2017, until the end of 2049, commencing the second phase of this monumental contract.

1. The “Contract of the Century” Ensured Sustainable Growth in the National Economy

On the occasion of the 30th anniversary of this agreement, let us examine the macroeconomic indicators formed based on the influence and results of the oil and gas policy implemented so far. In the past two decades, the oil and gas sector, which has played a leading role in the national economy, has demonstrated significant positions in foreign trade, particularly in the volume of exports, and in the formation of state revenues. Thus, in 2023, the oil and gas sector, which accounted for 33.82 percent of the GDP, attracted 30.87 percent of all investment directed towards fixed capital that year¹. Compared to 2022, the growth rate in the volume of investments in the oil and gas sector was higher (10.9 percent) than the growth rate in the volume of funds directed to the non-oil and gas sector (9.3 percent). In 2023, the volume of foreign trade turnover was 51.2 billion USD, of which export operations amounted to 33.9 billion USD, and sales of goods belonging to the oil and gas sector accounted for 90.12 percent of this². In 2023, revenues from the oil and gas sector comprised 51.52 percent of the actual revenues in the state budget³.

¹ <https://economy.gov.az/storage/files/files/6335/Q1ZgEcbYOzmjeSBtc60PbF6bjQUJ5Kw6Wl8aE5bz.pdf>

² <https://economy.gov.az/storage/files/files/6335/Q1ZgEcbYOzmjeSBtc60PbF6bjQUJ5Kw6Wl8aE5bz.pdf>

³ https://sai.gov.az/files/2023_icra_rey-227333293.pdf

2. The “Contract of the Century” Played a Significant Role in Initiating Mega Projects for Azerbaijan

Specifically, two years after the signing of the “Contract of the Century,” in 1996, a contract was signed between BP and SOCAR for the development of the “Shah Deniz” gas field. Five years later, in 1999, a declaration was made at the NATO summit in Istanbul regarding the construction of the Baku-Tbilisi-Ceyhan main export pipeline. Six years later, on March 12, 2001, the “Agreement on the Sale and Purchase of Natural Gas” between the Republic of Azerbaijan and the Republic of Turkey concerning the supply of Azerbaijani natural gas to Turkey was signed.

Thus, through agreements signed under the influence and results of the “Contract of the Century,” Azerbaijan has contributed not only to the energy security of neighboring Georgia and brotherly Turkey but also to that of Europe.

3. The “Contract of the Century” Introduced Azerbaijan as an Oil-Exporting Country to the World

According to initial estimates⁴, the ACG contract fields hold reserves of 4.6 billion barrels of oil (updated estimates at 5.4 billion barrels) and 3.5 trillion cubic meters of associated gas. According to the latest data released by BP⁵, from the commencement of production in November 1997 until the end of the second quarter of 2024, 593 million tons (approximately 4.4 billion barrels) of oil have been produced from the ACG. Over 4.3 billion barrels of ACG oil have been transported to global markets via the Baku-Tbilisi-Ceyhan pipeline. From the start of production until the end of the second quarter of 2024, approximately 57 billion cubic meters of ACG associated gas have been delivered to Azerbaijan.

⁴ https://www.bp.com/content/dam/bp/country-sites/az_az/azerbaijan/home/pdfs/esias/acg/acg-phase1-executive-summary-az.pdf

⁵ https://www.bp.com/en_az/azerbaijan/home/who-we-are/operations/projects/acg2/acg-30th-anniversary-in-facts.html

As it appears, the main component of Azerbaijan's export oil consists of products obtained from the exploitation of the fields in the ACG.

4. The “Contract of the Century” Facilitated the Flow of Foreign Investments into Azerbaijan

According to initial estimates, the contract value of the “Contract of the Century” was set at 14 billion USD. However, the capital expenditures of the ACG project have significantly increased over the 30-year period, amounting to 45 billion USD by the end of the second quarter of 2024.

As can be seen, BP, the operator of the “Contract of the Century,” and its partners have invested 45 billion USD in the Azerbaijani economy over 30 years solely for the exploitation of the ACG fields, averaging approximately 1.5 billion USD per year. Furthermore, according to a statement by Tamam Bayatlı, Head of the Public Relations Department of “BP-Azerbaijan”⁶, dated September 13, 2023, BP and its partners have so far directed 84 billion USD of investments into projects across Azerbaijan, Georgia, and Turkey, of which 30 percent, or 25.2 billion USD, belong to BP.

5. The “Contract of the Century” Played a Crucial Role in the Formation of Azerbaijan's State Revenues and Expenditures

Specifically, within the framework of the development project for the “Azeri-Chirag-Guneshli” (ACG) oil and gas fields, Azerbaijan has generated over 174.4 billion USD in net profits from 2001 until September 1, 2024. This income has played a significant role in the formation of the state financial system in Azerbaijan, particularly in the activities of the State Oil Company of the Republic of Azerbaijan and the state budget.

⁶ https://www.bp.com/en_az/azerbaijan/home/who-we-are/operations/projects/acg2/acg-30th-anniversary-in-facts.html

During the 25 years of the Fund's operation, its revenues amounted to 202.1 billion USD, of which 189 billion USD were derived from oil and gas contracts. Through transfers of 128.9 billion USD to the state budget, the Fund has achieved financial balance and financed the implementation of important projects⁷.

6. The “Contract of the Century” Avoided Azerbaijan from the Middle-Income Trap⁸

Specifically, during the 20-year reporting period for the ACG field, the highest production was recorded in 2010 at 300 million barrels. However, there was a sharp decline in ACG oil production compared to previous years: 38 million barrels in 2011, 16 million barrels in 2017, 20 million barrels in 2020, and 19 million barrels in 2023. In 2023, the oil production indicator for ACG was 44.5 percent of the peak production in 2010, representing a decrease of 100 million barrels and 43 percent compared to 2014.

The sharp decline in production from the ACG field began to be observed in 2018. According to forecasts, this trend is expected to continue until 2025, with annual production stabilizing at around 119 million tons between 2025 and 2027. The reason for this decline is the construction of a new \$6 billion project—the Azeri-Central-East (ACE) project—which is the next step in the development of ACG following the contract extension on September 14, 2017, and the commencement of construction on April 19, 2019. The project includes a new offshore platform and other facilities with a production capacity of up to 100,000 barrels per day. It is projected that a total of up to 300 million barrels of oil will be produced during the operational lifespan of the project. On April 16, 2024, the first oil was extracted

⁷ <https://oilfund.az/report-and-statistics/recent-figures>

⁸ Ibadoghlu, Gubad and Bayramli, Emin, Could the economy of Azerbaijan fall into the middle-income trap? (June 19, 2024). Available at

SSRN: <https://ssrn.com/abstract=4870534> or <http://dx.doi.org/10.2139/ssrn.4870534>

from the ACE platform. The ACE project prevents a sharp decline in production from the ACG fields.

7. The “Contract of the Century” Led to Income Inequality in Azerbaijan

Revenues generated from oil under the “Contract of the Century” have led to ineffective management of state expenditures and the allocation of funds to unproductive sectors in the absence of economic liberalization. This has resulted in the expansion of corruption, a serious problem for national economic development and welfare, accelerated inflation, increased living costs for the population, devalued incomes, and distorted social welfare indicators during the reporting period. According to Transparency International, in 2024, Azerbaijan scored 23 out of 100 points and ranked 154th among 180 countries in terms of corruption. Currently, corruption is rampant in Azerbaijan, with autocracy and weak legal systems creating an environment conducive to its widespread prevalence. Consequently, Azerbaijani citizens, increasingly infected by corruption, are compelled to support the existing regime.

8. The “Contract of the Century” Marked the Beginning of a New Era in Azerbaijan’s Political History

The revenues obtained from this contract have funded key pillars of authoritarian governance in Azerbaijan, such as law enforcement, the prosecutor’s office, and the judiciary. Over the last 20 years of the 30-year period, there has been an increase in corruption, suppression of freedoms, and restriction of democracy in Azerbaijan. During the reporting period, Azerbaijan was consistently ranked among the "not free" countries according to the "Freedom in the World" index. The Reporters Without Borders organization ranked Azerbaijan 164th out of over 180 countries in the Press Freedom Index.

9. The “Contract of the Century” Created New Environmental Problems in Azerbaijan

Specifically, the volume of gas flared at the Sangachal terminal and at sea has been steadily increasing. According to the Energy Institute⁹, the amount of gas flared in Azerbaijan reached 0.8 billion cubic meters in 2023, which is twice as much as in 2022 and 2.6 times higher than in 2021 and 2020. Additionally, emissions of carbon dioxide equivalents from energy production, process emissions, methane, and flaring at gas stations amounted to 54.3 million tons of carbon dioxide equivalents in 2023. This represents an increase of 10.3 percent compared to 2022, 17.5 percent compared to 2021, and 25.1 percent compared to 2020. All these factors create challenges for Azerbaijan in achieving its targets of reducing carbon emissions by 35 percent by 2030 and by 40 percent by 2050¹⁰.

⁹ https://www.energyinst.org/_data/assets/pdf_file/0004/1055542/EI_Stat_Review_PDF_single_3.pdf

¹⁰ <https://www.econstor.eu/bitstream/10419/301995/1/Gubad-Ibadoghlu-COP29-2024.pdf>