

## Development of the national oil-gas sector and its role in economic growth



**Hajizadeh Elshan Makhmud oglu\***

Doctor of Economics, prof.  
Azerbaijan State Economic University

### Abstract

*Purpose* is analysis of the current state of infrastructure-building complex of the national oil and gas sector, its role and importance in the economic development of the country, including the assessment of the impact on economic growth of the development of this sector.

*Methodology* is based on the structural methods of trending and situational approaches of systematic analysis. The study also used correlation methods and other econometric methodology.

*Findings* are evaluation of the role and importance of oil and gas sector in GDP for 1988-2011, forecasting of this sector impact on economic growth in the short and medium term.

*Research limitations* are following:

- 1) calculations are not covered long-term periods;
- 2) lack of clear assignment of indicators of growth and difficulties of finding a more extensive and comprehensive statistical sources;
- 3) diversification of methodological approach in calculations.

*Practical implication* is using of the research as an alternative source for forecasting of the influence of oil and gas industry to economic growth.

*Originality* is consists of introducing of extensive scientific interpretation of the term of oil and gas sector in the context of economics, presenting of the “National Oil Strategy” in conceptual aspect, conducting of new scientific generalizes using from basic indicators of oil and gas sector and assessment of influence directions of oil and gas sector to GDP.

**Keywords:** *oil and gas sector, National Oil Strategy, economic growth, policy of budget and tax, forecasting.*

**JEL Classification Codes:** *B21, B41, C15, D04, E27.*

\* Baku. AZ 1001. Istiglaliyyet str., 6.  
ehm@rambler.ru

## 1. Introduction

Since the formation of the oil civilization, oil and gas potential have been considered the main strategically and diplomatic force, form of the source of social and economical strategy and the main factor of the national force. Being the necessary production, and economic-financial resource of the oil-gas is the main energetic component of the industrial resource in modern period. Supporting to this resource being the main social force, city creation and agglomeration effect, the human kind provided itself with the necessary and transport services separately and in all field of the economy. In character, the oil and gas complex implement the strong and rational sector function of realizing the heat of the investment of the economy.

The use of the oil and gas resources has historical meaning in Azerbaijan. The oil has widely been used in the finance and economic life of the people in areas of Absheron and Shrivan from the oldest time. Industrial revolution took part in XIX century deeply changed the definition of the use of oil accompanied by the increase of the technical need of people. Together with the interior fire of engines, achievement in the cracking process, formed new-industrial paradigm arose out energy resources of the economy in the context of investment in the industry of mountain - mine and such kind of other advanced factor. All of these brought to the formation of the higher oil century in its part [7, 26].

Possessing to the important historical tradition in the oil production, Azerbaijan was one of the main energy regions of the world economy industrialized at the end of the XIX century and at the beginning of the XX century in the person of the capital Baku with the rich resources. It is not coincidence that the majority of the world oil produced in 1898-1901 extracted in Baku oil regions. The absolute majority being equal to 10 million in average, directed to the repayment of production needs in all green climates of the world [26, 30]. Baku preserved its grandiose as one of the global oil center after the end of II universe and the oil produced in Azerbaijan formed the main generation source of the USSR industry, military cars and wide exploitation technique. Azerbaijan oil differed by its energetic force in all stage of the improvement of the soviet economy and according to its potential the unity spent on the strengthen of the state. In general, during the period covered by two hundred year of the history Azerbaijan people was aback of management of oil-gas resources and their profit and could not fully derive from natural rent of riches it posses.

By the regaining of the state independence of Azerbaijan, the existence of the oil-gas riches have completely provided and real significant condition for the wide use of these riches from the point of view of the national state began. Together with it, the new geo-situation was the basic ground for active work of the high hydrocarbon in the frame of the international cooperation revealed in the last decade of the previous century in Khazar sector of Azerbaijan. Under all these reality, the national

oil strategy formed under the leadership of the National leader Haydar Aliyev. In the practical standpoint, the national oil strategy commenced from the “Century Contract”, directed to the more completed course by the large-scale reforms carried out by the resolute activity of Ilham Aliyev in the multiple effect and provided the brought of the current of the higher investment in connection with the conclude of the international oil contract, construction of transnational oil and gas pipeline, building the innovative fuel-energy structure and creation of the national oil fund issuing the additional stimuli to the socio-economic development. The rationality from these riches forms the important prior of the national development more rational.

The existed case in the oil and gas sector had the basic effects to the economy of the republic and its progress. The truth is that, the oil-gas sector and fuel-energy complex arose out of it possess the motive force in all structure of economy. The barometer of the modern national economy and its main indicator is satisfactorily connected with the oil and gas sector. The analyze and valuation of the economic increase of the improvement of the oil-gas sector in the existed frame carry the important actual peculiarity and equally form the leitmotiv of our investigative subject. One of case, strengthening and the actual of the subject is the main welding component of the national and economic safety of oil and gas industry. 60-70% of the country's is budget formed due to its resources. All of these make fundamental oil and sector from the point of view of global peculiarities, affirmed in the state interest and making its necessary to be learned in wide aspect.

## 2. The sector division of the economy and privatization of oil and gas sector

The sector division of the economy taken as institutional units importantly differed by similar conformation, economic aims, functions and behaviors. In theoretical and practical point of view, these fields are, divided according to the economic form and product types one in other [8, 12, 19].

The economy is divided into the state and private sectors from the point of view. Nevertheless, numerous differences in the productive economic context, the classic sector mode (*in English, three-sector hypothesis*) is taken as basic. The primary sector covers the production of the raw material and treatment turning to half-manufactured product. The primary conversion of the agricultural industry, production and natural raw material (*coal, oil and gas, metal ore*) field are included herein. The treatment industry producing the ready product and construction companies are related to the second sector. Because of forming the major part of the country economy, this sector is also called the production sector. Just here, the main part of the profit and admission increase of GIP formed herein, asa result it stimulated the implementation of the programs increasing the life quality. Primary and secondary sectors called as material sector in other classification. The third sector covers the companies

of the service sphere. The transport, communication, trade, industry and tourism are related herein. The major increase of the share of the third sector in the developing countries brought it turn to one of the economic field called “service economy”. The third sector conception was cleared as the non-governmental organization implementing the social functions in different standpoints [4, 32. 36].

The real and finance classification in the numerous divisions of economy has a great importance. *The real sector* directly covers the material product, goods and services. The higher profit is just arisen out this section and the main budget taxation provided. *The financial sector* combines the financial - credit groups [12, 32].

Some economic creation takes part in the systematization of the economic thought: the fourth and fifth sector conceptions are meeting in modern economic literature that they are participating as the sixth system of the third sector. The companies specialized in the sphere of the information-communication, at the same time the global marketing, bank, finance, several scientific fields, consulting and educational service related to *the quaternary sector*. The sector is also called as information sector. The information sector stay on the base of the modern and future economic development. The *quinary sector* covers the specialization in the field of the health, culture and scientific investigation [36].

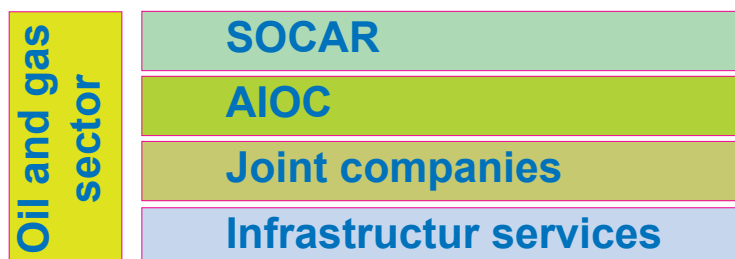
By participating from this reality specifying the sector division of the economy, it is possible to define the parameters and place “oil and gas sector” to the economy of the Republic of Azerbaijan by clearing it. It is also related with the fact, that from method point of view, the country does not meet the accurate interpretation of the oil and gas conception in the economic science, at the same time legal-normative and practical sphere. In the wide turnover, the conception is understood as the economic field, that oil and gas existed adequate to word sooth, supporting to empiric rootstock. The conception of “oil and gas” is also expressed as “oil sector”. Together with it, there exist private “gas sector” in turnover. The realization creates the hardness as different and synonym on approach to them. It becomes hard to say the decisive thought on its limits because of inbeing of the accurate methodic definition of oil and gas sector in the same flatness and statistic frame in similarity. However, the realization is the fact that, the side gas forming inseparable part of the process is also produced during extract of oil. Just because of the support to this gas factor, the industrial fields in the relation with the oil are defined as “oil and gas economy”, “oil and industry” and “oil and gas complex” [6, 7, 14]. Therefore, it should be noted that, the natural gas is not extracted as the side gas only by oil. The gas more than oil potential is produced in the special deposits. In such case, the economical field is activated as “gas economy” and adequately the name issued to it in corresponding field classification. [22, 33]. In other part, as the condensate, production industry being the product of the oil and gas extract not form exceptional importance and the separate economy area connected with the name of it has not been decisively named.

Apparently, oil, natural gas and condensate hydrocarbon forms tried in foundation, and as analogical natural wealthy or as close adequate raw materials they form synchrony relations to each other. Because of the reason, “oil and gas sector” defined as the economical field involving all economical cycle connected with the oil, gas and condensate. In fixing the wide structure, numerous production fields as prospect, digging, production, transportation, supply, refine and selling are included to the oil and gas sector. So, “oil and gas sector” includes economical complex realizing the sell of oil, gas, condensate prospect, digging, production, refine, transport, supply and the sell connected with it delivery to the producer in its economical and scientific meaning.

Together with all technical, technician and economical signs, conceptions of “oil and gas sector” has the same meaning and notion in the context of the Republic of Azerbaijan. The differences show itself only in the establishment system connected with the property relations arose out of rent definition of this economical sphere. Therefore, modern oil and gas sector formed in the Republic possesses opposite structure system. The system includes two economical state and private “subsector”. The State Oil Company of the Republic of Azerbaijan implements the management in the state sector and legislation of exploitation fields delivering for joint work on the frame of the international agreement in the private part. By implying the existence, the joining fields of both subsector in common activity sphere, the existence of the upper sector being the third have been cleared. Nevertheless, the possession of different resource base and other system differences, the Republic derive benefit from the greatest infrastructure system taking part as the major part of FEC (*Fuel Energy Complex*) in the activity of these fields. It base the fact, that, these sectors possessing different property sector form the unit and complete infrastructure system by its oppose and homogenous peculiarities.

Therefore, being the integral part of FEC, the national “oil and gas sector”, SOCAR covers the exploitation zones issued on the frame of international agreement, range of mixed and other company in relation with it.

The “national oil and gas sector” is specialized in the following scheme plan:



**Scheme 1: Oil and gas sector of the Republic of Azerbaijan**

By generalizing the analysis of the conclusion on “oil and gas sector” it became necessary to define its concrete relation to the sector, at the same time its complete and partial coordination with the sector.

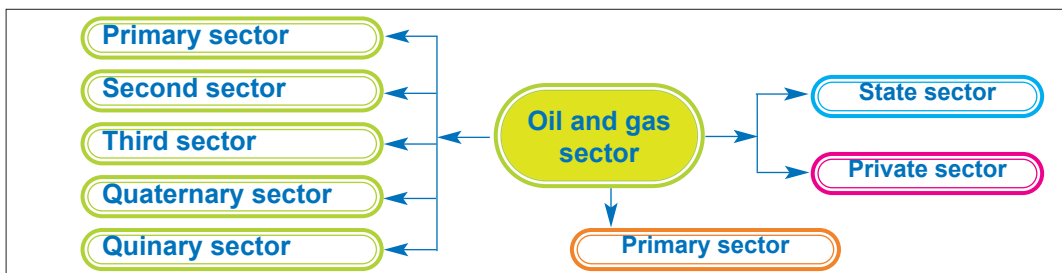
The companies related to oil and gas sector from economic point of view included to the state and private sector. It defines the classification of oil and gas sector from economical point of view in three structures:

- 1) Only state (*possessing no internal concession finance by oil and gas industry in foreign countries - Saudi Arabian, Iran*);
- 2) Only private - (*USA, Great Britain*);
- 3) State and private parallel - (*Russian, Kuwait*) found its definition.

It has to be stressed by the fact that its rare case for the oil and gas sector be completely under the order of the state. Such cases could bring certain bearing in closed countries [5, 16, 22]. In other case, in countries, that oil industry is under the order of the completely nationalized country, the intercourse of oil and gas sector in national owners in the field of the certain services is not excepted. The mutual property companies also take place in oil and gas sector of different countries. It directly realized in the form of portfolio by organizing investment and shareholder societies and joint companies. The same peculiarities are also revealed in the national oil and gas sector. Because of the reason, taking part from the base of this compare analysis, we know certainly that oil and gas sector of Azerbaijan found its definition in the complex of the state and private sectors from economic point of view.

The adaptation of oil and gas sector to the primary sector is displayed, in spite of the orientation of the production of raw material in the context of type of the production in trinomial classic sector mode. According to ready product manufacture and orientation of the treatment industry oil and gas sector, relate to the second sector. By implying that, oil and gas sector cover the wide and scale serviceable organization, the third sectors has to be mentioned herein. Except, by taking account the wide possibility of the leader innovation, oil and gas sector will exactly relate to fourth and fifth sectors. It has also to be stressed, that oil and gas sector is also adequate to real sector being in the economic sphere.

The scheme reflecting the relation of oil and gas in classification of the sector of economy issued:



**Scheme 2: Spheres conformed in the sector classification of economy of oil and gas sector.**

National oil and gas sector stay as the main welding element of Azerbaijan economy. By concentrating the half of the country economy as touchstone of the improvement in modern period, take part as the main base role stimulating the economic revive. Because of the reason, solid provide of the economy in the Republic is connected with the development problems of this sector. The realization is that, in the case of non-provide of development lean in oil and gas sector and in the case of putting no necessary capital investigation, drilling and renovation processes, its influence effect to economic increase will recessed. That's way, valuation of the modern structure and infrastructure complex, resource base and its potential is considered important for the analyze of development lean in oil and gas sector.

### 3. Resource base and production infrastructure potential of oil and gas sector

Higher area, material and human resources of the national oil and gas sector relate to SOCAR. As one of the oil companies defined as "vertical integrated" holding, provide the management in the stage of production and service till the deliver of product to the last producer by covering in production, treatment, sell and other technological process, commencing from the investigation work of oil and gas industry. The exploitation zone of SOCAR consists of 57 deposits, that 39 are in the dry zone and 18 in Caucasus. The existence of oil resources in the capacity of 3-5 milliard tone oil and 3-4 trillion m<sup>3</sup> in these deposits have been certified in geological point of view. 24% of the discovered oil and 15% of natural gas is in account of dry. The supposed area of hydrocarbon deposits is 21, 4 thous. km<sup>2</sup> in the sea and 43-45 thous. in dry areas. It was noted that, the half of potential oil resources of the country and more than  $\frac{3}{4}$  of natural gas resources have not been discovered yet. By being the important productive and service organization "AzNeft (*AzOil*)" Production unity, "Azəriqaz" Production unity, "Azərikimya (*Azerchemistry*)" Production unity, Xəzər Dəniz Oil Donanması (*Caucasus Oil marine*), "Geofizika (*geophysics*) and Geologiya (*geological*)" Department, Oil line department, "AzərNeftyağ (*Azer oil*)" Oil treat Plant, Baku Oil treat Plant named after Haydar Aliyev, Gas Treatment plant, Baku Deep base plant named after Haydar Aliyev, "Neftqaztikinti (*oil and gas construction*)" Trust and Complex Drilling trust is included to the structure of SOCAR [44].

The use of the oil and gas deposit being in the dry and sea area of water is provided directly by "AzNeft (*AzOil*)" İstehsalat Birliyi (*production Unit*) ("AzOil" PU) being under the order of SOCAR. There are more than 6 thousand well in the exploitation fund of the Unity, that 75% of them are efficient. 11 oil and gas extract department provide the production of oil and gas. 8,4 million ton oil and 7,1 milliard m<sup>3</sup> gas produced by unity in 2011. Averagely  $\frac{3}{4}$  part of the produced oil directed to the oil treat plant and the remainder part directed to the export.

The energy force of “AzNeft” IB (*AzOil PU*) is not connected with oil. The natural gas produced herein, repay the fuel provide of all thermal Electric Station and use need of the people. The majority of the gas extracted from the unit produced from the natural gas deposit. It is impossible to consider the capacity of the gas in the production balance as significant. The produced gas is directed to Gas refining Plant (*mainly extracted from sea deposit*) settled in Garadagh area of Baku and “Azəriqaz (*Azerigas*)” production Unity. Nevertheless, the main of the Garadagh Gasrefining Plant is the production of methane-ethane, propane-butane, gas benzene and diesel fuel components from natural and side gas, in the amount of averagely 4,2-4,7 billion m<sup>3</sup> gas is processed every year [40, 42. 44]. The capacity is 30% less from project production (*the annual force 6.5 milliard m<sup>3</sup>*), is not able to provide theprocessing and regulation of the gas. In other part, because of deepen of the gas treat in the plant and the technology of extract of the valuated components arising out of it, it is impossible to produce the product according to international standards.

“Azerigas” Production Union activated as the separate central state founding till 2009, implement the preserve (*underground gas preserve stores that the active capacity is 3 milliard m<sup>3</sup>*), transport (*34831 pipelines*), distribution (*163 gas-distributing*) and sell (*1,3 million subscriber*) of the natural gas in the Republic of Azerbaijan. “Azeriqas” PU provided not only accept and transfer of the gas from “AzNeft” IU, but also gas totally produced in the Republic. It is equal to 10-12 billion m<sup>3</sup> gas capacity in average index (*in the last 3 years*) [44].

It should be noted that, the production return of hydrocarbon products produced in the oldest deposits in Azerbaijan is high. It is connected with the factors of extract of the majority of resources in exploitation deposits, end of the fountain period, exhaustion of the layer energy, lower output, technological lag, the scale of the physical and material etching and other factors. Nevertheless, all these difficulties, “AzNeft (*AzOil*)” IB implement the important function as the provide of the economic increase in the Republic as the leading structure of oil and gas sector. Because of the reason, it is valuated as the base structure welding the oil and gas sector from the direction of SOCAR.

The other economic cycle of SOCAR connected with “Azerikimya (*Azerchemistry*)” Industrial Union. Taking their activity in the status of the state till nowadays, the company produce polyethylene, isopropyl spirit, propylene, hard resin, pyrolysis and polyether, propylene oxide, caustic soda, sulphate and chloride acids with high pressure, that are greatly needed in the world market in factories as “Sethi Aktiv Maddeler (*Superficial active matters*)”, “Ethylene-Polyether (*Ethylene-Polyether*)” and “Uzvi sintez (*Organic synthesis*)”. By the aim of the production of these products, naphtha products are transported by direct pipeline from SOCAR oil refining plants to chemistry companies in Sumgait. It should to be noted that, the foundation of oil and chemistry companies coincide with the middle of the last century. By the



decrease of the production in 1988, the EP - 300 installations being considered the modern for that period and that the force was 450 thousand tone (*300 thousand ton ethylene and 150 min tone propylene*) in connection with the liquidation of the technical lag and limit of product types have been constructed and delivered to exploitation. The installation that modernization has not taken place for a long time undergoes to physical and material outdates and activates only 25% product capacity. All these fact show that there are great needs on reconstruction of oil and chemistry complex of the republic by making fundamental modification [44]. Just arising out of the fact, the creation of oil and gas processing and oil-chemistry industry taking their activity in the unit technological process according to international experiment commenced in SOCAR according to the decree of the President of Republic of Azerbaijan "on improvement of management mechanisms in the oil and chemistry industry". Together with it, the President of the Republic of Azerbaijan signed the corresponding decree on "establishment of the Sumgait Chemistry Plant".

The indemnification of the need of republic to all kind of fuel and certain lubricating is implemented by 2 oil-refining factories of SOCAR. However, the annual force of these factories form 18 million tone, products less than 3 times from production possibilities prepared herein. The treatment limits could not only be connected with the lower limit capacity. It means, 6 million tones oil was sent in average by "AzNeft (*AzOil*)" IB every year. In accordance with the investigation, the existed technological system in these factors are in outdated construction and not adequate to the modern demands. Nevertheless, the repeated modernization of factories, their physical and material etching is high. Because of the reason, their foundational reconstruction and projects basic in the direction of the creation of the analogical product have to be prepared in the future. Nevertheless, the same factories attain life importance in the improvement of the economic increase in the republic together with the produced products as the important foundation of oil and gas sector. In these factories having technological coincide with each other, benzene, diesel, reactive engine fuels, kerosene, strove mazut, bitumen, lubricating, energetic and turbine oils, vacuum gasoil and other analogical products are produced. By implying statistic indexes, averagely 11-13 million tons benzene are produced here every year, that more than 80% of it is directed to the production. But the diesel fuel form 2,3-2,6 million tones, that significant part of it is exported (60-65%). The capacity of the reactive engine fuel produced by the aim aviation transport wave 500-600 tone in average according to needs. 20% of this product is directed to the export. The naphtha, being the oil and chemistry products, directed to internal production and 20% of these products are exported. Other oil products in the capacity of 1,2-1,3 million is also produced in the same plants. In accordance with the account, in connection with the cost wave of oil and gas products, the expenses got from the external sell form 1,5-3,0 billion USD [41, 42, 44]. As it seen, this treatment plants (*gas treat-*

*ment plant is also included herein*) form the main expense source of weight of GDP of SOCAR. Because of this fact, being the integral part of oil and gas sector, the effect of the same companies to the economic increase valuated greatly.

The importance of the Caucasus sea oil marine, represented by 260 ships that is the second sea oil channel in the world oil industry in the structure of SOCAR is great. The marine serve transport-technological and convey services to oil and gas production objects in the continental shelf of Caucasus, implement underwater-technical, diver gas-saving and other works, at the same time carry out the repair of ships, production of resource part and details for oil equipments. Together with ship marines implement the different orders in the sector of Iran, Turkmen, Kazakh and Russian Caucasus, realize some analogical services in the numerous foreign countries by motivating in the world ocean countries, provide the exchange admission both to state budget and to SOCAR, directly stimulate the economic increase in the country [44].

One of the higher companies of SOCAR is Baku Depth Foundation plants named after Haydar Aliyev. The plant engaged with projects of the depth sea foundation, prepare, allowing to water, transport to defined place, set to “project point”, fastened of log and exploitation. Metal constructions (*farm gain, column, under crane logs, girders, connections amongst column, bunkers, bridge construction, box logs and silos*), stationery sea foundations for 200 meter depth, reservoir constructions in the capacity of 105 thousand m<sup>3</sup>, tonnage in any capacity, oil and gas separators in 100 atmosphere pressure, 7018 and 6013 types welding electrodes and metal pipes that the diameter is from 500 mm till 4500 mm and the depth is 90 tones are produced herein. The load rising caterpillar in 650 tones and load rising bridge cranes, patches (*waltz*) bending the metal leaves, automatic welding and half automatic lines under the flux, arch source palpate, clearance camera with metal small shot, sand clearance equipment, supervision apparatus with ultra-voice and magnet dust and the lines of cut of metal by termination factors are used herein [44]. All these products play significant role on the increase of the economic potential of oil and gas sector.

In the modern stages of civilization, the ecological prior influence all fields. The large-scale works carried out in companies with territorial capacity, directive and executive structures are implemented. Nevertheless, the ecological structures not accounted to the achievement of profits in the form of the cash, there rationality in the general system is important. That's way, in accordance with the decree of the President of the Republic of Azerbaijan dated September 14, 2006 “On improvement of the State Oil Company of Republic of Azerbaijan” by the aim of valuation of the activity of companies to the environment, implementation of the complex measures, solution of the problems in the direction of the provided of the ecological safety in the oil-gas production and treatment process, implementation of complex measures and ecological works answering the international standards in the direction of im-

provement of the ecological stability and norms remaining in the force, at the same time liquidation of other problems, the Ecological department created in the attach of the company. The form of the defense of the environment in companies and organizations, form of the unit ecological society on SOCAR, prepare ecological programs and their realization, re-cultivation and clearance of the dirty waters and the problems as the maximum rational use from resources separated to these areas in the prior duties before Ecological Department [44, 46]. The rational activity of the Ecological department of SOCAR is the main factors providing the stable improvement of the oil and gas sector. Nevertheless, the department being the internal budget setting and limit of the profit base, it has a great role on the development of the oil and gas sector. Therefore, the rational activity herein removes the side effects and bring additional stimulus to the reputation of SOCAR. It plays significant role in protection of the internal stability and development perspective in company.

Together with the internal structural organizations in SOCAR, 35 unit organizations, 6 alliances in Azerbaijan successfully take their activation in all fields of the oil and gas industry in different countries of the world. SOCAR possesses the widest activities in Georgia and Turkey. Therefore, the activity of the company in Georgia covers 50 percent of the oil products base of the company. Nowadays, there activate more than 70 filling station and it is planned to deliver 100 in the future perspective. Works in Kleva terminal (*Kleva "Black sea terminal" Ltd*) settled in the shore of the Black Sea of the Georgia implemented by SOCAR. "SOCAR Georgia Petroleum" LTD taking their activity in regions, that Azerbaijanis compactly live realizes the high capacity projects. Nowadays, gas distribution companies possessing to Georgia are managed by "SOCAR Georgia Gas" possessing to Azerbaijan [44].

The activity of SOCAR in Turkey is also capacious. Therefore "Petkim Petrokimya Holding (*Petrochemistry*)" OJ supervising 25-30% of the oil and chemistry products base of the country is under the management of "Petkim" SOCAR. The foundation of "Petkim" settled in Yarimja city of Turkey, oil and chemistry raw materials more than 50 types are prepared in the plant belonging to him. SOCAR is constructing the new oil refining plant named "Star" in Izmir city of Turkey for the purpose of repayment of the need of "Petkim" to raw material, especially to naphtha and liquidation of the dependence from the import. The annual treatment force of the plant forms 10 million tone oil. The capital in the amount of 5,5 milliard USD will be held to the project and the construction of the plant is going to be end in 2015. It is implied to export the produced products to the Mediterranean Sea and South Europe together with the Turkey market [44, 46] and it is not exception, that products will be also used in Azerbaijan market.

Except, SOCAR included to the retail fuel sell of the Ukraine and Rumania. At the same time, the company got constructive results on delivery of Azerbaijan oil to the Ukraine and neighbor countries [44].

SOCAR export net oil to 24 countries including Italy, USA, Israeli, Indonesia, France, and Spain. In general, net oil and oil products are exported to 33 countries of the world from Azerbaijan [44].

SOCAR possess the representatives in countries no more than 10. Representatives in Great Britain, Germany, Austria, Georgia, Turkey, Rumania, Switzerland, Kazakh, Ukraine and Iran take great part on the improvement of the international activity of SOCAR [44]. The successful foreign economic activity of SOCAR, without doubt create the additional rational material and finance effects in increase of the economic increase in the country.

There are specialized engineer, technician and employee chain possessing the higher ability on solution of problems related to the discover, work and renovate of both dry and sea oil deposits in SOCAR. Nearly 60 thousand employees and specialists, at the same time 50 employees and specialisst with the scientific degree of scientific doctor worked herein [44]. These very specialized human resources serve the economic development of the country. Together with taking part on SOCAR base, they play stimulating part on the economic life of the country on opposition of slender profits they got.

Azerbaijan International Operation Company (*AIOC*) implements the main activities in the division of the private part in the national oil and gas sector. AIOC is consortium formed operational company implemented in 1994 by the aim of implementation of its terms, on behalf of the shareholder of the agreement signed by the great oil company of the world and SOCAR on “Collective use of oil deposits in Azerbaijan sector of the Caucasus”. 11 higher oil company representing 7 countries as Great Britain, USA, Japan, Norwegian, Russia, Turkey an Saudiyya Arabia is included herein. Under the operation of “British Petroleum” oil company AIOC implement exploitation in “Azeri-Chirag-Gunaşli” (*ACG*) and “Shah Deniz” deposits, at the same time corresponding management in transnational communicative lines and other infrastructure objects as AIOC Baku-Supsa, Bakı-Tbilisi-Ceyhan Main export oil pipeline named after Heydar Aliyev, and Baku-Tibilisi-Arzurum-South Caucasus Pipeline. Except objects and other economic in relation with the exploitation of deposits being in the contractual zone of companies Az ShengLi Oil/Pirsaat (*the partner company of SOCAR, the share of OC is 20%*), Gobustan CC (*the share of OC 20%*), Salian OIL CC (*the share of OC 50%*), Garasu CC (*the share of OC 15%*), Binagadi Oil Company (*no information on division of participation share*), Surakhani CC (*the share of OC 25%*), Absheron CC (*the share of OC 25%*) being in the common activity in the private field of the national oil and gas sector is included herein. All these potential form the major part of the provide of the economic increase in the country as the integral part of oil and gas sector [7, 44, 48].

It has to be noted specially, that, by joining to “Century agreement” Azerbaijan signed share Division of 33 production on the unit work of oil and gas deposits with

30 companies of the countries more than 20. The exploitation deposits as ACG in Azerbaijan sector of Caucasus and Shah Deniz deposits, at the same time, MEOP (*annual production 50-60 million*) and SCP (*annual production force 30 milliard m<sup>3</sup>*) has significant role according to its global importance amongst these agreements. In the result of it, 53 energy companies to oil and gas operations made on deposits settled in Azerbaijan sector of Caucasus and dry have been involved.

Nowadays, Azerbaijani oil transported to the world market in three directions. In 1997 forming that transference force of each of the transport of the oil form 6 million, Baku-Novorossiysk (*for the marketing of the primary oil to the world market*) oil pipelines in the direction of the Russia and Baku-Supsa in the direction of the Georgia in 1999 issued to the exploitation. The line providing the rational and uncial transport of MEOP, being the main artery of the oil transport system of Azerbaijan, considered the highest and unique installation in Eurasia district as one of the elements of the international energy safety. Nowadays, except Azerbaijan oil, the Turkmenistan oil in the capacity of 4-50 thousand barrels is also transported. Commencing from the exploitation period, together with MEOP 181,3 million tone oil and 19,7 milliard m<sup>3</sup> gas exported with SCP [44].

Our country possesses the diversification gas line being exported outside. Concrete Azerbaijan gas, exported to the world market in four directions. Initially, SCP, constructed in the modern period and magisterial lines directed to north, south and western direction, that has been previously existed included herein. The gas resources of the country are accounted as 2,6 trillion m<sup>3</sup>. By increasing 5,2 times, the gas production reached to 26 billion m<sup>3</sup> in the republic during 2004-2011 years. It is prognosticated that the capacity of gas will reach to 35 billion m<sup>3</sup> during 2015 and 50-55 milliard m<sup>3</sup> until 2020-2025 [44].

It should be noted that, the Shah Deniz deposit takes part as the flag-officer of Azerbaijan gas industry. Shah Deniz is one of the highest gases-condensate deposits used in area of water of the sea. The proved resources is valuated as the capacity of 1,2 trillion m<sup>3</sup> gas and condensate more than 240 million tone. The gas produced on the frame of the initial stage of the Shah Deniz projects in 2006. Approximately 6,7 milliard m<sup>3</sup> gas produced from deposits last year. Nowadays, Azerbaijan implements the scale exploitation works in the area of water of the sea without aside stimulus. Umid gas -condensate deposits could be shown as example to it. The Azerbaijan oilmen revealed these deposits, in terminological expression SOCAR is both investor and implement the function of operator. In accordance with the initial account, the extracted resources of deposits valuated in the amount of 200 billion m<sup>3</sup> gas and 40 million tons condensate. The perceived results increase the productivity perspectives in the Azerbaijan sector of Caucasus, open of the new layer and deposit. Therefore, free exploitation of Babak deposits (*400 billion m<sup>3</sup> gas, 80 million tones condensate*), that the potential is twice more than Umid deposit, is going to be realized by SOCAR

[41, 42, 44]. Except, the discover of the Absheron block in Azerbaijan sector of Caucasus carry important significance in the increase of gas potential of the country and give possibility for the creation of the new geopolitical liabilities. The drilling depth is more than 7 thousand meters herein. In accordance with the initial account, it is supposed that there are hydrocarbon resources in the amount of 350 billion m<sup>3</sup> gas and 45 million tones condensate. Receive of the scale products from the deposits are prognosticated on 2022-2025.

Unit Geological-discovering works in “Shafag-Asiman” (*prognostic resources 500 milliard m<sup>3</sup> gas and 65 million tones condensate*) by “Kaspian Geofizikal (*geophysical*)” Joint companies together with “bp Azərbaycan” and “Naxçıvan” (*prognostic resources 300 milyard m<sup>3</sup> gas and 40 million tone condensate*) with RWE company of Germany is holding in perspective structures [44]. Except, the gas resources of ACHG is also valued as 300 milliard m<sup>3</sup>. All these facts are the visual indicators of the increase of the power of Azerbaijan.

The important documents on “Joint declaration on Southern gas the passage” signed amongst European Union and Azerbaijan in previous year. The project of the “Southern passage” is the prior energy projects for EU. The projects is the main foundation of the use of the second stage of “Nabukko” (*annual passage is 31 milliard m<sup>3</sup>*) gas line, Transadriatic gas line (*TAP*), “Bayaz axın” (*White Stream*), Turkey-Greek-Italy gas line (*ITGI*) and “Shah Deniz” projects. It has to be mentioned that, in the meeting hold on September 12, in 2011, EU made a decision on the commence of negotiations in relation with the construction of “Trans-Caucasus gas line” participating as the main projects in Southern Passage for the deliver of new gas resources to Europe together with Azerbaijan and Turkmenistan. In the other hand, the sign of memorandum on “cooperation in the field of the gas” on the project (*Azerbaijan-Georgia-Romania Interconnector - AGRİ*) amongst Azerbaijan, Georgia and Rumania also issue the new possibility in the direction of the gas production [44, 46]. The project imply the transport of Azerbaijan gas to the sea shores of Black Sea-Kulevia, deliver of the port of Constance of Romania by tankers and transfer by mounted in the form of the natural gas. Together with the implementation of all these projects, the generation possibilities of Azerbaijan in Europe energy place directed to the more different river-bed.

Other important variants are also investigated on the direction of the production of Azerbaijan gas to EU countries according to the long-term agreements. Our republic also supports the modern Silk Way - Southern Energy corridor creating new, direct energy and transport relations with EU and other regions. It is considered that, open of the new gas supply passage on the frame of this strategy will importantly effect to the steady of the Europe gas market.

The table reflecting the gas production and prognosis in 1995 -2015 has been issued below:

**Table 1. Oil and gas production and prognosis in 1988-2015 in Azerbaijan**

<b>Years</b>	<b>Oil production (mln. ton)</b>	<b>Gas production (mln. m<sup>3</sup>)</b>	<b>Years</b>	<b>Oil production (mln. ton)</b>	<b>Gas production (mln. m<sup>3</sup>)</b>
<b>1988</b>	11 200	11 826	<b>2002</b>	14 755	5 837
<b>1989</b>	10 723	11 112	<b>2003</b>	15 378	5 168
<b>1990</b>	9 927	9 626	<b>2004</b>	15 549	5 006
<b>1991</b>	9 749	8 621	<b>2005</b>	22 214	5 818
<b>1992</b>	9 409	7 872	<b>2006</b>	32 268	9 045
<b>1993</b>	9 483	6 805	<b>2007</b>	41 658	16 965
<b>1994</b>	9 563	6 379	<b>2008</b>	44 527	23 405
<b>1995</b>	9 161	6 644	<b>2009</b>	50 419	23 745
<b>1996</b>	9 100	6 305	<b>2010</b>	50 789	26 346
<b>1997</b>	9 622	5 964	<b>2011</b>	45 635	25 753
<b>1998</b>	11 422	5 590	<b>2012</b>	45 450	28 280
<b>1999</b>	13 807	5 997	<b>2013</b>	50 000	30 000
<b>2000</b>	14 116	6 286	<b>2014</b>	52 000	32 000
<b>2001</b>	14 612	5 535	<b>2015</b>	55 000	35 000

Source: prepared by author on the basis of <http://www.socar.az>, <http://www.azstat.org> information

All of these state once more that, though oil and gas sector is the unit economic organism, they relate to different spheres from business point of view. The relation denotes themselves in more obvious form in the division of oil and gas profits. Therefore, by including the oil and gas profits gained by objects under the decree of SOCAR, directed to the state budget by different tax form. Profit in the form of the rent from private companies and other taxes accumulated in the State Oil Fund of the Republic of Azerbaijan (SOFAR). Concretely, the main profits on the oil and gas agreements, return oil falling on the share of the state, bonus, acre account, repayments on transit tariffs and lease fee forms the admission of SOFAR. That's way, our investigative subjects has to approach the analyze of the effect of the oil and gas sector development to the economic increase and valuation in relation with it, just by this context.

#### **4. National oil strategy and its socio-economic marks**

The most successful oil strategy is implemented in Azerbaijan. It commences with the "Century Contract" having great importance in the world energy safety system, that the author was the National leader Heydar Aliyev. The way, case, terms and history leading to its signature mode the great path on memories. Therefore,

there existed complex geopolitical case in the history we belong and Azerbaijan at the beginning of 90 years of the previous century. The Azerbaijan recently gaining its independence is stated as the risky country. Because of this and other reasons, there existed cautious approach on the conclusion of capital agreement on the use of the deposits belonging to Azerbaijan sector of Caucasus. But in accordance with the resolution and successful oil diplomacy, the National leader Heydar Aliyev concluded this magnificent agreement by joint works of AChG deposit, leading the state of the worlds and oil companies in September 20, 1994 and it takes the leading place amongst historical agreement of the twentieth century. “Century Contract” brought numerous agreements as locomotive of the new stage and provided the amazing investment current to the Republic. Because of the reason, the important structure arises and modification carried out by the aim of the speed the development of the oil company. Concretely, the initial logistic projects implemented by the aim of marketing the “Azeri Light pipeline” marked high valuable Azerbaijan oil to the world market, internal (*Sanghachal, Dubandi*) and external (*Novorosiysk-Russia and Supsa-Georgia*) oil terminals reinstalled, Baku-Supsa, Baku-Novorosiysk oil line began to be used. The other important case in our oil history was the sign of documents on the transport of the raw oil by Azerbaijan, Turkey and Georgia, on Baku-Ceyhan routine according to “Ankara declaration” in “Chiragan” Palace in Istanbul in November 18, 1999. Together with the fact, the large-scale projects in the direction of the realization of oil strategy was implemented in our country.

Therefore, the modernized floating deep drilling installation named “Istiglal”, “Dada Gorgud”, “Gurtulush” and “Lider” conquering the depth layers of Caucasus was issued to exploitation, Baku-Tbilisi-Arzurum gas line was constructed, the structure of SOCAR formed on the new mobile sooth and SOCAR that is the corresponding national oil fund with high investment additionally stimulating economic development [2, 7, 10, 11, 38]. All these form the base of duties and aims of oil society turned into national oil strategy in relation with the realization of “Century Contract” and the next oil contracts. As it seen, the strategy not only marks in the local subject but also regional and global scale. Because, of the reason, the oil strategy lined the contours of development in near and middle term in four aspects - social, economic, political and technical context.

The social context cover the strengthening of the state souvenir, secure of the national safety and deepening the international integration with oil diplomacy. The economic context directed to the transference from plan economy to liberal economy, secures of economic safety and strengthens all national safety in all spheres of this base. Social context directed to comprehensive development in national welfare, science-education, health and other humanitarian sphere. Finally, Technical context cover the infrastructure reinstallation in FEC, logistic alternatives in marketing to international market, complete establishment of the national energy safety by instal-



lation of marine, railway and other transport telecommunication in modern technological system.

The production of the oil in the long-term tradition in the geography we live, has improved the form of ideological genotype in the metal value. Commencing from the industrial epochal, oil constantly takes part as the fundamental welding in the national economy life-style. It stays as the main economic sources in the valuation process of our country. The development process, new global realization make the convey of new correlation in the subject and harmony of the oil strategy inevitable.

The realization of the national oil strategy was improved by the activity of the president Ilham Aliyev. The new stage accompanied by the increase of oil and gas resources according to results investigation - discovery works, conclusion of the next international oil contracts, have turned the SOCAR into vertical integrated global company, implementation of the business projects outside the country, increase of the investment, speed of the infrastructure of FEC, gain of Azerbaijan the status of the gas producer, at the same time with wide economic and social effects increasing the welfare. Concretely the carried out expedition and drilling works in the resources increased the resources in the contract zone on "Century Contract" have increased (*initial resources accounted as 511 million tones*) twice. The resource are valued more than 1, 2 billion herein. The ACHG Deposit is in the third place according to its production capacity. The daily production in these deposits is 900 thousand barrel. It denotes that, Azerbaijan economy could get more profit in comparison with the prognosis before "Century Contract". In accordance with the account, our country could get return in the amount of 200 billion USD during 30 years exploitation period of deposits on "century agreement". Together with the fact, more than 20% of the oil extracted in this production zone and 125 million of them are oil used by Azerbaijan. In general, during all historical period 20 billion USD included to the account of SOFAR from "ACG" deposit [45].

The electric energy system of Azerbaijan increased to 6259 MVt. Azerbaijan energy production form 18,7 billion kvh nowadays (2010). 82-82% of them produced in TES (13) and the remainder in the WES (7). The alternative energy (*hybrid type solar and wind electric station in Gobustan district*) system with power were force 5 Mvt was installed herein in 2011. It should be mentioned that, 11 electric stations reconstructed in Azerbaijan during the last 5 year and two of them are thermal electric station. 1500 megawatt electric energy included to the energy system of the country commencing from the activity of the same station. During the next two years, the additional 500-600 MVt electric energy will be added to the account of the new station, being used in Azerbaijan [43]. In addition, it mission should be noted that, our republic possesses the secured infrastructure possibilities on transfer of the electric energy to all regional state, excluding Armenian.

The positives reflect that, the carry out the electric energy exchange with Turkey,

Russia, Iran and Georgia by being the export on his benefit. We obvious the secure of the energy safety in Azerbaijan by conforming the country economy with demands of the existed and in average perspective.

The existed realization denotes that, it is a long term, the other partner countries actively participate in the secure of the energy safety of our republic and its role in this direction increases every year.

All these are also valuated by this point of view that oil and gas sectors play an important role in the production of electric energy and 805 of the electric energy arise on account of this sector. Naturally, according to this 3 year final 5 million ton conventional fuel was produced on average [43].

Looking through the statistic, it is clear once more that, the capital more than 100 billion USD put on the country economy from 1995 the date of signing “Century Contract” until present. 42 billion of these capitals are capitals of oil and gas sector, that external investment form their absolute majority. As the result of it, the poverty reduced from 49% till 7,6% during the same period. The budget was in the amount of one billion, but in 2012 it reached to 22 billion USD. The exchange resources of the country preferred 40 billion USD by increasing [1,9].

The development of oil and gas sector, totally the FEC stays behind these realities and steadily stimulate the economic increase to this improvement. That’s way, it has to be stressed specially that, the national oil strategy is not only in industrial character. It is the functional management system connecting the economy, state finance and structure components of the national safety in one orbit. The realization finally reflects the fact, that reforms carried out in the oil and gas complex organically connect with reforms in the field of the state management.

The conducted analyses and assessments, at the same time new strategic valuations, documents frames accepted on geopolitics liabilities, widen of the industrial normative-legal base, works done in realization of FEC and numerous state programs in relation with socio-economic development base that, the secure of the active participation of SOCAR in the world oil business as transnational company, maximum of the gas transport by the achievement of the stable capacity in the world market and Europe, exporter oil and gas treatment industry, installation of the correthesponding chemistry complex, production, transport-communication, at the same time improvement of the social infrastructure, passage to the innovative economy and innovative humanitarian sphere have been remaining amongst the targets of the national oil strategies for the next 10 year.

Therefore, basing its powerful resource base, oil strategy will stay as the source of the strategic planning on the secure of the strengthening of national safety and there integral parts as economy, energy, transport-communication and secure of the stability of the social and economic progress.

## 5. Macroeconomic indicators of oil and gas sector and valuation of it in effect to economic increase

The importance of the oil and gas sector in macroeconomic frame accounted with the distribution comparison of the sector in GDP structure, state budget profits and external trade turnover. The optimal correlation of this same share distribution is considered important for the development. Otherwise, the case will be accompanied by fame economic phenomena called “Holland syndrome” this economic phenomena based on the theory of Heksher-Olin appeared in some countries in different years and years created the great oil industry in the practical flatness (*Norwegian, England, Mexico, etc.*). The bitter results of the economic strategy implemented by the production of the natural gas of the Netherland in the Northern Sea in 1960-1970 remain on the base of the event. Therefore, the natural gas profusion in the country improved its wide export by creating the new economic situation, at a result the state budget and its economy passed to the monopoly of the natural gas capital. As a result of the return increase, the limit of the products in the treatment industry with export direction and the increase of the insufficient commodities in the country took place. The modified cost lean in the case of the external market dependence spread the country to the hard stagnation and accompanied by the lower of returns [13, 20, 28, 39]. It has to be stressed together with that, the commodity export is not terrible opportunity. The mode cause the increase of the country economy and it cannot be gazed badly. In some developed countries as Canada, Great Britain, Norwegian and other countries the commodity export possesses the significant weight [17, 18, 49, 51]. Because of the reason, the main principles consist of the fact that, the abuse from the case is not allowed. It has to be taken into consideration that, the syndrome is not the product of the autarkical economy. Trade integration system welds it. Arising out of the fact, the oil producer countries taking mark the bitterest perspectives, the corresponding Mineral Commodity Funds are created and speculative operations on the oil returns are realized. The slender oil strategy implemented in Azerbaijan completely took into consideration all factors of the alive of this syndrome. The export selling cost defining optimally in the state budget, SOFAR classification and other macroeconomic mechanisms stay on the base of this supervision [21, 25, 37, 45].

The share of oil and gas sector in GDP structure in developing countries being the producer of oil and gas is more than 20-30%. Being of the corresponding standards 20-25% for such countries is considered optimal. Being of the amount of GDP for per capita more than 20-25\$ is conditional. The index forms 48,5% and 600\$ [27, 29, 44].

In accordance with the statistics, being 7, 9% that the increase speed of the other oil sector in 2010 preferred the increase speed of oil and gas sector. However, it has

to be implied that, the capacity of oil and sector is scaled and durable to competition, because of the reason the increase speed is not considered satisfactory. In accordance with the theoretical account, being of the increase defoliator for 20 years in the amount of 2-3, brought the more basic results [23, 31].

The table defining the main macroeconomic index system in 2004-2010 in the Republic of Azerbaijan found its reflection below:

**Table 2. The main macroeconomic indicators of oil and gas sector in Republic of Azerbaijan (2004-2010)**

Index	Measurement unit	2004	2006	2008	2010
<i>GDP by market cost</i>	million manat	8529,9	18746,2	32665,2	41574,7
<i>Real increase speed</i>	%	110,1	134,5	120,5	105,0
<i>Oil and gas sector, GDP, by the main cost</i>	million manat	2672,4	10091,7	18673,0	20165,0
<i>Real increase speed</i>	%	103,0	163,2	128,9	101,8
<i>The share of oil and gas sector in GDP</i>	%	31,3	53,8	57,2	48,5
<i>All industries</i>	%	38,3	57,2	60,2	52,6

Source: prepared by author on the basis of <http://www.socar.az>, <http://www.azstat.org> information

As it seen from the Table 2, the increase of oil and gas production in 2004-2010, accompanied by the strength of oil and gas sector in GDP. It also denoted in the Table 2, that the share of oil and gas in all industrial field is more. In other word, oil and sector equals to 90% of all industrial complex according to its potential. Because of the reason, the share increase of the industrial complex on the development of non-oil sector has to be in special attention and diversification of lead industrial field is secured.

Azerbaijan was amongst leader between world countries according to the increase speed of GDP during the last 7-8 years. The average 14% annual increase increased 6,7 times during the last 15 years. The increase appeared by investments directed to oil and gas sector from 1995, construction of Baku-Tbilisi-Ceyhan oil and Baku-Tbilisi-Arzurum gas lines, dynamic cost lean in oil and gas market and on account of the 4,9 times increase of oil and gas sector in natural expression. Proportioning this increase diapason with the cost increase of hydrocarbon products in the world market, the increase of potential of oil and gas sector more than 10-12 times could

be observed. In corresponding term, the annual increase form 9% and 2,8 time increase take part in the previous term [9, 35].

In accordance with all production indexes, the statistic line relation - correlation comparison amongst oil and gas sector and non-oil sector and GDP is valued in coefficient [19, 32].

By the aim of lead of account, the correlated formula basing to the theoretical logic is defined:

$$\mathbf{R} = \mathbf{Ks/Ko}$$

**R** - correlation coefficient (**R<sub>1</sub>** - *oil and gas sector*, **R<sub>2</sub>** - *non-oil sector*);

**Ks** - correlation subject (**Ks<sub>1</sub>** - *oil and gas sector*, **Ks<sub>2</sub>** - *non oil sector*);

**Ko** - correlation subject (*GDP increase*).

The high of the correlation coefficient factors express the dominance of the correlation subject. In oppose, dependence of the correlation objects not only from correlation subject but also others are defined. By using this formula the definition of the correlation comparison amongst oil-gas sector and non-oil sector in 1995-2010 years in the Republic of Azerbaijan is defined:

Indicators:

*Increase in Oil and gas sector*      1100%;

*Increase in Non-oil sector*            280%;

*GDP increase*                            570%;

In the case of account of Oil and gas sector:

$$\mathbf{R}_1 = \mathbf{Ko/Ks}_1 = 1100/570 = 1,93;$$

In the case of account by Non-oil sector:

$$\mathbf{R}_2 = \mathbf{Ko/Ks}_2 = 280/570 = 0,49;$$

It is seen by account done on correlation factors that the increase on the oil and gas sector during the last 15 was in leading character and had a great role on the development of GDP. The less of correlation factors of oil and gas from this unit proved it once more. In other part, the realization is that, in correlation of oil and gas sector increase the speed to non-oil sector, the dominancy possess to the oil and gas sector.

All these display the leading role of the national oil and gas in economic increase during the previous years in perspective point of view. Of course, the account by this statistic method personifies the mathematical dependence of modified. However, univocally realization is that, the country economy advance by vectorial line of oil

and gas sector nowadays. Because of the reason, GDP and oil-gas sector correlation has to severely be accepted. The corresponding account could be carried out in this circle from perspective point of view. Non-lead of account of more long terms related by inbeing of the resolute definitions in relation with some increase indexes. Therefore, in the case the average annual speed of economic increase in the republic are taken as 5-7%, so the average index of GDP increase will be in the amount of 53,5 billion manats in 2015 year (*prognosis is 43,5 billion manats in 2012*), it means, will be more than 23% in comparison with 2012. The increase in oil and gas sector (*in the amount of middle world development oil and gas cost*) will coincide with GDP increase in pessimists scenery and coincide is in the optimist scenery being 2-4%. Such kinds denote that, in the case of non-achievement of dynamos lean in oil and gas sectors, will adjoining together with the increase in oil and gas sector. By the decrease of the oil products in the last stages, the comparison will soften. The parallel will be certainly observed during the same period, in the case of imply the rational increase in oil and gas production in the country. Adjoin of the comparisons on GDP preference will depend on the basic increase of environment in non-oil sector.

The information reflecting the GDP, oil-gas production and totally export dynamics in the country in the Republic of Azerbaijan in 1988-2011 are given below (*Table 3*).

As it seen from the information of the Table 3, the recession process in the production of oil and gas took place in 1988-1996. It has to be noted that, oil and gas production in the republic secured because of old deposits. The other constraint character of this period is connected with the fact the Soviet Union is going to be collapsed, geopolitical case in the country, region and generally in the world going to be modified. Together with it, the Garabakh was being flamed and Republic Azerbaijan regaining its dependence advanced in the initial stage of the new state construction. All these facts demand the form of the new economic relations and establishment of the supply system of oil-gas industry and infrastructure complex in new flatness. That's way, as in all old USSR, the hard economic stableness and decline lean judged in Republic of Azerbaijan [3, 11].

By analyzing the index of Table 3 on 1997-2003 we display, that the dynamism in oil and gas sector will collect turnover. It connects with the include of ACG and Shah Deniz deposits to the production sphere in oil and gas production. The oil production raised 1,7 time during this period. In natural express, the increase was equal to 6287 million oil. 20% decrease noted in gas production during the same period. The decrease took part in old deposits and was not relatively high in natural express (*1137 billion m<sup>3</sup>*). The increase of oil export took part in this term.

The information reflecting the oil products on different sources in the republic on 2005-2011 was given in the following table (*Table 4*).

In general, the economic increase at the second stage, that the development is

**Table 3. GDP, oil-gas production and totally export dynamics on the country in the Republic of Azerbaijan in 1988-2011. (%)**

Years	Real increase of GDP	Oil production	Gas production	Export in the economy of whole republic
<b>1988</b>	4,38	- 10,6	- 3,1	X
<b>1989</b>	- 8,84	- 4,3	- 6,0	X
<b>1990</b>	- 11,7	- 7,6	- 13,4	X
<b>1991</b>	- 0,7	- 1,8	- 10,4	X
<b>1992</b>	- 22,6	- 3,5	- 8,7	X
<b>1993</b>	- 23,1	0,8	- 13,6	X
<b>1994</b>	- 19,7	0,8	- 6,3	- 9,93
<b>1995</b>	- 11,8	- 4,2	4,2	- 2,38
<b>1996</b>	1,3	- 0,7	- 5,1	- 0,93
<b>1997</b>	5,8	5,7	- 5,4	23,77
<b>1998</b>	10,0	18,7	- 6,3	- 22,42
<b>1999</b>	7,4	20,9	7,3	53,37
<b>2000</b>	11,1	2,2	4,8	87,72
<b>2001</b>	9,9	3,5	- 11,9	32,6
<b>2002</b>	10,6	1,0	5,5	- 6,34
<b>2003</b>	11,2	4,2	- 11,5	19,52
<b>2004</b>	10,2	1,1	- 3,1	39,57
<b>2005</b>	26,4	429	16,2	20,23
<b>2006</b>	34,5	45,3	55,5	199,4
<b>2007</b>	25,0	29,1	87,6	63,43
<b>2008</b>	10,8	6,9	38,0	124,53
<b>2009</b>	9,3	13,2	1,5	-69,22
<b>2010</b>	4,96	0,7	11,0	45,08
<b>2011</b>	2,8	- 9,4	2,5	2,5

Source: prepared by author on the base of <http://www.eiu.com>, <http://www.socar.az> və <http://www.azstat.org> information.

conditionally accepted was equal to 1,8 time. However, the cost increase in the world oil market influenced GDP increasing. Therefore, the oil costs increased 1,4-1,5 time, nevertheless of it being slow trend during the same term.

The record indexed of the economic increase in the republic coincide with 2004-

**Table 4. Oil production of the Republic of Azerbaijan in 2005-2011 (thousand tons)**

<i>Sources</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
<b>SOCAR</b>	8 967,4	8 993,8	8 800,0	8 700,0	8 543,3	8 459,5	8 400,0
AIOC	13 247,6	23 274,2	32 907,1	33 982,7	40 224,3	40 481,4	35 100,0
<b>Shah Deniz (condensate)</b>	x	x	896,4	1 893,2	1 651,7	1 848,9	1 800,0
<b>Total</b>	<b>22 214,0</b>	<b>32 268,0</b>	<b>42 604,3</b>	<b>44 527,2</b>	<b>50 419,3</b>	<b>51 789,8</b>	<b>45 300,0</b>

Source: prepared by author on the base of <http://www.socar.az>, <http://www.azstat.org> information

2010 year. Despite the global finance crisis in the world (2008-2010) the economy of Azerbaijan has been improved. GIP rose 7 time during this period, the oil production increased 3,3 times and gas production 5,1 time [40, 41]. It has to be noted that, the average cost of one barrel of oil formed 60-70\$ during the last 7 years. It means that the cost of 1 tone of oil in the world market was around 400-500\$. The cost of the natural gas was no less than 100\$ in average index. It has to be implied that, the capacity of oil extracted during this term formed 257,5 million tones and natural gas 119,4 m<sup>3</sup> and by the current account the amount in USD will be equal to 120-140\$ billion. Together with it, the severe rise of hydrocarbon resources in the world market was accompanied by the weight of oil return Azerbaijan achieved in the international oil contracts. It has to be noted that, at the result of higher world market cost of oil, distribution proportion of the return oil amongst Azerbaijan and companies on the “Century Contract” changed to the benefit of our republic. Therefore, the distribution proportion being 30:70 until the end of 2007 was 45:55 at the beginning of 2008 and 80:20 in the second term [44]. At the result of it, the amount of oil delivering to Azerbaijan government in 2008 and benefit from its sell has significantly increased. In accordance with statics, nevertheless, the amount of the return oil delivering to Azerbaijan was 19,0 million barrels in 2006 and 30,3 million barrels in 2007, the index formed 150,2 million barrels in 2008. More than 20\$ billion come from the sell of return of the oil and gas included to SOFAR in 2006-2010 years [45]. The accumulative resource took great part on the form of return of the state budget. These returns expensed to the realization of different projects directed to the development of the country economy, at the same time needs repayment of to of the social sphere.

The Table reflecting the dynamics of repayment from the SOFAR on 2000-2011 have been issued below (Table 5).

The increase of the amount of resources parted to the social and economic development directly from SOFAR in the during last period and equally the amount of transference made to the state budget is accompanied. In accordance with statistic,



**Table 5. Repayment dynamics from SOFAR in 2001-2011**

Years	Expenses (thousand in manats)	Years	Expenses (thousand in manats)
2001	800	2007	1 061 200
2002	86 800	2008	4 291 800
2003	236 000	2009	5 294 500
2004	163 500	2010	6 385 500
2005	233 000	2011	6 886 155
2006	981 400	<b>Total</b>	25 620 655

Source: [www.oilfund.az](http://www.oilfund.az).

the special weight of transference of SOFAR in state budget returned from 8,8% in 2004, 15,1% in 2006, 35,3 in 2008 and 49,1% in 2010. Commencing from 2003 at the result of it, the annual increase speed of state budget returns forestall the economic speed. Therefore, the economic increase in 2004 was 10,2%, the budget return increase speed was 21,7%, at the same time 10,8% and 75,5% in 2008 [40, 44, 45].

The table reflecting SOFAR returns in 2005-2011 and transference directed to the state budget from there are given below (Table 6).

**Table 6. Budget transference of SOFAR expenses in 2005-2011** (thousand manats)

Years	Expenses (admission)	Transfers to state budget
2005	666 064,8	150 000,0
2006	985 938,7	585 000,0
2007	1 886 164,8	585 000,0
2008	11 864 648,1	3 800 000,0
2009	8 176 692,0	4 915 000,0
2010	12 932 600,0	5 915 000,0
2011	9 132 941,0	6 480 000,0
<b>Fund actives was 29,8 billion USD in the beginning of 2012</b>		

Source: <http://www.oilfund.az>, <http://www.economy.gov.az>

The increase fell to slender course with the regard to state budget structure. Arising out of perspective of development of non-oil sector, as one of the main economic strategy, enlarge of tax base by creation of the higher service fields and new export potential production force in the republic is prior herein. Together with it, by the aim of minimize the state budget, at the same time dependence of the country economy from oil-gas sector and equally cost lean in the world market, is considered necessary to prepare the increase speed of the budget expenses and oppose finance

mechanism in normative definition amongst SOFAR transfer. It is considered necessary to use alternative account mechanism in the direction of finance of the optimal costs in the oil world market during the year.

Together with all these, it should be noted that, the importance of oil and gas in the form of the state budget is only the limit by SOFAR. Except SOFAR, its share in tax admission is in the dominant situation. The tax repayment in the amount of 1,5-2,0 billion manats by SOCAR is made to the state budget. It is implemented by the production capacity providing the external and internal production [40, 45]. The table reflecting the production potential in SOCAR in 2005-2011 and their realization direction issued below (*Table 7*).

As it seen from the *Table 7*, the annual average index of oil deliver in SOCAR during 5-6 years was in the amount of 8,9-8,4 million tons on average 1,5-2,0 million tons raw products directed to export, remainder 7,4-6,2 million tons were processed. The major part of the products form diesel fuel (*2.4 million tons in 2010*) and benzene products (*2,1 million tons*). The majority of the benzene products, directed to the need of the internal market. 50% of the diesel fuel after the secure of internal market need was exported. Except, different engine, lubricating oils, liquid gas, stove mazut, oil bitumen, oil coke and other small components delivered to the internal and external sell. All these export products form the export potential of SOCAR together with the net oil. Azerbaijan oil - Azer Light is accepted as the natural net commodity, according to its marker types. In optimal treatment process, the quality and indicator purchased on it, in the secure of all gammas is valuated.

By approaching the influence of development to economic increase in the national oil and gas sector, we see that, it involve all-important part of tax admission.

The table reflecting the role of the oil and gas sector in the formation of the budget returns of the country in 2000-2010 is given below (*Table 8*).

As it seen from the *Table 8*, the increase index on tax admission of oil and gas sector during 10 years forestall the increase in non-oil sector. Such case took part nevertheless on the preference of corresponding differences in different years in non-oil sector. The differences could be explained by areal different tax load comparison.

The share of the oil and gas sector state in its significance both in 2012. It is implied to that, the expenses of the state budget to be 16,5 billion manat\$, GDP - 43,5 billion manats and real economic increase 5,7% in 2012. It is planned, the part relating to the non-oil sector be 8,6%, world market cost 80\$ and the level of inflation 6% [40, 41]

Made analyses and investigation demonstrate once more that, the oil and gas resources remain on the base of the fiscal returns (*relating to the state treasury*) of Azerbaijan. Three main sources as, SOCAR, ACG oil and Shah Deniz gas form it in modern opportunity. Being the factor of the force, just these three sources provide the capacious exchange to the treasure. The share of oil and gas sector of Azerbaijan

**Table 7. Production potential in SOCAR in 2005-2011  
and realization of capacity**

No.	Index	2005	2006	2007	2008	2009	2010	2011
1	Oil production	8967,4	8993,8	8800,9	8651,3	8543,3	8459,5	8450,0
2	Oil analyses	8868,0	8889,2	8720,0	8577,6	8518,3	8468,0	8400,0
3	Oil export	1506,3	1403,4	1224,0	1229,6	2485,0	2247,4	2000,0
4	Oil refining	7361,7	7485,8	7496,0	7348,0	6033,3	6220,6	6200,0
4.1	Car benzene, total	906,3	1042,7	1136,0	1307,8	1235,0	1248,9	1391,4
4.1.1	From this - to internal sell	610,2	722,2	756,3	930,0	998,5	1054,8	1100,0
4.1.2	- to export	283,5	338,9	379,7	384,7	227,2	196,8	291,4
4.2	Directly driven benzene, the total	261,0	302,3	222,6	279,6	232,6	207,8	200,0
4.2.1	from this - "Azerkimya (Azerchemistry)"	247,0	272,4	222,6	279,6	232,6	161,3	200,0
4.2.2	- to export	14,0	30,0	0,0	0,0	0,0	43,1	0,0
4.3	Reactive engine fuel	629,3	693,3	720,0	741,7	603,2	600,4	668,9
4.3.1	from this - internal sell	475,4	481,1	445,7	494,1	374,1	486,7	625,0
4.3.2	at the same time "AZAL"	451,8	444,9	403,0	460,7	358,7	464,6	600,0
4.3.3	- to export	149,2	217,0	274,3	206,5	271,7	114,6	43,9
4.4	Diesel fuel, the total	2098,6	2095,1	2117,8	2423,0	2219,7	2420,3	2174,2
4.4.1	from this - internal sell	866,3	725,4	710,8	1001,2	784,6	916,9	1000,0
4.4.2	- to export	1224,9	1406,2	1407,0	1406,8	1435,0	1533,8	1174,2
4.5	Marketable stove mazut	2421,6	2231,5	2160,5	1113,0	272,4	220,6	162,0
4.5.1	- to export	409,5	871,1	860,0	582,5	34,5	14,0	0,0
4.6	Engine fuel, the total	122,8	69,8	61,9	100,0	145,3	65,8	365,9
4.6.1	from this - internal sell	60,0	70,0	51,4	44,0	50,0	48,8	50,0
4.6.2	- to export	62,7	0,0	10,5	50,5	90,5	12,7	315,9
4.7	Lubricating oil, the total	36,8	75,6	62,0	53,0	44,2	86,5	64,6
4.7.1	from this - internal sell	27,4	31,8	17,5	15,4	12,5	11,2	11,0
4.7.2	- to export	27,9	45,2	44,5	41,8	32,1	78,0	53,6
4.8	Oil bitumen	128,3	161,9	178,8	220,1	236,4	241,5	251,6
4.8.1	from this - internal sell	96,9	143,4	156,9	190,5	222,2	228,4	240,0
4.8.2	- to export	32,1	17,8	21,9	28,8	13,5	14,0	11,6
4.9	Oil coke, the total	11,6	67,2	78,2	168,9	220,8	267,5	213,4
4.9.1	from this - internal sell	1,6	5,9	1,7	7,7	7,4	6,5	7,0
4.9.2	- to export	10,0	61,4	76,5	161,3	119,8	389,9	206,4
4.10	Liquid gases, the total	132,7	148,0	157,0	181,1	173,3	214,0	268,9
4.10.1	from this - internal sell	109,1	102,5	120,6	94,8	83,8	80,8	85,0
4.10.2	- to export	23,7	46,1	36,4	82,2	92,0	133,3	133,9

Source: prepared by author on the basis of <http://www.socar.az>, <http://www.azstat.org> information

**Table 8. Tax admission to the state budget in the Republic of Azerbaijan in 2000-2010**

Index	2000	2005	2010
Tax admission	510,4	1427,7	4292,8
Oil and gas sector	211,0	542,1	1934,7
Increase index of tax admission in comparison with 2000	-	2,6	9,2
Non-oil sector	299,4	885,6	2358,1
Increase index of tax admission in comparison with 2000 ( <i>time</i> )	-	3.0	7,9

Source: Maharramov R.B. *Form of problem and development of tax system in the Republic of Azerbaijan. Baku: "Mars print" 2011, 310., <http://www.azstat.org>.*

expressed as 92-95% are in the export. It bases the fact that the strategically programmed duties prepared for the development in the oil and gas sector during 10-15 years. In such cases, the influence of the oil and gas sector in the secure of the stable economic increase in the country will be strengthened.

## 6. The development problems and perspectives of oil and gas sector

The problems will take place in the field of oil production and secure, in relation with the exploitation terms of deposits in SOCAR during the next decade. It is natural case. Therefore, the exhaustion of production in deposits produced by extensive and intensive methods during long century will inevitable.

As it is known, the deliver of the oil is going to be reduced to 6,9 million tons in 2025 by 1-2% decrease speed. The number of population will increase 22% during this term and rise to 11 million from the present 9 million. The social effects will increase by gain economy strength and the welfare of people increase. The convenient social case is accompanied by the increase of demands. In such case, the number of cars being more than 1 million will rise to 2 million on average increasing twice in 2025.

The needs to the car benzene is 1,1 million tone and the needs to diesel fuel is 1,2 million tons. In accordance with the account needs on benzene is going to be 80% and increase 2 times on diesel fuel. The oil treatment has to increase 50% and be 9 million tone in 2025 from present 6 million. Oil treatment deficit on the car fuel will increase to 2,5 million. In such case the deliver of naphtha to oil-chemistry industry from oil refining plants will be stopped. The case will effect to product issue possibilities of the oil and gas sector and the process to find its reflection in GIP increase speed.

The effect will be branchy via the development scenario. The decrease of the oil

production in SOCAR will be reflected on its capital capacity and exchange admission. Its effect to the economic increase in the country will be limited. By the other hand, the transport sector of the republic will injure from the deficit and be face to face with the need of creation of the new supply system. Of course, SOCAR will fill the oil lose in GDP sector with the increased gas production. The decrease of oil production will certainly effect to gas production. The special peculiarities have also to be taken into consideration that, the natural gas is dominant in global energy balance nowadays. Then world passed to the natural gas production period. These are sometimes called “Methane epoch” too. As stressed, the natural gas resources of Azerbaijan are also a great potential. Its use term will cover the term more than 100 years in optimal view. In the stable secure of the social and economic rise from these resources will be taken more benefit.

As it known, the remainder part of the region gas after lay produced in the frame of the “Century Contract” is delivered to Azerbaijan freely. Except, the free gas delivery is implemented to Azerbaijan on “Shah Deniz” project.

The information reflecting the gas production, delivery and export in 2005 -2011 is given on the table below (*Table 9*):

The good scenario arose other perspective. Nevertheless, the increased gas po-

**Table 9. Gas production, delivery and export in 2005-2011 in Republic of Azerbaijan**

Sources	2005	2006	2007	2008	2009	2010	2011
<b>Gas production (million m<sup>3</sup>)</b>							
SOCAR	3 930,6	4 456,0	5 998,0	7 752,6	6 910,0	7 179,0	7 100,0
AIOC	1 887,7	4 574,0	7 7030	8 442,0	10 590,0	12 275,0	11 700,0
Shah Deniz	-	14,8	3 264,0	7 210,8	6 245,0	6 893,0	6 700,0
The total	5 818,3	9 044,8	16 965,0	23 405,4	23 745,0	26 347,0	25 500,0
<b>Gas delivery to the republic (million m<sup>3</sup>)</b>							
SOCAR	3 310,1	3 799,0	5 220,4	6 776,3	6 084,4	6 314,6	6 317,1
AIOC	1 713,2	2 140,6	2 317,2	2 096,7	3 879,6	3 402,6	3 291,7
Shah Deniz	-	4,7	1 594,0	2 365,7	830,4	1 792,3	2 141,6
The total	5 023,3	5 944,3	9 131,6	11 238,7	10 794,4	11509,5	11 750,4
<b>Gas export from SOCAR (million m<sup>3</sup>)</b>							
Georgia	0,0	19,5	268,9	28,3	513,0	339,2	773,9
Russia	0,0	0,0	0,0	0,0	0,0	799,8	1 501,0
The total	0,0	19,5	268,9	28,3	513,0	1 139,0	2 274,9

Source: prepared by author on the basis of <http://www.socar.az>, <http://www.azstat.org> information

tential of the republic, the necessity of the creation of corresponding production structures and rationally use of them coming across from economic reality and ecological needs.

For the next development stages, we could rationally use the gas resources in all spheres of economy arising out of the long targets of the oil strategy, especially in open of the new product fields with gas and energy capacity, creation of the strong gas technopolice and in the development of the gas-chemistry industry. Together with it, we will secure the deliver of free deliver of the produced gas to the population. This scale form 2-2,5 m<sup>3</sup> billion nowadays. Our natural gas resources in 1000 times more than this capacity. In such case, the portion of the natural gas resources to each person will be provided more with an address. In economic language, each country citizen will get the country rent.

In accordance with the account, commencing from 2015 the gas delivery capacity will enlarge in the country and be 3,5 billion times more in comparison with present. Being equal to 45% in 2017-2023 will reach to peak limit to 16 billion m<sup>3</sup>. It means, there will 14-15 billion m<sup>3</sup> (*on average 75:25 in the direction of natural and region gas*) gas resource on average from fuel and energy balance. The rational use perspective makes the treatment of all capacities the conditional [42, 44].

In accordance with the processing technology, the methane used in the life and energy production form the 85-90% of the natural and region gas mixtures, the remaining part is formed by ethane, propane and other being the valuable commodities of the gas and chemistry [14, 23]. The rational processing in this capacity is inadmissible form in Garadagh Gas Processing Plant ending its exploitation term and not answering the ecological requirements. Because of the reason, the innovative modern type, small and big plants not injuring the environment, according to modern technological norms and delivered to gas capacity have to be built in our republic and gas and chemistry complex on the base of its valuable component production to be created.

In general, the existed and perspective hydrocarbon resources of the country have to be taken into consideration on the form of the oil and gas processing and oil and gas chemistries industry. Therefore, only 4-5 billion m<sup>3</sup> of the delivered gas was sent to the treatment. Because of this reason, the other magisterial lines have to be made, the lines to be pulled on branches in the corresponding capacity by the aim to bring the other gas capacities to the country. The constructed gas plants have to be constructed on technological system, that productive capacities will enlarge. During the next decade, nevertheless of the gas capacity to be changed amongst 14-15 billion m<sup>3</sup>, on average 12,5-14,5 billion m<sup>3</sup> raw gas will be created every year for production, in the case of the possibility to implement its complete treatment. The remainder part will be equal to 1,2-1,4 million tons ethylene-propylene commodities and the base of it on average 1400-1600 thousand tone/year polyethylene in higher and lower

capacity, 100-150 thousand tone/year polypropylene and 70-80 thousand tone/year benzene production will be produced. Except, 1 million tone azotes fertilizer (*carbamide*) production and supporting to methanol production in the same capacity will be implemented on the 0,5 m<sup>3</sup> resource base. All these products will secure the admission of the foreign exchange equal to million USD every year to the country treasury by its high export ability.

All these and other problems have to find the solution in energy strategy having the necessary bases for its use from conceptual point of view. Arising out economic and energy safety principles, the energetic strategy have to be used by the rational use of the natural energy and fuel-energy resources, their ecology, the geopolitical role of the country, interest of the producers and economic subjects being the producer of the country of the state and energetic resources, FEC perspective and during implementation of normative-legal and finance-economic mechanisms implying the economic development of the republic and country.

Arising out all these, long-term energy strategy, as in the real market countries have to be prepared for more secure of the energy safety and make substantial the national energy independence. The necessities found their expression in the significance of FEC in the country economy, the substantial and important role of energy resources in all life ability fields of the national economy, modernization of oil and gas sector, improvement of oil background, more improvement of the social welfare, Azerbaijan increased geopolitical potential and needs of globalizing of the world market. The analogical energy strategy is implemented in the new system in Turkey, Russia, People's Republic of China, being the integral part of the program of modernization and development of the country, in apart, Ukraine and other countries accounted to 2030. In general, Europe location, the energy strategy combine in "Energy Charter" that 50 country is represented. The energy strategy take place in the base of the assotative interest of the Shankhay cooperation Organization in the regional context [50, 52].

It should be noted that, the fuel energy complex of the Russia is in the second place because of its force. The  $\frac{2}{3}$  of expenses of the country got on the account of this complex. The energetic strategy forms the base and foundation of the economic doctrine of the country. The approach has to be adequate in Azerbaijan. The 50% of admission to the budget fall on this base. The engine of our economy move by oil [1].

The national energy strategy participate on the energy social document of the state being the aims and duties for the concrete period by implying the role of it in the integrity of the economic location of the natural energy resources and fuel-energy potential, grounding the importance of it creating social, macroeconomic and scientific-technical development. Because of the reason, it is necessary to implement the complex measure being necessary by the state in the direction of prepare of it. It is considered necessary to make certain necessary measures for these. The state

programs on the energy effective in the direction of increase of rationality and the optimal development of the republic economy were implemented. Economical technologies and innovations be applied on the energy production, the car economy have to act in the lower energetic return system. In bad development scenario, by the aim liquidation of the 1,0-2,5 million tons oil deficit being arose in 2015-2025, it is implied to direct the one part of the share of oil in ACG to the treatment, purchase of ready car fuel and net resources from foreign countries.

It has also to be mentioned that, together with the oil and gas resources, the condensate extracted in our republic. Averagely 400 thousand tones are produced from our sea deposits every year. The capacities extracted to the shore by mixing with the other oil in existed collection system. The transport of condensate from the sea to the dry implemented only in Shah Deniz deposits. By mixing with ACG oil in Sangachal, the products are transported to Ceyhan by BTC line. As it seen, it is used rationally more than hydrocarbon products. That's way the separate transport systems has to be created in connection with the condensate and chemical products on the account of this resource to be formed. In general, the optimal of the industrial force of oil treatment and the oil-chemical industry of the republic, increase the quality and enlarge of assortment and basic reconstruction works for the transition to the demanded products in the last production in the midst product manufacture to be carried out and new production field has to be build and deliver for exploitation.

## 7. Conclusion

In accordance with the carried out analyses, the effect of the development of oil and gas sector to the economic increase is very important. That's way, it is importantly necessary to use and implement the optimal scenario of the rational use of the oil and gas resources in the next decade from the point of view of the energetic and economic safety. The following results and suggestions are defined by the aim of accuracy this strategic importance:

- ⇒ The sector division of the economy, oil and gas sector functional definition interprets in the new methodological approach and base on the frame of the economic opinion. National oil and gas sector and their consequence generalize in connection with its relation in sector classification of the economy was presented.
- ⇒ The resource base of the national oil and gas sector, the modern case of the infrastructure complex, problems and potential possibilities have been analyzed and valuated. Geological-economic accounts based that the resource grounded of the national oil and gas sector by comparative analyze on the frame of the corresponding index is enough until 2050 on oil, but the natural gas is enough till the end of the century.



- ⇒ The correlation comparison in the statistic line amongst oil-gas sector and non-oil sector with GIP valuated in the coefficient expression. It was defined that, during the last 15 years all production index is preserved, the increase took place in the oil and gas sector was in the leading character and played important role on the development of GDP. By the other hand, the existence of oil and gas sector to the dominance of the increase speed of the oil and gas sector to the correlation of non-oil sector was based.
- ⇒ The role of the national oil strategy in the social economic life based on the new scientific valuations and conceptual directions of the social-economic targets displayed on the aspect of the new form.
- ⇒ The exhaustion of product in the old deposits, carry of the investment made in this direction and in general, speed of modernization of FEC defined as the main problems in the development of the national oil and gas sector.

Investigations made in connection with the development perspectives of oil and gas sector exact once more that, the GIP will increase 53-55 billion in 2015 on average index by 507% average annual speed of the economic increase in the republic in 2013-2015. In accordance with the account, the increase in Oil and gas sector (*in average world development of oil-gas cost*) will coincide with GDP in pessimist scenario and prevail it in optimal scenario being 2-4%. In the case of non-achievement of the dynamism leans in the oil and gas sector, the economic increase will step together with the increase in oil and gas sector until 2015. In the next stages, the comparisons will soften by the decrease of the oil products. In the case of imply significant steps in the gas production in the country in 2020-2040, the parallel will certainly observe during the same term.

#### References:

1. Azerbaijan statistic index. (2011). State Statistic Committee of the Republic Azerbaijan. Baku, "Small company" №9, p. 848.
2. Aliyev H.A. (1997). In Azerbaijan oil world society. Baku, p. 478.
3. Aliyev T.N., Babayev M.T. (2003). Economic potential of oil-gas extracting industrial company. Baku, Azernashr, p. 264.
4. Hajizadeh E.M. (2000). On the eve of the new reform of energetic complex. Baku, Science, p. 257.
5. Hajizadeh E.M. (2001). Azerbaijan natural gas potential: realization and virtual lines Baku, Science, p.186.
6. Hajizadeh E.M. (2002). Economic development model of oil-gas extract. Baku, Science, p. 472.
7. Hajizadeh E.M., Abdullayev Z.S. (2003). Economic structure modernization of oil economy. Baku, Science, p. 512.
8. Hajizadeh E.M. (2006). Socialized economy. Baku, Science, p. 509.
9. Independent Azerbaijan - 20. (2011). State Statistic Committee of the Republic Azerbaijan. Baku, "Small establishment № 9", p. 640.
10. Safarov G.A., Dadashova K.S. (2011). Quality and competitive ability of product in oil and gas complex. Baku, Science, p. 224.
11. Aliyev I.G. (2003). Azerbaijan Caucasus oil. M., Information, p.798.
12. Akhinov G.A, Jilchov E.N. (2008). The economy of the general sector: manual, M., INFRA-M, p. 345.
13. Bush Jeims, Johnstone Daniel. (2003). Management of finance of international oil company M., ZAO "Olymp-Business", p. 432.
14. Griy Forest. (2004). Oil supply. M., ZAO "Olymp-Business", p. 416.

15. Johnstone Daniel. (2005). Analysis of geological survey economy, risk and agreement in international oil and gas resources. M., ZAO "Olymp-Business", p. 464.
16. Yequerov V.I., Pobedonosheva N.N., Pavlinich E.A., Siramyatnikov E.S. (1984). "The economy of oil and gas extract resources. M., Nedra, p.256.
17. Ergin D. (1999).Dobicha. Wordly historical was on oil, cash and force M., Denova, p. 968.
18. Jan Tirol. (2000).Market and market power: the theory of industrial organization. In 2 volume. M., The economical school.
19. Kozirev V.M. (2000). The base of the modern economy. M., Finance and statistic, p. 367.
20. Kochetkov A. (2004). The base of the economic theory. M., Dashkbov and K<sup>O</sup>, p. 492.
- 21.Kollon M.(2004). Oil, PR, war: global control of the resource planet. M., Krim bridge мост-9D. p. 414.
22. Kuznechova A.I.(2006). Infrastructure. Theory, methodology and application of the modern infrastructure installation. Geo-economic passage. M., Higher school, p. 456.
23. Leffer Uilyam (2005). Oil treatment. M., ZAO "Olymp-Business", p. 224.
24. Maherramov R.B. (2011). The problem of the form and development of the tax system of Azerbaijan Republic. Baku, "Mars print", p. 310.
25. Maksimov V.A., Anoshin V.V., Chernov I.L. (2000).The investigation of the basic energy carrier. Ufa, BSU, p. 561.
26. Mir Babaev, M.F. (2009).The short history of Azerbaijan oil. Baku, "Azernesh", p. 376.
27. Mirzajanzadeh A.Kh., Sultanov Ch.A. (1994). The problem of the oil conception of Azerbaijan . Baku, p. 100.
28. World economy (*uncder edition, prof. Yu.A.Sherbina*). (2004). M., Yuniti-D, p. 318.
29. Mishenko I.T. (2003). Borehole achievement of oil. M., "Oil and gas" RSY Oil and gas named after O.M.Gubkin, p. 816.
30. Osbrink B. (2003).The emporium Nobel: the history on the substitutive sewed. Baku oil and revolution of Russia. M., Text, p. 409.
31. Ostalskiy A. (2009). Oil: Gold and monster. M., Amphora, p. 256.
32. Nosova S.S. (2007). Economic theory. M., "VLADOS", p. 272.
33. Natural gas (*under edition R.Basbi*). (2003). M., ZAO "Olymp-Business". p. 240.
34. Perchik A.I. (2002). Tubing right: Oil and gas. p. 366.
35. Samedzadeh Z.A. (2004). "The stage of the great path - the economy of Azerbaijan for half of century, its realization and perspective. Baku, Publishing-polygraphic center "NURLAR", p. 936.
36. Social economic geography of foreign worlds (*under the redaction of the member of correspondent RAN honored professor MSU.V.V.Boljskovo*) (2003). M., Drofa,p. 190.
37. Timmi Bob. (2005). Are there any deficit? Alphabet of the oil economy. ZAO "Olymp-busness", p. 328.
38. Mushfiq Atakishiyev. (2007). New oil policy and economic development in Azerbaijan. Baku, "Aspoligraf", p. 400.
39. Leamer E., (1995), The Heckscher-Ohlin Model in Theory and Practice, (*Princeton Studies in International Economics*), p. 320.
40. www.azstat.org - State oil company of the Republic Azerbaijan.
41. www.economy.gov.az - The Ministry of Economic development of the Republic Azerbaijan.
42. www.mie.gov.az - The Ministry of industry and energy of the Republic Azerbaijan.
43. www.azerenerji.com - "Azerenerji" OJC.
44. www.socar.com - SOCAR.
45. www.oilfund.az - SOFAR.
46. www.elshanhajizadeh.com - prof. Elshan Hajidazade site.
47. www.e-qanun.az. - The Legislative acts of the Republic Azerbaijan.
48. www.bp.com - BP-Azerbaijan.
49. www.un.org. - United Nations Organization.
50. www.europa.eu.int - Europe Community.
51. www.iea.org - International Energy Agency.
52. www.Oilegaz.ru. - Oil and gas portal of Russia.