

AZERBAIJAN

By Interfax-CNA

Azerbaijan's economy showed steady growth last year; GDP grew 9.9%, industrial production rose 5.1% and agricultural output grew 11.1%. Investment in the country's economy grew 17.1% in 2001. However, the oil industry and agriculture remained the driving forces behind that growth. The real increase in production in other sectors, despite high growth indicators, was actually small. Oil and petroleum products remain the core of Azerbaijan's export potential, accounting for 90.8% of exports last year.

Foreign investment amounted to about US\$811 million, or 67.7% of the total, while government investment accounted for 2.1%. Some 71.7% of all investment went into industry, 8.2% was channelled into housing construction, 6.4% into communications, 4.9% into transport, and 3.5% into trade and services. Foreign direct investment in Azerbaijan is expected to total US\$1.35 billion in 2002 according to the draft budget. The oil sector will receive US\$850 million of this and other sectors will receive US\$500 million.

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 remains the main Azerbaijan's resources which play decisive role in the economy.

In 2001, mining and metallurgy outperformed the industry as a whole. Production in the mining industry was up 5.9%, while output grew 2.8% in the processing industry, and 0.6% in electricity, gas and water supply. Production in metallurgy increased by 41.7%

year-on-year and production of optics and electronic equipment increased by 22.4%. Production in the food industry increased 13.6% and production of machinery and equipment increased by 5.4%.

Iron and steel

The biggest increase was seen in pig iron production, up 65.9%. Azerbaijan also increased steel production by 3.5%.

Baku Steel Co. (BSC) will invest US\$49 million in upgrades this year. BSC had already spent more than US\$45 million rehabilitating the plant. This year, output should be increased to 100,000 t of steel reinforcing bars, enough to meet Azerbaijan's entire needs and, in 2003, to 200,000 t. Capacity exists for 350,000 t/y. Most of the output is exported, mainly to Switzerland, but some to Turkmenistan and Kazakhstan.

BSC came to a standstill for about a month in 2001 because it was unable to sell its core product, steel bars for the construction industry. The company took the opportunity to modernise the plant, installing an electric arc furnace. This year it intends to install another. The furnaces will each have a capacity of 60 t/y. BSC last year started to produce sheet and other products for the construction and engineering industries.

The Azerbaijani Ministry of Economic Development is seeking investors for 99.22% or 527,446 shares in Dashkesan Mining and Beneficiation Plant, which mines and processes iron ore and nonferrous metals. The shares are being sold in accordance with a presidential decree of May 4, 2000 on disbanding the state-owned Metallurgiya company in what is the second phase of the state privatisation programme. The Dashkesan mine was started in 1954. The Dashkesan deposit contains a proven 60 Mt of

ore, Fe-content 35%. The ores also contain cobalt and zinc.

Aluminium

The Ganja alumina refinery, which is controlled by Azerbaijan Aluminium, reduced alumina production by 56.4% in 2001. The Ganja works came to a standstill at the end of 2001 when bauxite supplies were disrupted. At the beginning of 2002 the company was expected to sign contracts with suppliers of raw materials and to produce 300,000 t of aluminium oxide in 2002.

The Sumgait Nonferrous Metals Plant in Azerbaijan could start to smelt aluminium in May 2002. This year, the plant aims to produce 14,000 t of primary aluminium. Fonsk management, a subsidiary of the Dutch company Fondel Metal Participation BV, runs Azerbaijan Aluminium Corp. (Azerbaijan Aluminium, or Azeralumini, was set up in April 2000. It controls Sumgaitvetmetall, Glinozem alumina works (Ganja), the Dashkesan Mining Combine and the Zeilik alunite mine.) The Dutch company has pledged to invest US\$1 billion in the Azerbaijani aluminium sector over 25 years, US\$500 million of it in the next five years. The Sumgait plant is idling at present. By 2007, it should be producing up to 160,000 t/y of primary aluminium.

Oil and gas

Oil production in Azerbaijan was up 6.3% last year from 2000 amid trends formed earlier in the industry. The State Oil Co. of the Azerbaijani Republic (SOCAR) is gradually decreasing oil production while Azerbaijan International Operating Co. (AIOC), the company developing the Azeri-Chirag-Guneshli fields, is producing more oil. Oil exports were up sharply despite only a moderate increase in production.

Azerbaijan produced 14.91 Mt of oil and gas condensate last year. SOCAR produced 60% of this and AIOC the remainder. Production by SOCAR has been declining in recent years, but overall oil production in Azerbaijan has been increasing as the result of foreign companies that are developing new fields. SOCAR produces 65% of its oil in the shallow water section of Guneshli field. The company's onshore divisions overshot production targets by 7.1% to produce 1.60 Mt of oil.

AIOC produced 5.90 Mt of oil last year, 18% or 893,800 t more than in 2000. Joint ventures and operating companies working in Azerbaijan produced 745,900 t of oil, or 46.7% of production from onshore fields.

Azerbaijan produced 5.55 billion m³ of natural gas last year, 111.4 million m³ less than in 2000. SOCAR produced 4.65 billion m³ of this, 4% less than planned. In 2000, the company produced 5.66 billion m³ of gas.

Unlike oil production, which increased slightly, oil exports increased by 55% last year to 8.4 Mt from 5.4 Mt in 2000. SOCAR said exports increased because oil production under the Chirag project had increased by nearly 1 Mt and because the company's refineries cut processing by nearly 2 Mt.

Meanwhile, Azerbaijan is proceeding with implementation of the Baku-Tbilisi-Ceyhan project which will give a boost to Azerbaijan's oil industry. The sponsor group for the Baku-Tbilisi-Ceyhan export pipeline project is preparing paperwork for a tender to build the oil pipeline. The technical specifications for the pipeline call for 100 m corridors in all three countries - Azerbaijan, Georgia, and Turkey. Engineering work was completed in mid-December and tenders were called to lay pipes on the Azerbaijani and Georgian sections of the pipeline.