MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE ECONOMIC UNIVERSITY

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MASTER DISSERTATION

ON THE TOPIC

"HISTORY DEVELOPMENT OF THE ENERGY PROFILE OF THE REPUBLIC OF AZERBAIJAN AND THEIR IMPACT ON EU ENERGY SECURITY"

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BAKU - 2019

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“Azərbaycan Respublikasının enerji profilinin tarixi inkişafı və Avropa İttifaqının enerji təhlükəsizliyinə təsiri”

Xülasə

Tədqiqatın aktuallığı: Hər hansı bir ölkədə davamlı sosial-iqtisadi inkişaf, müasir dövrdə regional və beynəlxalq əməkdaşlığın genişləndirilməsi və dərinləşdirilməsi yolu ilə milli iqtisadiyyatın dünya iqtisadiyyatına səmərəli inteqrasiyası olmadan tamamilə qeyri-mümkündür.

Tədqiqatın məqsədi və vəzifələri: Tədqiqatın əsas məqsədi Azərbaycanın qlobal enerji bazarında oynadığı rola diqqət yetirmək və Azərbaycanın milli enerji strategiyasının həyata keçirdiyi enerji təhlükəsizliyi siyasətinə baxmaqdır.

İstifadə olunmuş tədqiqat metodları: Dissertasiya işi yazıldığı vaxt müddətində müqayisəli təhlil və siztez, antintez və bununla yanaşı ümumiləşmə və hətta sistemli yanaşma metodlarından istifadə edilə bilmişdir..

Tədqiqatın informasiya bazası: Enerji təhlükəsizliyinin təmin edilməsi sahəsində elmi tədqiqatların geniş spektri və problemlərin tədqiqində elmi abstraksiya, məntiqi və tarixi əlaqə kimi metodlardan istifadə etməklə faktlar toplanıb ümumiləşdirilmiş, onlar arasında qanuna uyğun və təsadüfi əlaqələr müəyyənləşdirilmiş, xarakterik olan əlaqələr aşkara çıxarılmış və müxtəlif mülahizə və nəticələrə gəlinmişdir.

Tədqiqatın məhdudiyyətləri. Tədqiqatın aparılmağına əngəl olan nəzəri-metodoliji çatışmazlıqlar bununla yanaşı yetərli informasiya bazasının olmamağı əsas faktordur və s.

Tədqiqatın nəticələri: Bu gün bütün Xəzəryanı dövlətlər beynəlxalq neft şirkətlərinin iştirakı ilə kəşfiyyat işləri ilə məşğul olurlar, lakin Xəzər regionunun həll edilməmiş problemləri və yaranmış siyasi fərqlər yavaşlaya bilər, amma neftin və neftin intensiv inkişafı prosesini dayandıra bilər. Xəzər dənizinin qaz ehtiyatları. Xəzər regionunun sabitliyi və təhlükəsizliyi.

Nəticələrin elmi-praktiki əhəmiyyəti: Enerji təhlükəsizliyi üzrə tədqiqatlar müxtəlif ölkələrin bu sahədə müxtəlif siyasətlərin həyata keçirildiyini göstərir. Tədqiqat əsasən enerji təhlükəsizliyinin nəzəri əsasını, onun elmi təfsirini, xüsusən də Azərbaycanda bu sahədə siyasətə yönəlmişdir.

Açar sözlər: Avropa Birliyi, Azərbaycan, inteqrasiya prosesləri

LIST OF ABBREVIATIONS

AR	The Republic of Azerbaijan
EU	European Union
OPEC	Organization of Oil Exporting Countries
HR	Human Resources
SGC	Southern Gas Corridor
TANAP	Trans Anatolian Gas Corridor
TAP	Trans Adriatic gas pipelines

CONTENTS

INTRODUCTION

The actuality of the subject. Continuous socio-economic development in any country is unequivocally impossible without the effective integration of the national economy into the world economy by expanding and deepening regional and international cooperation in modern times. It is conditioned by the fact that countries that are actively involved in regional and international cooperation and integration processes have more opportunities to pay more for the needs of the society, to form the national economy's efficient structure, to acquire modern techniques and technology, and to adopt advanced governance practices. On the other hand, these countries are gaining more favorable conditions for more effective realization of the advantages they have in regional and international division of labor, as well as economic and national security, by expanding the scope and scope of their economic space.

Statement of problem and level of learning. Recently, global economic security has been widely discussed in almost all multilateral forums and conferences. At the same time, we can say that the concept of energy security does not have its own unified meaning, and in some cases the values that countries invest in this concept are completely opposite to each other. However, in the context of understanding this concept as a global security, energy security does not only mean preventing conflicts between suppliers and consumers, within the group of supplier countries and within the group of consumer countries in the fight against energy resources, but also expanding access to energy. In the study of these problems Aliyev N., Abbasov Ch.M., Bayramov A.I. others, their works, articles and other academic resources were used.

Purpose and objectives of the study. The main purpose of the research is to pay attention to the role played by Azerbaijan in the global energy market and to look at the energy security policy pursued by Azerbaijan's national energy strategy. From this point of view, it has become an objective necessity to effectively integrate into the European economic space, expanding its cooperation with the European

Union (EU), one of the main centers of economic and political power in the world, which is currently expanding its scope and influence.

Taking into consideration the development trends of the integration processes within the EU as well as the opportunities created by the ENP and the SC in the international and regional level, including the study of the development features of the process of integration of Azerbaijan into the European economic space and the analysis of the current situation, and defining the deficiencies, defining directions, capacities and mechanisms for strengthening this process constitute the main purpose of the dissertation work.

In order to achieve this goal, some tasks have been put in the dissertation work and implemented in a logical sequence. The essence of the EU Energy Policy, development trends, the analysis and evaluation of the legal and institutional bases of the mutual economic cooperation between the Republic of Azerbaijan and the EU, the theoretical and conceptual foundations of the integration processes within the EU, including the EU, determination of the actual positions in the field of integration, the directions and mechanisms of strengthening this process, etc. Detailed information was provided.

The object and subject of the study: the study of the legality, theoretical and practical issues of European energy policy and development of Azerbaijan's EU involvement in the EU.

Theoretical and methodological basis of the research is the regional integration theories, existing scientific and experimental works in the direction of research, the relevant legislative acts of the Republic of Azerbaijan and the EU and other legal-normative documents.

Research methods. Comparative analysis, generalization and systematic approach were used in the dissertation work.

Information and empiricial base of the research. Source of information in the dissertation, Abbasov Ch.M., Ways of integration of Azerbaijan in world economy, Aliyev N. = Petroleum geopolitics and "residual economy". "Tower", Campbell CJ., (2010). "Peak Oil Presentation at the Technical University of

Clausthal". Archived from the original on July, Greenberg R. S., (2006) Russia and the European Union: How to Combine Their Interests and Values Political Journal., other Azerbaijani and world economist scientists and internet resources.

Limitations of research. Theoretical and methodological shortcomings that are hindering the research, lack of sufficient information and so on.

The result practical and scientific application. Research on energy security shows that different countries have been implementing different policies in this area. The research focused primarily on the theoretical basis of energy security, its scientific interpretation, particularly in policy in this field in Azerbaijan.

The statistical reviews, reports, bulletins of the relevant scientific research institutions of the Republic of Azerbaijan on Foreign Economic Relations, Economic Development, Agriculture, Finance and Taxes, State Statistical and Customs Committees, Central Bank, EU and other international organizations, as well as national legal acts and materials collected from other sources.

Scientific-practical significance of the results. Findings from the results obtained as a result of the approval, as well as their suggestions, suggest that it is a very relevant topic

Structure and volume of the study. The structure of the research work is systematically structured logically consistently. The dissertation covers 82 pages of entry, 3 chapters, 9 paragraphs and result sections

I Chapter THE STRUCTURE OF THE ENERGY SECTOR OF AZERBAIJAN AFTER INDEPENDENCE

1.1. The important role of crude oil in the energy profile and its impact on the economy

Developing, humankind begins to use all new types of resources (atomic and geothermal energy, solar, hydropower tides, wind and other sources). However, the main role in providing energy to all sectors of the economy today is fuel resources.

Energy resources play a leading role in the modern economy. The level of development of the productive forces of each state is determined to a large extent by the scale, "consumption of energy resources. The important role of energy resources is evidenced by the fact that more than 70% of the minerals extracted in the world are energy sources.

The main types of energy resources are coal, oil, natural gas, hydropower and nuclear energy.

The development and existence of many (if not all) sectors of the economy is directly dependent on the supply of oil, gas and products of their processing. In the modern world, the level of consumption of oil, oil products and natural gas is one of the most important indicators of the level of development of the entire economy. Therefore, the place that will be occupied by oil, gas condensate, natural and associated gases in the world economy and the energy balance of 2000 depends critically on the role they will play in the production of electricity, heat, various motor fuels, petrochemicals, the development of synthetic food products, in construction and other spheres of social production (Oil Industry (magazine)., 2014).

One of the factors determining the differences in the nature of the movement of prices for oil and natural gas is the composition of consumers of these energy carriers.

The main directions of spending natural gas are heating of dwellings, use by trade enterprises and other small consumers. The role of all these consumers in the world economy and in world energy consumption is constantly growing. The

demand for natural gas is also growing. The prices of GHGs are, to a certain extent, independent of the price of oil.

Since the mid-1960s, oil and natural gas have begun to play a leading role in global energy. In countries such as the FRG, Great Britain, the share of oil and natural gas accounts for 55-60% of total energy consumption, in the USA and Japan 75-80%.

The economy of Azerbaijan depends heavily on world oil prices. Demand in the world oil market, as in many other industrial markets, is saturated, which is why world oil consumption is growing slowly, and the prices for it are kept at a relatively low level. Saturation of automotive markets limits the growth of world gasoline consumption, so the depth of oil refining is very slowly increasing. On the other hand, there is a relative and even absolute reduction in fuel oil consumption caused by low prices for coal and natural gas. All this taken together reduces the role of oil in the world economy and makes the prospects of rising prices for it extremely illusive ("EIA Energy Kids - Oil (petroleum)", 2017: p.25).

Due to the fact that the gas production areas are far from the areas of its consumption, in the long term it will be necessary to provide for its transportation to longer distances. Therefore, in order to meet the demand for gas in the coming decades, it is planned to send significant investment resources for the production and delivery of gas to the consumer. Analysis of the explored gas reserves showed that Russia and Iran have 50% of the world's reserves. Therefore, it is logical that in 2030 the main exporters of gas will be the countries of the Middle East, countries with economies in transition and Africa. Gas exchange between regions is growing very rapidly. In this case, the key role will be played by the countries of the Middle East, they will remain the largest exporters and at the same time expand their spheres of influence in all markets. The value of liquefied natural gas will expand in the structure of exports. Dominating the oil market, the countries of the Middle East are also indispensable key players in the natural gas markets.

In Azerbaijan, natural resources play an exceptionally important role in the economy. Only extraction of minerals provides at least 25% of GDP and about 50%

of foreign exchange earnings, excluding economic and social effects in related industries. According to some estimates, 70-80% of the national income is generated from natural resources.

The merits of oil and gas as sources of energy include relatively low production costs, the possibility of non-waste processing with the receipt of a variety of fuels and chemical raw materials. However, oil and gas resources are limited. They are much smaller than the reserves of coal, oil shale and tar sands. At the same time, oil and gas production is much higher than that of other fossil fuels.

The high level of oil consumption in the world serves as the basis for the hypothesis of a number of scientists and specialists about the inevitability of the rapid depletion of oil reserves. The point of view on the exhaustion of world oil reserves by the end of the 21st century is most often expressed (Oil Industry (magazine), 2014).

In conditions when oil became the main type of energy raw materials, its economic and political importance in the world increased. Presence of own oil resources, the ability to organize the export of oil and oil products allow various states to achieve significant success in economic and social development. At the same time, fluctuations in world prices for oil and the conjuncture in the oil market lead to serious changes in the economic policies of both the oil-producing countries and the states whose industry is based on imported oil.

World oil prices in recent years have been unstable. In the first years after the Second World War, oil prices were dictated by the International Oil Cartel, in which US oil monopolies dominate. The cartel bought oil from its exporters - developing countries at monopoly-low prices (in 1970 - 22 dollars per 1 m3), and sold oil products to the importers at relatively high prices. Such a situation could not be arranged by developing countries, which in 1960 created an Organization of Petroleum Exporting Countries (OPEC) in order to protect their political interests, fight against oil monopolies and pursue a coordinated policy in the field of oil exports. OPEC includes Iraq, Iran, Kuwait, Saudi Arabia, Qatar, Abu Dhabi,

Venezuela, Indonesia, Libya, Nigeria, Algeria, Ecuador (Gasoline as Fuel – History of Word Gasoline - Gasolin and Petroleum Origins"., 2013).

Given the sharp increase in demand for energy raw materials in the world capitalist market, OPEC countries in 1972-1973. increased pressure on oil monopolies and raised oil prices fourfold. The rise in oil prices has led to disruptions in the supply of oil to a number of capitalist states, and in the future to its acute shortage. These events are called the energy or oil crisis.

Western countries took a number of measures to reduce their dependence on oil imports by expanding their own raw materials (coal, oil), saving petroleum products, using various other types of energy (solar, nuclear, geothermal). Under the influence of these factors, the price of oil in the world market has decreased. In 1980, the average level of world oil prices was $ 190 per 1 m3. and in 1987. 113 dollars. At the beginning of 1995, the world price of oil fluctuates within the range of PO-120 dollars per 1 m3.

Azerbaijan not only fully meets its need in oil, but also is an exporter of oil and oil products. Azerbaijan oil is supplied to the countries of near and far abroad. Thanks to the sale of oil and natural gas on the world market, Azerbaijan receives a significant amount of currency, which is spent on the purchase of various industrial and food products.

Thus, the welfare of all citizens of Azerbaijan and the entire population of the world is directly related to the fuel and energy complex.

Of great importance in the country's economy is the oil and gas sector that is part of the fuel and energy sector. The internal structure of the state is radically reconstructed. The process of reorganizing the administrative space is unfolding. At the same time, oil and gas remain the most important sources of income in the currency for the whole country.

The oil and gas complex for many years has significantly strengthened its position in the country's economy. As for the general situation of the oil and gas complex in the Azerbaijani economy, the industry has to a much lesser extent affected the decline in production. Moreover, raw materials industries have

advanced to the leading positions in the national economy of the country (Lawrence K., 2010: p.25).

Indeed, the fuel and energy sector provides at least 50% of foreign exchange earnings to Azerbaijan, and it supports the ruble exchange rate. High revenues to the country's budget from excise taxes on oil and oil products.

It should also be noted that most of the processing industries proved to be unprofitable because of excessive energy intensity, several times higher than world standards, formed under the influence of the fuel and energy crisis of the 70s-80s. In this situation of decline production, non-payments, social tension and unemployment, a relatively stable and export-oriented oil and gas complex is becoming a truly vital element in the structure of Azerbaijan's economy, an industry that can support the more high-tech and knowledge-intensive modern industries. However, till now the processing industries of the country are in deep crisis (Zhiguo, G., 2012: p.45).

A significant part of the revenues from the company's activities today is in petroleum products and petrochemicals. More than 10 billion manat falls on allocations to the budget and taxes. Due to these revenues, a large number of vital projects of Azerbaijan are being realized.

"We have recently celebrated the opening of the Baku-Tbilisi-Kars railway. The commissioning of this railway is a historic success for the people and the state of Azerbaijan. We know today, and in the future, everyone said at the ceremony: "where did the financial source come from, does it come to the State Oil Fund and the State Oil Fund?" At the expense of oil workers". it produces two billion tons of oil.

Work of oil workers has always been honorable in Azerbaijan. From oil extracted in Azerbaijan much depended throughout the XX century, and depends today.

As the head of state said, today Azerbaijan has ensured economic independence. Economic independence is the basis of political independence.

“Economic independence is ensured at the expense of oil workers, so everyone knows that for years the country's oil and gas sector will be our main support, so the Azerbaijani state and oil companies must make every effort to develop. this sector,” he said.

"Special attention has been paid to this area over the past 15 years, it will continue to be paid, we have achieved historic successes in these years, the Baku-Tbilisi-Ceyhan oil pipeline was put into use in 2006, our national leader Heydar Aliyev laid it, so we have achieved a great income, and a year later the Baku-Tbilisi-Erzurum gas pipeline title (Bromley S., 2013: p.95).

Thus, the extraction of oil and gas, being the backbone of the country's economy, directly and indirectly supports the development of the processing industry outside the actual oil sector.

SOCAR is now in a phase of rapid growth and transformation. The company occupies a large share in the economy of Azerbaijan, and therefore the project of implementation is important on a national scale. To improve the quality of the Company's work, it was required to reduce the time for preparing reports, strengthen financial control and transparency, standardize and automate business processes. It was also necessary to obtain reliable information in real time for correct decision making, control suppliers and customers, uniformity of HR processes, accelerate the process of calculating wages. In addition, it was necessary to reduce the risk of manipulation and fraud, automate the verification of security violations, improve forecasting and cash management, control payments, interaction with the banking system.

In recent years, Azerbaijan has strengthened its state independence - a stable social and political situation in the Republic was achieved through the development of progress towards democracy, a market economy, thereby ensuring their gradual integration into the world economy. Our company occupies a large share in the economy of Azerbaijan, many strategic issues of the company's activities are coordinated personally by the President of the Republic. Therefore, changing the situation inside the country, changing market conditions and technical

modernization required operational and specific changes in the oil and gas industry. In 2008, SOCAR adopted as a basis for its development the implementation of the SAP Implementation Program for the period 2009-2019. and subordinates to it the transformations both on global, and at an operational level (Vassiliou M.S., 2017: p.7).

Thus, the oil and gas industry is the wealth of Azerbaijan. The energy-extracting industry is closely connected with all branches of the national economy, it has great significance for the economy. Demand for oil and gas is quite stable, although it is subject to crises and price reductions, which even in tax terms can put export operations on the brink of liquidity. Therefore, practically all developed countries of the world are interested in the successful development of our oil and gas production industry, and first of all we ourselves.

1.2. Main directions of oil production and consumption

The history of industrial Azerbaijani oil production dates back 130 years, although oil has been extracted here since time immemorial.

Priscus of Pontus in the fifth century, Abu-Ishag Istahri - in the eighth, Masoudi - in the tenth, Olearius - in the twelfth, and Marco Polo in the thirteenth century, wrote about the "earth oil".

From the notes of the famous traveler Marco Polo, it is clear that already in the thirteenth century there were numerous operating oil wells on the Absheron Peninsula, and the oil extracted from them was used to treat sick people and animals and as a fuel for lighting.

Well oil production continued in Azerbaijan until 1871, and after that industrial development of the Bibi-Eybat and Balakhani fields began. The wells for this were mechanically drilled. The first such well was drilled precisely in the 1871st at the Balakhanskoye field, and from it they received 10 tons of raw material per day.

Drilling technologies were gradually improved, and a whole series of new oil fields were opened on the Absheron Peninsula - Binagada, Artem Island, Surakhani, and so on. The oil production rate increased, development of the relevant

infrastructure began, oil refining began to flourish, and the oil of Azerbaijan led to the emergence of the local bourgeoisie (Wayback M., 2016: p.63).

In the 70s of the nineteenth century, the Russian government removed the monopoly on the extraction of black gold in this not so long ago annexed by Russia country.

In 1872, two laws were passed concerning the regulation of relations in this industry. They were the “Law on oil fields and the collection of excise taxes on petroleum products” and “Law on the sale of oil deposits from auctions held by tenants to individuals”.

The first trading in the oil fields took place on December 31, 1872. Fifteen sites of the Balakhani deposit, two sites of the Bibi-Eybat field were put up on them. Their total cost was 2 thousand 975 rubles.

The tenants retained the monopoly right to set prices for exported raw materials. According to the archives, tenants received about 14-15 percent of net profit. If the search for oil was unsuccessful, the tenant could either buy the leased area, or, after clearing it, return it to the state.

In 1883, out of the 135 oil owners, there were only 17 Azerbaijanis, but at the end of the nineteenth century, the Azerbaijanis already owned 49 of the 167 oil enterprises.

The first Azerbaijani oil joint stock company was called “Baku Oil Society”. The year of its foundation is 1874th. The first kerosene plant was built in Baku in the 1859th year, and already in 1867, 15 such enterprises were already operating here.

After the excise duty on oil products was abolished in 1876, new plants began to be built even more intensively, and more and more advanced processing technologies were used. In 1876 and in 1881, they launched two new enterprises that produced lubricating oils (Mattar P., 2014: p.241).

The first oil pipeline with a length of 12 kilometers was built in the 1878th year.

He connected the Balakhani field with a plant located in Baku. In 1898, the total length of such oil pipelines was already 230 kilometers, and their throughput was 1 million tons of black gold.

Attracted the Baku “oil boom” and the attention of the “Rothschild House”, which, since 1883, engaged in credit and loan activities and oil trading in Baku. The initial amount of Rothschild capital in Baku was estimated at 1.5 million rubles, in 1895 it rose to six million, and in 1913 it was ten million.

In 1886 the Caspian-Black Sea Oil Company was founded by the Rothschilds. Since 1890, 42 percent of the export of Azerbaijani oil was controlled by the Rothschilds.

At the beginning of the twentieth century, the Rothschilds ceded all their Azerbaijani oil assets to the Anglo-Dutch company Royal-Dutch-Shell.

At the beginning of the twentieth century (more precisely, in the 1901st year), 11 million tons of black gold was mined in Azerbaijan, which was more than 50 percent of the total world oil production of that time.

After the establishment of Soviet power in Azerbaijan (1920th year), its entire oil industry was nationalized, and as early as 1921th, production fell to 2,400,000 tons.

However, then, prospecting and exploration were significantly expanded, as a result of which new oil fields were discovered and put into operation. All this led to the fact that with each passing year, the volumes of black gold produced here grew, and in 1941 they reached 23,600,000 tons, or 76 percent of all Soviet oil produced at that time (OPEC 171st Meeting concludes., 2016).

During World War II, Azerbaijani oil production fell to 11 million 100 thousand tons, since many oil-producing enterprises and equipment were relocated to safer oil provinces located in Bashkiria, Tatarstan and Turkmenistan.

After the war, the discovery of the Gyurgyany-Sea field led to the beginning in 1947 of the production of Azerbaijani oil on the sea shelf. In fairness, it should be said, on the island of Artem (Pirallahi), black gold began to be mined as early as

1902. The 1950s was marked by the discovery of a large offshore oil field called Neft Dashlary (Oil Rocks), which was immediately put into commercial operation.

From that moment, a new stage of development of the local oil industry began. On the sea shelf, the volume of geological exploration has increased significantly, deposits began to open one by one and immediately begin to develop them.

Such industries include Bahar, Sandy-Sea, Sangachaly-Duvanny-Sea, Bulla-Sea, Bulla, Bulla-Sea and so on. The mining technologies and equipment used for offshore drilling are being improved, the infrastructure ensuring offshore oil production is developing. By 1965, the level of republican production of black gold reaches the level of 21 million 600 thousand tons.

In the early 80s of the last century, a large oil field was explored in the deep-water area of the Caspian Sea adjacent to Azerbaijan, which was named "April 28th". It has now been renamed Guneshli. It is from this field that almost 65 percent of the marine oil in this country is extracted.

Over the next eight years, several larger deposits were explored in the Azerbaijani water area of the Caspian Sea: in 1985 - Chirag, in 1987 - Azeri, in 1988 - Kapez, and so on.

It was during this period of time that all the prerequisites were created for a real intensification of the development of the marine gas and oil production of Azerbaijan on the shelf of the Caspian Sea-lake, which was very important both for the economy and for the political weight of the newly independent country. Many experts believe that in the near future, Azerbaijan will once again return to the number of major oil-producing world powers ("OPEC Basket Daily Archives., 2016).

For all the time the development of hydrocarbon resources in this country (both on the sea shelf and on land) have found more than 70 oil and gas fields, of which 54 are currently under development.

For all the time of industrial production of black gold and natural gas, 1 billion 400 million tons of crude oil and 463 billion cubic meters of "blue fuel" were received from Azerbaijani fields. If we talk about the mainland fields of this state, over 130 years oilmen have found 43 oil and gas fields on Azerbaijani soil, 37 of

which are still in operation, and the total volume of continental production during this time was 935 million tons of black gold and 130 billion cubic meters of gas.

In 1965, the volume of hydrocarbons produced in Azerbaijan began to fall. This was due to the exhaustion in the process of long-term intensive development of existing fields and the lack of results of prospecting.

Currently, on land in this country only one and a half million tons of oil are extracted annually, so the main prospects for the development of this industry are mainly connected with the deposits of the Caspian Sea shelf. In the Caspian sector of the sea belonging to this country, 28 hydrocarbon deposits have been explored, and 18 of them are in development. In addition, geologists have identified more than 130 potentially promising geological structures.

For all time, the sea fields of this state produced more than 460 million tons of oil and about 345 billion cubic meters of gas.

The maximum volume of offshore oil production was reached in 1970, and amounted to 12 million 900 thousand tons of black gold. The maximum for "blue fuel" was shown in the 1982th - 14 billion cubic meters.

At the moment, SOCAR (State Oil Company of the Azerbaijan Republic) receives about 7.5 million tons of liquid and 5 billion cubic meters of gaseous hydrocarbons per annum from offshore industries.

The collapse in the early 1990s of the Soviet Union caused significant damage to the economy of Azerbaijan. The old Soviet economic ties were broken, the new ones were not yet there, and the financial situation of the country was difficult. Most of the production wells were idle, the volume of exploration and production drilling dropped dramatically, and the oil and gas production itself dropped significantly.

The restoration of the oil industry of Azerbaijan and the development of explored offshore deep-water offshore fields on the Caspian shelf and exploration of previously discovered promising structures required significant capital investments and the introduction of the most advanced modern technologies that was possible only with the help of foreign investors (Mattar P., 2014: p.63).

Therefore, in 1994, in order to develop and put into operation the deposits of Chirag, Azeri and the deepwater sector of the Gunashli field discovered under the USSR, the Government of this country signed the "Contract of the Century", which included a production sharing agreement 12 world-famous oil corporations representing eight countries of the world took part.

The signing of this contract has led to foreign investment in the oil sector, which allows Azerbaijani oil companies to look to the future with optimism, and to hope for rapid growth in the economy of this state.

When signing the "Contract of the Century", energy resources in the three above-mentioned fields were estimated at 511 million tons of oil, 160 billion cubic meters of gas. But as a result of the prospecting and exploration carried out in the subsequent period, it was confirmed that the volume of oil production in these fields amounted to about one billion tons, and the gas resource - 300 billion cubic meters. From 1994 to the present, $ 18.4 billion has been invested in the work carried out under the contract.

Early oil production from the fields of the Contract of the Century began in November 1997. To date, under this contract, over 123 million tons of oil, more than 26 billion cubic meters of gas have been produced. Since 1999, in accordance with the contract, Azerbaijan has begun to receive profitable oil. And the oil received until then was used to pay off investment deposits. By May 2008, Azerbaijan sold 26 million tons of profitable oil (217 tankers) on world markets.

Since the start of oil production in the framework of the oil strategy of Azerbaijan, the process of production in the country began to grow rapidly. For example, if in 1997 the country produced 9 million tons of oil, in 2005 22.2 million tons were produced, and in 2006, overtaking the previous record figure (1941 - 23.5 million tons) - 32.3 million tons in 2007 - 42.6 million tons. In general, international experts confirm that the volume of projected oil resources of Azerbaijan is 6 billion tons.

Funds received from profit oil are collected in the fund of the State Oil Fund of the Republic of Azerbaijan (SOFAZ), established in December 1999 by decree of

the President of Azerbaijan Heydar Aliyev. The main purpose of the creation of the fund is the organization of financing through the profits from oil projects of resource, socio-economic and investment orientation to ensure the rapid development of the national economy. SOFAZ combines stable and collective functions. At the same time, statutory documents of the State Oil Fund of Azerbaijan Republic provide for its use in order to promote the development of human potential and the non-oil sector. In order to ensure public control over oil profits and transparency, the Supervisory Board of SOFAR has been created, in which there are representatives of the executive branch, the legislature, and the public. According to the information of April 1, 2008, the fund has available funds in the amount of 3,336 million US dollars, and funds in the amount of slightly more than 4 billion US dollars were spent in the past years on the implementation of various strategic projects.

The possibility of opening new oil-condensate fields in the Azerbaijani sector of the Caspian Sea, a significant increase in oil production in Azerbaijan in the near future allows us to predict an increase in oil production in the country to 66-67 million tons for the 2010-2015s. However, in the early stages of work on the "Contract of the Century", many foreign investors, fearing that the oil resources in Azerbaijan would be less than expected, did not hurry with the construction of a new large oil pipeline. Therefore, in 1998, the Baku-Novorossiysk oil pipeline (Northern route, Russia) was built and put into operation for exporting the first Azerbaijani oil to European and world markets, and the Baku-Supsa route (Western route, Georgia) in 1999. The annual throughput of these pipelines together amounted to a maximum of 20 million tons. However, Heydar Aliyev, speaking from the position of potential oil reserves in Azerbaijan, showed efforts to conduct the main export pipeline on the basis of a profitable route. Having achieved through tense political and diplomatic work of choosing the Baku-Tbilisi-Ceyhan route for the main export pipeline, in 2002, Heydar Aliyev launched the construction of a pipeline in Baku. It is no coincidence that the pipeline was named after President of Azerbaijan Heydar Aliyev, given his exceptional merits, thanks to which the ambitious engineering construction began to operate. The scale and significance of Baku-Tbilisi-Ceyhan is

completely different from the others. The length of the main export pipeline, the official opening of which took place in July 2006, is 1769 km, the annual throughput capacity is 50 million tons (1 million barrels per day). In the construction of the pipeline, for which investments were made in the amount of 4 billion US dollars, 22 thousand people worked. Crude oil is transported from Baku to the Turkish port of Ceyhan on the Mediterranean Sea in 10 days (OPEC Basket Daily Archives., 2016).

Nowadays as part of the oil strategy of Azerbaijan, the foundation of which was laid by the "Contract of the Century" in 1994, a total of 27 oil agreements with foreign oil companies have been signed. The number of prospective structures provided for by these agreements for joint use is 30. 15 of these agreements cover the Azerbaijani sector of the Caspian Sea, and 12 - land areas. The partners of the Azerbaijani government in these agreements are 43 companies representing 21 countries of the world. According to forecasts, the total investment contribution to the exploration, development and transportation of hydrocarbon resources within the framework of the signed contracts will be 60 billion US dollars.

Thanks to the oil strategy, the petrochemical and oil refining industries were created, which form the basis of the national economy, and the infrastructure of the associated subregions that meets modern standards. Due to the great experience and contingent of specialists in the oil refining and oil refining areas, the government of Azerbaijan has begun to invest heavily in these areas of foreign countries. The giant oil terminal in Georgia and the oil refinery in Turkey belong today to the State Oil Company of Azerbaijan, representing the government of Azerbaijan. And the oilmen and engineers of Azerbaijan took upon themselves the exploration and production of oil fields in Moldova.

Immediately after the signing of the "Contract of the Century", Heydar Aliyev laid down the tradition of organizing the Khazarneftgaz exhibition conference in Baku, which enjoys international prestige. The main purpose of the annual organization in Baku of this exhibition conference was to bring to the attention of the business community of the world the oil and gas potential of the Caspian region, the desire to give impetus to the creation of new business relations between

companies specializing in the production, production, transportation of oil and gas and the application of new technologies in these areas . At the exhibition conference, which celebrated its 15th anniversary in 2008, over the years hundreds of the most advanced oil companies in the world were represented. The exhibition conference played a big role in implementing the oil strategy of Azerbaijan (Mattar P., 2014: p.70).

The Contract of the Century once again demonstrated Azerbaijan to the world as an oil country, and obtaining the first results from the Shah Deniz large gas and condensate field located in the Azerbaijani sector of the Caspian Sea presented Azerbaijan to the world as a country with the ability to export large volumes of gas. According to the results of exploration and prospecting, announced by geologists in 2007, the field has one trillion cubic meters of gas reserves. The contract for joint development of the Shah Deniz field, signed in 1996, is the second major project, the execution of which in the framework of Azerbaijan's oil strategy began after the Contract of the Century, which already has real results. In December 2006, the large-scale development of the field began. At present, the daily gas production from the field averages 19 million cubic meters, condensate - 4.5 million tons. In 2005, another large project was launched - the construction of the Baku-Tbilisi-Erzurum gas pipeline, which transports the rich resources of the Shah Deniz gas field to world markets, and from the beginning of 2007, the pipeline began operating. The total length of the pipeline is 971 km, diameter - 1066 mm (42 inches), the capacity - up to 20 billion cubic meters of gas. From the moment of commissioning to this day, through this pipeline, 383 million cubic meters of gas have been sent to Georgia, and 2.8 billion cubic meters of gas to Turkey.

1.3. Oil pipelines and gas fields, their economic and geopolitical importance on Azerbaijan economy

The Caspian region occupies a special place on the geopolitical map of the world, continuing to contribute to the development of the global oil and gas industry. An important role in this process is assigned to Azerbaijan.

Azerbaijan has not only significant deposits of oil and gas, but plays an important role in the formation of new oil and gas transportation routes of regional and international importance. In this process, the strategic partner of the country is Turkey, with which Azerbaijan connects the Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus gas pipeline (Baku-Tbilisi-Erzurum).

Despite the fact that at present the South Caucasus gas pipeline provides for the supply of "blue" fuel to Georgia and Turkey, in the future this branch will become an integral part of the Southern Gas Corridor (SGC).

Work within the framework of creating a new gas route will not only increase the volume of fuel supplies to Turkey, but also begin transporting Azerbaijani gas from the Shah Deniz gas condensate field to Europe. All this will be possible due to the increase in the capacity of the South Caucasus and the construction of the Trans-Anatolian (TANAP) and Trans-Adriatic Gas Pipelines (TAP).

The expansion of the existing and the creation of a new gas transmission infrastructure opens up great prospects for increasing the importance of both Azerbaijan and Turkey in ensuring the energy security of European countries, which is not only of economic but also of strategic importance (Campbell C., 2017: p.122).

But all this would be impossible without the availability of an appropriate raw material base, which Azerbaijan possesses. Only proven gas reserves in Azerbaijan amount to 2.6 trillion. cubic meters. The forecasted reserves make it possible to say that in the future the republic will be able to occupy a special niche in the international gas market.

This can be asserted not only by the reserves of the Shah Deniz field, but also by the base, which is formed by the Absheron field, the Umid-Babek block, the deep gas on the Azeri-Chirag-Guneshli oil and gas block, the development of which will increase production gas and the export potential of Azerbaijan in billions of cubic meters.

But this is not all limited, because the country has many promising structures in the Caspian Sea, whose gas reserves, according to forecasts, are quite large.

On the other hand, the presence of large stocks of fuel still does not say anything. After all, not every country with hydrocarbon reserves can afford to extract them from the depths. However, Azerbaijan, which has extensive experience in the exploration and development of oil and gas resources, is constantly working to expand the scientific and technical base and the development of modern technology and technology.

A striking example is the commissioning of a new generation semi-submersible drilling rig in the Caspian. It was the lack of drilling rigs that made it necessary to build a new plant, the use of which will increase the volume of drilling operations and speed up the development of new offshore fields and prospective structures of Azerbaijan.

As already noted, the transportation of Azerbaijani gas to Europe will be possible thanks to SGC, the central element of which is the Trans-Anatolian gas pipeline. It is this pipeline that will allow gas to be transported across Turkey to its borders with the EU.

At present, work on the development of a new gas transportation infrastructure is actively progressing. Azerbaijani President Ilham Aliyev said at the XXII World Petroleum Congress in Istanbul earlier that the TANAP project is the basis of the Southern Gas Corridor, which consists of four elements. It was after him that work began in all other areas, and today the SGC project is being successfully implemented (Gautier D., 2017: p.175).

“The first part is the Shah Deniz gas field. Here, the implementation of the Shah Deniz-2 project has already been brought to 93 percent, in the coming months it will be completed in full. The second part, the South Caucasus Pipeline, is a gas pipeline connecting Azerbaijan with Georgia. Here the work is completed at the level of 87 percent. The third and most important part is the TANAP gas pipeline, and here the completion level is 77 percent, and next year we will celebrate the implementation of this project.

Finally, the fourth part is the Trans Adriatic Pipeline, here the level of fulfillment is 44 percent. All these four important projects constitute the Southern

Gas Corridor. To implement this project, $ 40 billion is required, and most of these funds have already been invested,"Aliyev said at the congress.

Thanks to all these efforts and works, additional 6 billion cubic meters of Azerbaijani gas will be received by Turkey in 2018, and Shahdeniz gas will flow to Europe approximately in 2020 (10 billion cubic meters annually).

Now Azerbaijan, Georgia, Turkey, Bulgaria, Greece, Albania and Italy are involved in the implementation of the Southern Gas Corridor, but it is the object of interests of a number of other Balkan countries. And this is not by chance, because European countries, in particular, with a small volume of consumption, need alternative sources of gas, and the elements of the corridor - TANAP and TAP - were designed with consideration for their expansion (Lambertson G., 2017: p.61).

At the initial stage, within the SGC, 16 billion cubic meters of gas will be transported per year, but if necessary, the TANAP throughput capacity can be increased to 31 billion cubic meters, and TAP - to 20 billion. Considering the prospects for developing gas fields in Azerbaijan, as well as the possibility of gas supplies from third sources, all of these project volumes can be easily utilized. This, in turn, will provide an opportunity to strengthen the importance and role of the Azerbaijan-Turkey tandem in the international energy market.

In addition, these prospects make SGC significant for our region, as it will allow it to turn into a large energy hub, and for Europe, which has long been searching for alternative sources and routes of gas supply that would allow it to strengthen its own energy security.

To turn a young, independent Azerbaijan into a modern, strong, sustainable economic development state, the national leader Heydar Aliyev defined the oil strategy, which was to become the basis for a radical transformation of further political and economic reforms. The new oil strategy has ensured the attraction of foreign investors to the development of Azerbaijan's oil fields, the diversification of crude oil transportation routes, the effective management of oil revenues and the entry of Azerbaijan into a new stage of development.

On September 20, 1994, under the leadership of national leader Heydar Aliyev, one of the most important contracts in the history of Azerbaijan in the 20th century was signed in terms of its political, economic and strategic importance - the contract on joint development of the Azeri, Chirag and deepwater parts of the Guneshli field, located in the Azerbaijani sector of the Caspian Sea, and the share of production. This is the “Contract of the Century”, which is the basis of the oil strategy, opening up new prospects for the future of the country and received a well-deserved historical assessment in the practice of the next years.

$ 7.4 billion "contract of the Century" 11 international companies representing 7 countries of the world (Amoco, BP, McDermott, UNOCAL, SOCAR, Lukoil, Statoil, Turkish Petros, Pennzoil, Ramco, Delta) , USA, United Kingdom, Russia, Turkey, Norway and Saudi Arabia). Soon they created business structures - the Executive Committee, the Azerbaijan International Operating Company (Abas) and the Advisory Council. These structures began to operate after obtaining legal powers by the decree of the president of the Republic of Azerbaijan dated December 2, 1994. On December 12, 1994, the National Assembly approved the contract of the century (John William, 2016: s.96).

Although according to preliminary estimates, the recoverable oil reserves at the Azeri, Chirag fields and in the deepwater part of the Gunashli field amounted to 511 million tons, subsequently, based on new estimates, the oil reserves were set at 1.072 billion tons.

After the Contract of the Century, another 26 contracts were signed with the 41st oil company, representing 19 countries.

The operation of this giant block of deposits was to be carried out in three stages. On November 7, 1997, the first oil was produced on the Chirag platform. Successfully carried out subsequent phases. To fulfill the provisions of the contract on schedule, and to supply growing volumes of oil produced to international markets, new oil pipelines were built and put into operation:

– at the end of 1997, oil was exported to the Black Sea via the Baku-Novorossiysk pipeline;

– in 1999, an oil pipeline from Baku to the Black Sea port of Supsa was laid and put into operation. In December 1999, the first tanker loaded with Azerbaijani oil was brought to world markets;

– In 2002, as a result of the persistent efforts of the national leader Heydar Aliyev, the foundation was laid for the main Baku-Tbilisi-Ceyhan oil pipeline, which was considered by many to be a myth or a pipeline on paper. The construction of a pipeline of global importance has become an important step towards turning Azerbaijan into an energy corridor. On May 25, 2005, the opening ceremony of the Baku-Tbilisi-Ceyhan oil pipeline was held with the participation of President of the Republic of Azerbaijan Ilham Aliyev, in 2006, transportation of Azerbaijani oil from the Turkish port of Ceyhan began.

In general, for the supply of Azerbaijani oil from the Caspian Sea to world markets, oil pipelines with a length of up to 1/10 of the Earth's equator were built: Baku-Novorossiysk (1,330 kilometers), Baku-Supsa (833 kilometers) and the main export pipeline Baku-Tbilisi-Ceyhan (1768 kilometers).

Until 2017, about $ 33 billion worth of investments were invested in the development of Azerbaijan’s offshore oil resources, and 3.2 billion barrels of oil were produced at Azeri-Chirag-Guneshli. In addition, 30 billion cubic meters of associated gas was extracted and handed over to the Azerbaijani government at the Azeri-Chirag-Guneshli block.

In order to effectively manage hydrocarbon revenues, ensure their equitable distribution between generations and channel these funds to the development of priority sectors, the State Oil Fund of the Azerbaijan Republic was established by Decree of the President of the Azerbaijan Republic of December 29, 1999 number 240. The State Oil Fund, which in the short term has become one of the most transparent funds in the world, ensures, through effective and transparent money management, long-term financial returns for current and future generations.

On September 14, 2017, a new agreement was signed in Baku on joint development of the Azeri, Chirag fields and the deepwater part of the Gunashli field in the Azerbaijani sector of the Caspian Sea and the shared oil production section.

Thus, a new period began in the development of the giant block of Azeri-Chirag-Guneshli oil fields. The agreement was signed by official representatives of the government of Azerbaijan, SOCAR, BP, Chevron, IMPEX, Statoil, ExxonMobil, TP, ITOCHU and ONGC Videsh. According to the revised agreement on the division of production, extended until 2050, BP continues to operate as a project operator, the share of SOCAR increases from 11 to 25 percent, and 75 percent of profitable oil remains to Azerbaijan. Following this Agreement, an agreement was reached between SOCAR and partners to carry out engineering and design work to assess the additional production platform for the Azeri-Chirag-Guneshli contract area.

The signing of the "New Contract of the Century" lays the foundation for the new phase of Azerbaijan's oil strategy. This means the beginning of a new era in the history of Azerbaijan, an additional guarantee of the political and economic security of the country, new investments, growth of GDP, new jobs and improvement of social welfare.

II Chapter REVENUES FROM ENERGY RESOURCES AND THEIR KEY IMPACT ON ECONOMY

2.1. Background and overview of the economy

Since independence, the oil resources of Azerbaijan have become a determining factor in the economic development and international relations of the Republic. It was oil resources earlier than other republics of the former Union that dragged Azerbaijan into the orbit of world globalization. Since, in world globalization and geopolitics, one of the most important factors was and is energy, requiring, regardless of the willingness of subjects to solve the problem of access of TNCs to energy resources. A reliable energy base of the economy is the basis for the development and prosperity of any country; moreover, it is one of the necessary conditions for economic security and state dependence. Similarly, these reasons, in general, inevitably lead to a decrease in the competitiveness of the economy, a loss of economic and political positions, an increase in external pressure on the country and, as a result, forced compromises (Azerbaijan, from crisis to stable development. World Bank Regional Studies. World Bank., 2014).

In the composition of energy resources, the main place is occupied by oil feedstock, which led to the emergence of the term “oil geopolitics”. After the collapse of the USSR, the entry of Azerbaijan into the orbit of oil geopolitics was necessary, first of all, with the possibility of resolving a military conflict and the security of internal political stability.

In the initial period of independence, with all the moral, political and economic losses for our people and the country, the most important chance and result was obtained, which Russia obviously did not calculate. The balance of forces in the South Caucasus region has moved to a new level of its components. In general, it has changed in favor of Azerbaijan, which has sharply raised its image in the international arena and received the opportunity to use its resources to reform the economy.

Thus, in the 90s, the Caucasian-Caspian region became the object of actions of oil geopolitics. More precisely, the Caspian oil with the Caucasian corridor,

through which, undoubtedly, the main export * with the Azerbaijani oil and a significant part of the Trans-Caspian hydrocarbons had to go. It was here, in the Caspian-Caucasian region, since the signing of the "Contract of the Century" (1994, and actually long before that) the main actions of the battle for oil took place. Western companies and governments, soberly assessing the situation, realized that Azerbaijan, in addition, was the key to Trans-Caspian hydrocarbons and other gigantic reserves of mineral resources of Central Asia.

In the end, the fluctuations ended, and after political decisions and oil contracts followed an unprecedented growth rate of direct investment.

Oil geopolitics, having qualitatively changed the investment situation in the region, created for itself a springboard for new steps, at the same time drawing Azerbaijan into the development of world globalization.

However, the collapse of the USSR and the new trends did not save Azerbaijan from previous problems, but added new ones to them, thereby complicating the situation. First of all, in the sphere of foreign policy and foreign economic, the need to overcome the created negative potential against the young state. The post-Soviet period with the collapse of economic ties within the USSR forced Azerbaijan to search for new priorities in politics, the economy of the CIS and the rest of the world, to develop its survival strategy (Foreign trade of the countries of the Commonwealth of Independent States Statistical collection., 2014).

The solution of most of the problems of the survival and development of Azerbaijan as an independent state was integrated into the strategy of the oil factor, which made it possible to facilitate the solution of internal and external tasks and bring Western investments and new technologies to the country. This made it possible to create the Caspian oil infrastructure and include it in the energy supply system of the developed countries of the world (European) economy.

In the difficult situation in which Azerbaijan found itself in the early 1990s, the oil factor was the only economically attractive and significant factor capable of reversing the current crisis situation. It had undeniable advantages in significant proven oil reserves and geo-strategic position, which made Azerbaijan a key link to

even larger hydrocarbon reserves in Kazakhstan and Turkmenistan. The basis of the mutually beneficial partnership in the development of Caspian oil in Azerbaijan was the presence of leading oil companies of capital and modern oil production technologies on the deepwater shelf and the experience of creating export infrastructure for exporting oil to world markets. The coincidence of the interests of the West and oil companies with the interests of Azerbaijan allowed the country to get out of political isolation, solve some economic problems, create a modern infrastructure for oil production, processing and transportation (The World Bank. World Development Report. 2017.).

Thus, the collapse of the USSR, dramatically changing the geopolitical situation, created an opportunity for oil super-firms, TNCs, to penetrate into such an important region of energy resources. As their development and delivery to world markets can drastically change the oil geopolitical balance. And this will therefore have a very significant effect at the beginning of the third millennium on the geopolitical situation in the world, in which the oil factor plays a leading role.

And with the global changes in the geopolitical balance, the interests and capitals of powerful forces interested in the prosperity of oil giants - TNCs, are essentially extraterritorial states with a huge budget and huge economic opportunities that many countries that are far from poor can envy. Naturally, the influence of oil TNCs, whose capitals are present everywhere, on their own and national governments are enormous. But any government, relying on superpowers, is in turn interested in ensuring the energy security of its country, seeing in it a certain danger to its independence. This has led to the leadership of many countries, including the top leaders of the leading powers, to connect to the new oil-producing world.

Azerbaijan has new partners among oil companies and oil-consuming countries. The formation of the structure of foreign economic relations, the infrastructure of commercial banks, economic relations and diplomatic relations gradually took place. At the same time, near-oil cooperation with suppliers of oil equipment and contractors of oil companies developed. Embassies, offices and

representative offices from many countries have appeared in Azerbaijan, which has contributed to a relative increase in employment and the development of new technologies and knowledge. All this was a consequence of the use of the oil factor and partnership with oil companies, which in turn also affected the development of non-oil foreign economic relations.

Therefore, in Azerbaijan, not only official circles and specialists, but also the public understood that the oil factor can play its decisive role both in economic development and in solving political problems. All other arguments by which Azerbaijan tried to explain its rightness and position in the post-Soviet space and in the rest of the world to the world were unsuccessful. Azerbaijan's economy is more dependent on oil than Kazakhstan's. The oil sector accounts for two thirds of industrial production and more than 90% of the country's total exports.

The first step to attracting leading western companies to the development of Azerbaijan's oil deposits was adopted in 1989. This was also understood in the West, especially in Great Britain, for which the political situation in Azerbaijan was more favorable. Back in the autumn of 1989, President of the independent company Ramco (city of Aberdeen, Scotland) Steve Ramp arrived in Baku to establish contacts. He knew that the knowledge and experience he had gained in the development of British oil fields in the North Sea would be suitable for undeveloped deep-water oil fields in the Caspian. The Scottish city of Aberdeen became the center of knowledge of the oil industry, which will retain its value even after the depletion of resources in the North Sea. In this case, it could become a classic case of the transfer of modern technologies of the oil industry in Baku (State Reduction Program Poverty and Economic Development 2016.).

Contacts in Baku led S. Ramp to the conclusion that in order to successfully solve the problem he needed a partner oil company with capital and technology to develop offshore fields, in which he chose a transnational company - BP. Vr's experience was more than adequate in the construction of pipelines, which began 90 years ago when a 210 km-long pipeline from Majid-Suleiman to Abadan was built in Iran. Today, the company holds key positions in the pipeline systems of Algeria,

Indonesia, Great Britain, Germany, Italy, Holland, USA and Colombia. The experience of implementing all these projects makes it possible to imagine how the BTC and the South Caucasus Pipeline (SCP) will be completed with an end point at the Erzurum terminal, where gas is consumed and connected to the distribution network of Turkey.

However, the oil industry of Azerbaijan also had a sufficiently developed scientific and technological potential, which made it possible to create a significant maritime infrastructure, which was subsequently actively used in maritime contracts.

With the independence of Azerbaijan, concrete negotiations began, not only on the development of Caspian's sea oil, but also on the possibility of creating a more modern and multi-variant export infrastructure. Taking into account the facts of oil geopolitics and geo-economics in time and taking into account fluctuations in oil prices, the situation with Azerbaijan's dependence on export infrastructure can be divided using geographic differences in three directions, depending on the route, time and objective circumstances (The World Bank. World Development Report. 2017.).

The first stage is the "northern" one with a predominance of the northern export route, which was not profitable but optimal at that time, taking into account political factors. At this initial stage, it was necessary to deliver Azerbaijani oil, both SOCAR and early oil of the Azerbaijan International Operating Company (AIOC), to world markets in order to improve the country's geopolitical situation. At that time, the use of the northern route was the only alternative to the export of Azerbaijan, which allowed exporting oil and receiving currency, which had to be shared with Russia, and which also urgently needed it. Of course, there were certain economic losses for which Azerbaijan had to go, since there was no other alternative, except for the transportation of oil by rail through Georgia. And the political linkages that make Azerbaijan dependent on decisions on the Caucasus, and other issues taken in Moscow.

The second route is "western". In connection with the completion of the Baku-Supsa oil pipeline, which diversified the export infrastructure of Azerbaijan, the second access to the Black Sea oil terminals in Georgia appeared.

Oil infrastructure and regional geopolitics in this period acquired a different relationship. The new oil infrastructure had clear economic advantages, it is shorter by almost 200 km, it runs in a more favorable climate zone. This sharply reduced Azerbaijan's dependence on Russia's external and internal factors, including two wars in Chechnya, and claims on Azerbaijan to it and on the level of tariffs previously agreed upon.

The third route is "south-west" - BTC, the start of which will be 2006. It should be noted that many experts believed that the BTC simply could not be built, since political factors prevailed over economic ones. Now, physically becoming a reality, it acquires another geopolitical significance, since there is political competition among major powers besides economic interests.

The emergence of a new oil infrastructure, BTC, allows getting access to the World Ocean with its large-capacity tankers in the Mediterranean port of Ceyhan. This has become a real oil factor embodied in the prospects for the development of the economy of Azerbaijan, since in the past Azerbaijani oil was deprived of the advantage of direct access to the sales markets. With the introduction of BTC, Azerbaijan really strengthens its economic and political independence by diversifying the system of export pipelines. Secondly, the BTC is the third, bypassing the problematic and overloaded Bosphorus, access to the Mediterranean Sea. And finally, BTC as a whole allows to avoid political levers of pressure from Russia and Iran. Third, with the help of the BTC pipeline, its oil, produced at Kashagan in the Kazakhstan sector of the Caspian Sea, plans to bring to the world markets such world campaigns as ToY (France), EP1 (Italy), 1pret (Japan) and Sopos RYSHRES "(USA), and Seugop Texaco has already planned 12 million tons of oil to bypass Russia via the BTC pipeline, which Moscow officially considers unprofitable for Russia.

Moreover, the construction of the BTC pipeline in the context of globalization has not only economic but also political importance in the strategy of Azerbaijan's integration into the world community, as it is an important project for the delivery of hydrocarbon reserves of the Caspian basin to world markets. The BTDD pipeline

also affects another international project - the TRACECA transport corridor. BTC is not just a communication system, but also a strategic policy in the globalization of the Caspian-South Caucasus region.

One of the positive moments is the withdrawal of Azerbaijan, Georgia and Central Asia from political and economic isolation. In addition, the strategic alliance with Georgia and Turkey further strengthens ties, which means the balance of forces in the Caucasus is in favor of the tripartite alliance (Azerbaijan, Georgia, Turkey).

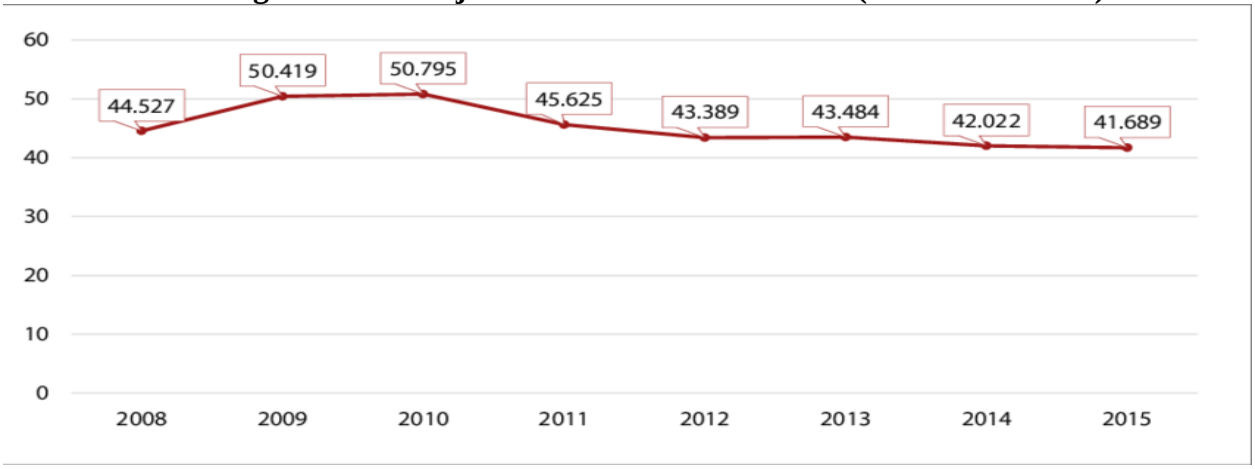
As is well known, the BTC's future throughput capacity is 1 million barrels per day. To achieve this level, Kazakhstani oil will also be used, which will facilitate the integration of Kazakhstan into Europe. The oil factor of the BTC in the policy of world globalization may also affect the fact that in the near future, the Baku-Novorossiysk pipeline will start to work in the opposite direction, that is, Russian oil can be exported to Europe via Baku-Tbilisi-Ceyhan (State Reduction Program Poverty and Economic Development 2016.).

Regarding the actual current position of the geopolitics of the Caspian-South Caucasus region, a report of interest is presented for the 10-year activity of BP - Azerbaijan from the date of signing the "Contract of the Century" for the development of Azeri-Chirag-Gunashli offshore fields (ACG).

According to the operator of the project, "Big Oil" started in 2005 as part of the development of the central part of the Azeri field (Phase-1), and within the project of the east-western part of Azeri (Phase-2), production will begin in 2006-2007 yy In mid-2008, the development of the deepwater part of the Gunashli field (Phase-3) will begin. According to the operator's forecasts, a year later, total production from the ACG field will exceed 1 million barrels per day or more than 50 million tons per year, and before the expiration of the contract (2029) the volume of oil extracted from the contract area will be 730 million tons. Initially, the contract value was estimated at $ 7.4 billion, and by the end of 2004, the value increased by more than 80% and reached $ 13.3 billion. Over the ten-year period, net foreign exchange earnings in Azerbaijan's economy from the activities of the oil and gas sector totaled 513.5 million dollars, or 13.6% of GDP.

Exactly one year after the tenth anniversary, at a press conference, President of the Oil Company of Azerbaijan Natik Aliyev said that with the rise in oil prices, new opportunities are opening up for the State Oil Company of Azerbaijan: “We are continuing to successfully implement existing energy projects and are preparing new ones. One of them is a program to increase gas production in the country for 2005-2010. ”According to the results of the project, gas production will increase by 2.5 billion cubic meters. According to preliminary calculations, about $ 20-25 million will be spent annually for the implementation of the program, for 5 years the cost of the project will be $ 100 million. Another project of SOCAR is the reconstruction of the Gunashli field, which, according to N. Aliyev, is the most exploited. In the course of the reconstruction, work will be carried out to increase the prospective field availability.

Figure 1.Azerbaijan's Oil Production Volume (in million tonnes)



Source: Research Gate. Azerbaijan: Low Oil Prices and their Social Impact

At the same time, at the end of 2006, it is planned to commission the Western Oil Platform. Eastern will be ready by 2007. They will allow increasing oil production in Azerbaijan in 2006 to 30 million tons, and in 2007 - 45 million tons of oil per year. In general, it is planned to increase production to 50 million tons per year. N.Aliev noted that in 2006, for the first time in the history of independence, Azerbaijan will begin to export gas from the Shah Deniz field, whose reserves are estimated at 22.1 trillion cubic feet (Millennium Declaration of the Organization United Nations (Adopted 08/09/2000 Resolution 55/2 at the 8th plenary meeting of the 55th session of the General UN Assembly).

The speech of N. Aliyev leaves no doubt that the oil factor increases the dependence of the Azerbaijani economy on the oil and gas sector, although the planned increase in production volumes somewhat reduces the consequences in case of price shocks. The volume of production gives rise to a sharp increase in export opportunities, as well as budget revenues, starting from 2006. As is known, a significant share of oil revenues is placed in the State Oil Fund of the Azerbaijan Republic (SOFAZ). The oil resources of Azerbaijan belong to everyone and no one individually. Therefore, monitoring of the management of oil wealth is conducted by the International Rating Agency "P11c." This observation in the oil sector is especially important in conditions of limited diversification of the Azerbaijani economy and the existing limits of oil and gas reserves. Against the background of a stable macroeconomy, due to the oil factor, and more precisely due to the inflow of petrodollars, structural reforms were actually suspended. The Ministry of Economic Development throws from one extreme to another when setting priorities for the development of the economy of the Republic. The privatization program is still delayed and confronted with opposition. In general, it can be concluded today and the long term that the oil factor is a factor in the government's insufficient efforts to diversify the economy of Azerbaijan.

Of course, the Oil Fund, created at the insistence of the West, accumulates funds, but despite the proclaimed policy of transparency, it can be said that it doesn't control their spending. For several years now, a steady increase in oil prices has created favorable opportunities for the Oil Fund and GDP growth. However, if the rise in oil prices is replaced by a collapse, and then the country, 90% of exports and 75% of GDP of which is oil and oil products, will be in a very difficult position. While the world conjuncture gives Azerbaijan the possibility of high revenues, they should be directed to the development of science, new technologies and production in other areas in order to compensate for losses from a possible fall (Information Office website of European Council in Azerbaijan., 2018).

In August 2004, domestic experts predicted the impact of oil revenues on the economy of Azerbaijan. Predicting various scenarios of future revenues from the

implementation of the largest contract of Azerbaijan on the P8A type - Azeri-Chirag-Guneshli, they concluded that if the price of a barrel of oil is $ 25, by 2010 the republic's annual income could reach $ 8 billion Further, even according to the most pessimistic calculations, at a price of 1 barrel of oil not more than $ 18, for the entire period of implementation the Azeri-Chirag-Guneshli contract (until 2029) the oil income does not fall below $ 40 billion, if the price of oil will be 2 times more, the income of the republic will rise to 110 m lrd, dollars, and at current prices (August 2004) - $ 45, a barrel can be expected to receive $ 140 billion. Taking into account the implementation of other oil and gas contracts, according to optimistic forecasts, Azerbaijan will be able to get more than 200 billion in the next 25 years . dollars, revenue. * In August 2005, the price of oil per barrel reached $ 73. And according to forecasts of Western experts, the price of oil, due to the hurricane Katrina in the Gulf of Mexico, could have reached $ 90, per barrel. Based on these forecasts, one would think that the oil revenues of Azerbaijan will double in relation to the forecasts by domestic experts in August 2004. But forecasts remain forecasts, as they change easily depending on various situations in the world.

In this regard, the question of the impact of oil revenues on the economy of the republic and their correct assessment is of particular relevance. There is another question? Is the Azerbaijani government ready for effective management of these predicted huge volumes of oil revenues?

Already today, Azerbaijan has negative consequences from the huge inflows of currency in the country's economy and, in particular, they manifest themselves in the unreal value of the national currency, a sharp increase in imports, and the dependence of the budget on world energy prices. Thus, at present, 26% of the republic's GDP is formed at the expense of oil revenues, and taking into account the transfer from the oil fund, 41% of the state budget (without transfers - about 30%) is formed at the expense of oil, and, finally, oil and oil products account for more than 90% of all exports Azerbaijan.

Oil income in the economy of Azerbaijan creates the need to analyze their impact on the structure of GDP.

The volume of GDP produced in 2002 amounted to 29.6 trillion manat with an increase of 100.6%. The level of industrial production amounted to 19.7 trillion manat, and growth compared to 2001 reached 3.6%, i.e. the share of oil revenues accounts for 7% and, therefore, the growth of industrial production is almost 3 times less than the growth of GDP. At the same time, the share of agricultural production accounted for 6.4 trillion manat, that is, 32.5%. Is this a large enough figure for a country that claims to have a diversified economy?

The volume of GDP produced in 2004 was 41.9 billion manats, which is 10.2% higher than the volumes of 2003 GDP. For the comparable period, the growth of the production sector was 10%, including industry 4% of agriculture - 4.6%, construction 41.9%, production services - 8.9%.

The question arises? Why is the growth of industry in Azerbaijan almost three times less than the growth of GDP? Moreover, the many billions invested in the Azerbaijani economy are channeled directly to the oil industry.

The statement of domestic economists that billions of investments in the oil industry will pull the development of the entire industry of the republic, failed miserably, because the development of the oil industry did not become the desired locomotive that enterprises and other sectors of the economy had to pull. producing oilfield equipment, chemical industry, metallurgy, etc. Azerbaijani enterprises are basically out of developed projects. And therefore, we have to admit the fact that at the expense of billions invested in the Azerbaijani economy, all countries of the world profit primarily, "except for Azerbaijan. At a press conference (August 12, 2005), oil company president N. Aliyev commenting on the situation in the energy market said that: “under some conditions it is more profitable today to export crude oil rather than finished products. Access to most markets for finished oil products, such as gasoline, diesel or jet fuel, is limited, there is technical barriers. For example, in the eurozone countries next year new, more sophisticated quality standards will come into force, and all fuel products must meet them. Azerbaijan, in order to improve the quality of petroleum products to such a high level, refineries need to be re-equipped. new production technologies into the country, which would require at

least $ 400-500 million. We do not have free funds in such volumes, but even if we had, then the prospects for investing them esm doubtful."

Commenting on these statements, it should be noted that this means prematurely dooming the Azerbaijani economy to the role of a raw materials appendage of developed countries and a permanent exporter of raw materials to the West. Apparently the hard laws and “wars” of global competition, through which all countries come to the world market, have been overlooked. High competitiveness of developed countries reach for raw materials of countries like Azerbaijan.

According to M. Porter's concept, to ensure the competitive advantages of the national economy, it is important to initially create an adequate competitive internal environment.

However, when market relations are only forming in Azerbaijan, it would be naive to believe that internal competition can be in a favorable position. Dynamic, competitive advantages can be based on external factors (due to the lack of investment resources within the country), which are characterized by instability, and therefore are characterized by insufficient efficiency.

Regarding the Azerbaijani economy, its competitiveness can be achieved as a result of the long-term focus of the republic’s leadership with the involvement of foreign capital interested in it. However, achieving the appropriate level continues to be a difficult problem to solve. Since transnational corporations, for example, BP, relying on the administrative structures of Azerbaijan appropriates privileges (that is, out of competition, which are so necessary for the formation of competitiveness and economic independence of a young, fragile state, which is Azerbaijan).

In easy overcoming of foreign companies, competition on national markets is promoted by Azerbaijan itself. Foreign firms can overcome the competition of local companies only on the basis of even greater competitive power, which is due to the advantages of their property (Millennium Declaration of the Organization United Nations (Adopted 08/09/2000 Resolution 55/2 at the 8th plenary meeting of the 55th session of the General UN Assembly).

On this account it is meant that under the current legislation, all import and export operations carried out during the period of the “Contract of the Century” are exempted from customs duties and value added tax. The “Contract of the Century” of the type P8A was signed on September 20, 1994, has the status of a law and priority over the laws of Azerbaijan adopted after it. And this suggests that Azerbaijan loses during the entire period significant contributions to the state budget. The State Oil Company of Azerbaijan explains this circumstance by the fact that when this contract was signed, these benefits were presented to foreign participants of the project in order to attract investments. But what was imposed on the inexperienced newly-established state today is unacceptable ... In this regard, the State Customs Committee of Azerbaijan appealed to the Cabinet of Ministers with a proposal to revise some articles of the P8A type contract for the development of Azeri-Chirag-Guneshli offshore fields. Note earlier`Kazakhstan made an attempt to make some adjustments to the contract of the type P8A due to the fact that in the early 90s foreign oil companies took advantage of the inexperience of the newly established state, dictated their conditions And, as a result, the rate of profit they receive is higher than in all developed countries. However, due to the persistent disagreement of foreign companies and international institutions, it was not possible to introduce these adjustments in existing contracts. However, the government of Kazakhstan still managed to strengthen its position in other areas. At present, it is prohibited by law without explicit reasons to use foreign labor in the republic, in all contracts of the P8A type. The state-owned company Kazmunaygas must have a share of at least 50% and be an operator, and contract and subcontract work is provided to a foreign company if domestic companies are not able to carry them out, etc. Some foreign companies, without giving such “pressure” from the government, decided to sell their shares to other companies. The government of Kazakhstan, which already has more than $ 15 billion in foreign exchange reserves, has managed to prove that it has priorities as the owner of the fields, and has bought out almost all the proposed shares in the projects (Information Office website of European Council in Azerbaijan -2017).

In contrast to the government of Kazakhstan, the leadership of Azerbaijan conducts the opposite policy. Despite the rich experience in oil and gas production, SOCAR is still not an operator in any of the projects that are carried out jointly with foreign companies.

Even in offshore projects where large investments and large experience are not required, SOCAR is satisfied with 20% shares. Despite the 11-year experience gained in the country with Western technologies and management, not a single Azerbaijani citizen has yet been employed for the position of “Vice President” or “Managing Manager” in the country's main project, the “Contract of the Century”.

Moreover, if we consider the scheme of receipt of materials and the placement of orders in Japan, Germany, France, Singapore to develop the Azeri-Chirag-Gunashli Azeri oil fields and the Shah Deniz gas-condensate field, one could not help recall that Azerbaijan was once the leading supplier of oil equipment not only in the republics of the USSR, but also in other countries of the world. Such facts are not mentioned now either, that floating drilling platforms, however, without means of automation, were made in Azerbaijan and for Norway in Soviet times. That our Azerbaijani oilmen on the manufactured platforms right up to the collapse of the Union, and its sales in the then Vietnam confusion, carried out under the contract work related to the development of the Norwegian sea shelf.

At present, Azerbaijan in the "hands" of TNK is practically only a "assembly shop", and orders for "components" come from different countries of the world. This will be followed by the supply of spare parts for the currency earned by Azerbaijan. It should be noted that the installation is carried out in Azerbaijan directly under the guidance of specialists from foreign companies, and as a result, the amount of work for Azerbaijani specialists and enterprises to develop their own fields is minimal. In this “technique” TNCs have a lot of experience and are used in rich commodity countries, including Azerbaijan. In this regard, it becomes clear not only the slow pace of development of the Azerbaijani industry, but also the difficult social situation of the population. This is one of the many consequences of the negative manifestation of the development of globalization in Azerbaijan.

In conclusion. In the UN system, there is a “Code of Conduct for TNCs”, which provides for the right of sovereign states to regulate their operations up to nationalization, regulates the participation of TNCs in the implementation of national plans, social policy, competition, protection of the environment and consumers, reporting, etc. Azerbaijan almost does not use such an important international ratio, giving it the right of the above code.

2.2. Resources curse, SOFAZ versus resource curse

The curse of resources is a concept created by Harvard University professor David Lendos. According to this concept, the economy of resource-rich countries compared with the economy of resource-poor countries, on average, is growing very slowly. Having a large margin to stimulate economic development, the state pays very little interest in the development of the middle class of society. Therefore, a high economic increase can be obtained at the expense of resources. The short-term use of oil and gas profits can lead to inflation and an increase in government spending and subsidies. Excessive use of resources can cause an increase in poverty and reduce the development of a country. Oil profits should be directed to other sectors to stop this problem. Even if a high increase in GDP is typical for countries prone to this problem, its temporary nature should be one of the main factors. According to World Bank research over the past 30 years, in the OPEK countries, GDP per capita declines by an average of 1.3% each year (Ismayilov R., 2016: p.122).

Dutch Disease Syndrome is one of the most widely discussed types of risk in Azerbaijan today. It is not by chance that today there is no unambiguous approach to the elements of this syndrome that is observed or not observed in the economy of Azerbaijan. If some economists argue about the existence of elements of this disease, others say that there is no real basis for this. In short, this problem was observed in Holland in the 50s - 60s of the last century and was associated with finding gas and increasing the export of these products. Having hoped to export gas, the Dutch government did not pay enough attention to the development of other sectors and this resulted in a crisis. Dutch disease is characterized by the following;

– National currency strengthened against foreign currency

– The economy starts to develop unilaterally

– In addition, the factors of production are shifting from the processing industry to service and production. One of the problems is that, due to the increase in the number of imports, the interests of manufacturers are not respected. The financial independence of countries is beginning to depend on the price situation on world markets.

– “African temperature”, as the name implies, stands for the systemic problems observed in the oil countries of Africa. In fact, the problem that was characteristic of the black continent, was later observed in other countries on other continents.

– High profitability leads to the struggle for the re-division of property; this is manifested in the division of control in areas of economic activity.

– Such a struggle leads to tensions of various factions in the Government (this led to civil wars and coup d'état in several African countries)

– The cost of maintaining military police costs is increasing dramatically.

– Corruption between government and business

– Giant profits lead to rash and unreasonable decisions in social areas.

– The investment strengthens and deepens social inequalities

– Pseudo-institutes are created under the name of transformations, the government is deceiving the people

The little value of human capital in oil countries is one of the most serious problems of all existing. There are basic elements of this problem.

The intensive use of natural resources does not contribute to the development of areas requiring a high degree of human capital.

As far as the degree of the sphere’s dependence on human capital is high, so much does it lose from the appropriation of natural resources.

One of the problems arising from oil profits is the pressure of inflation and this

Is explained by the following explanations;

– Increased production (especially due to import)

– Increase in imports of raw materials

– The increase in the mass of money in production (credit boom in the consumer market)

– Increase of investment activity, increase in prices for real estate

– Increase in household and agricultural expenses

It is difficult to assess unequivocally the impact of the oil boom on the economy of Azerbaijan, which began presumably in 2005. For several years, the increase in the oil sector has led to the growth of the double-digit economy in Azerbaijan. In 2006, the price of gross domestic product increased to a record figure of 34.5% and this put Azerbaijan in first place in the world in terms of economic development. The oil and gas sectors remain the main sectors that contribute to the advancement of other sectors. Short-term economic forecasts in Azerbaijan are positive (Tsalik S.,and Schiffrin A., 2018: p.147).

There is a big difference between the increase in the oil and extra-oil sectors. We can say that in 2005 the boom in the oil sector began. And this year, the GDP increased to 66.3%. And in 2006, compared with a year earlier, there was no difference. Oilmen predicted an increase in GDP of 63.1%. In 2007, the increase in the oil sector was 51%. Despite forecasts of a 20% increase in GDP, in 2008 it was only 10.8%. The reductions that occurred at the expense of interest ratios are directly related to the financial crisis and are the result of an undervalued oil price on the world market.

The share of the oil and gas sector in GDP is growing every year. This suggests that the oil sector is leading in the economy and that the system is still dependent on the oil sector. The dependence of the economy on one sector speaks of the continued existence of the “Dutch disease”. Long-term economic forecasts of Azerbaijan are not encouraging. It is expected that Azerbaijan will still be dependent on oil profits. This means that the country's economy will be dependent on foreign

exchanges. Despite the fact that Azerbaijan's goal was to develop the non-oil sectors, this task has not yet been accomplished (Rigobon R.,2018: p.521).

One of the most discussed topics in oil countries is the link between oil sales and the state budget. The fact is that for such transfers are not defined specific principles. In recent years, there has been a serious increase in the share of the oil sector in the state budget. Approximately 2 \ 3 of state budget revenues accounted for the oil sector.

This suggests that the oil sector is still a hegemonic area in budget revenues and the state budget is dependent on the oil sector. In fact, this can be regarded as a serious problem. The fact is that despite the prohibition of transfers of funds acquired from the sale of oil to the state budget (for example in Norway), in many countries there are no restrictions (for example in Nigeria). In some countries, if there are no restrictions on transfers, they still try to apply some restrictions (for example, in Russia). Here, the main goal is to eliminate the dependence of the state budget on the oil sector. Because if this dependence is sharp, the state budget will be directly dependent on changes in the global oil market. That is, the main role in the formation of the state budget is played not by internal, but by external factors.

Alternative policy

One of the main goals of the oil fund is to allocate fund money to other areas of the economy. It is necessary to define clear guidelines for resource management. Despite the use of the fund, in this area there is still no strategy or coefficients for the alternative assessment of the rational use of funds.

According to the head of the center for economic and political research, Sabit Bagirov, there are the following areas of risk from the use of oil (John C.K. Daly., 2018: p.254):

- Lack of government experience in managing large oil assets
- Not perfect laws
- Dependence of the judiciary on executive bodies
- The weakness of democratic institutions
- Underdevelopment of civil society

– The weakness of the independent press.

S. Bagirov spoke negatively about the idea of financing state projects and programs by means of the State Oil Fund of the Azerbaijan Republic. On the contrary, he is a supporter of the implementation of the investment portfolio of the fund.

Gubad Ibad Ogly, head of the Center for Economic Research, is not a supporter of investing oil fund funds on large infrastructure projects until corruption is eliminated.

Elena Kaluznova pays more attention to the stabilization of oil funds and, depending on the sharp changes in oil prices, puts forward a number of analyzes and proposals for the protection of the economy. She sees the role of oil as a tool in the formation of fiscal rules and its institutional framework and assesses the effectiveness of funds through this means. Elena Kaluznova notes that any stabilization policy based on marketability can be destroyed along with financial resources and therefore an approach to stabilization should be pragmatic. There are no management methods that would always optimize this function. Another point in the fiscal policy in the countries producing oil is the volume of oil profits.

John Wackman, Lynn, Paul Matthew and Bert van Selm think that oil funds improve coordination among monetary and fiscal policies. They believe that if the activities of the fund are separated from the state budget and state bodies and are independent, then more rational results can be obtained. The authors do not accept the function of stabilizing the fund and believe that the shortage in the state budget should be eliminated due to changes in the budget.

In the literature on macroeconomics, there is a strengthening of the rate due to the increase in oil profits. In general, oil profits increase the country's total earnings and at this time an increase in consumer needs contributes to stimulating needs in general. And this leads to the consequences below.

There is a decrease in exports due to an increase in consumerism.

For this reason, there is an increase in imports.

Due to the increase in oil profits, there is again a decrease in exports in local markets; there is a complete decrease in production due to the lack of competitiveness of local products with the exception of oil (John W. L., and Paul M., and Bert V. S.., 2016: p.41).

Jeffrey Davis, Rolando Ossowski, James Daniel and Stephen Barnett justify the political side of the foundations. The authors support the use of the stabilization function in case of instability in fiscal profits - this complicates the productive use of fiscal management, budget planning and public resources; it is likely that the cuts will be destructive and there is a danger of not rationally spending high increases in profits.

When analyzing the strategy of the Norwegian Petroleum Fund, Ulrich F.V. Ernst touched upon the following questions;

1. Fully clear the economy of Norway from oil profits; Fund funds are invested abroad. Local currency crowns stabilize with other European currencies, especially the euro due to economic factors rather than monetarist policies.

2.Investments are sent to the "profit fix" and securities; since 1998, it has been allowed to invest 50% of the funds in the exchanges. Only this should be foreign exchanges. Now part of the funds directed to the exchanges is 40%. From this point of view, one of the discussed factors in Norway is now associated with the risks of funds directed to exchanges. Therefore, the fund directs its investments in various industrial areas, as well as in the regions in order to reduce the degree of risk. Now the volume of funds directed by the fund to any company should not exceed 5% of its total capital. Although until 2006 this figure was equal to 30%.

3. When making investments, ethical principles are taken into account. Here one of the conditions is to avoid conflict. At the same time, it is forbidden to work with firms with a tarnished reputation.

As can be seen from the Norwegian example, which is shown as a model, they have a number of aspects in managing funds. Therefore, from this point of view, this successful example is important for different countries in which funds are created for managing natural resources (Kalyuzhnova, Y., 2006: p.178).

SOFAZ versus resource curse

The State Oil Fund of the Republic of Azerbaijan was established on December 23, 1999 with the presidential decree No. 240 “On the establishment of the State Oil Fund of the Republic of Azerbaijan”. The purpose of the fund was to accumulate funds obtained from the sale of rich carbohydrogen reserves and profits derived from the activities of the State Oil Fund of the Republic of Azerbaijan, as well as rational management of funds and use for the benefit of the country's citizens and the future population. The State Oil Fund of the Republic of Azerbaijan is an extra-budgetary organization, reports to the President of the Republic and is responsible. The funds of the state oil fund are formed from the following sources:

– Profits received from the sale of carbohydrogens and from dividends on oil and gas projects attributable to the Republic of Azerbaijan from the transfer of oil and gas through the territory of Azerbaijan and from the distribution of profits, bonuses paid by the capitalists to state authorities and state oil companies in connection with the signing and execution of oil and gas contracts.

– Gains acquired from the investment of the assets of the fund, from the management, sale and re-evaluation of assets together with the national currency on the part of the State Oil Fund.

– Grants and disinterested help, etc.

According to the State Oil Fund, the foundation for creating the fund was a fair distribution of oil wealth among the future population. Additionally, it was noted that the main goals of the fund include meeting current social needs and the development of the non-oil sector.

According to the rules of the State Oil Fund, its funds can be used to solve national problems for the sake of prospering socio-economic goals of the country, as well as for building and restoring important infrastructure facilities. All expenses of the fund, with the exception of management expenses, are made by the central treasury of the Ministry of Finance. According to the law of the Republic of Azerbaijan “On the budget system”, the expenses of the oil fund are part of the state budget and are reviewed and confirmed by the parliament every year together with

the state budget. As stipulated in the law, the fund can only incur those expenses envisaged by its budget (Ulrich F.W., 2016: p.87).

In general, the conditions for creating a state oil fund were classified as follows:

- Ensuring macroeconomic balance and stability
- Ensuring financial order
- Formation of spare means for the future generation

As is known, an increase in foreign exchange funds acquired from the sale of oil and their entry into economic circulation causes a rise in the national currency and stimulate imports, and also as a result of a weakened competitiveness of the country's economy, causes a decrease in exports. On the other hand, the intensive development of the oil industry leads to a certain imbalance in the economy and a decrease in the level of development of the extra-oil sector. This makes the country's economy dependent on oil prices on world markets. According to the State Oil Fund of the Republic of Azerbaijan, one of the goals of the fund is to neutralize macroeconomic decays, which may arise due to an increase in currency masses due to the sterilization of oil profits and the direction of these funds to the development of the extra-oil sector. Another reason for creating the fund is to strengthen the financial order of the country. Thus, the experience of oil-rich countries shows that relatively easily acquired oil profits are not used productively and economically, but, on the contrary, in many cases become a cause of waste and abuse. Altogether, this leads to a weakening of financial control and is viewed as a way of filling shortages and gaps in all types of oil profits. In addition, one of the main reasons for the foundation of the fund is the implementation of its funded function. Oil and gas wealth is not inexhaustible like other reserves and can decrease with time, regardless of wealth. Therefore, one of the most important reasons for creating a fund is to ensure the fairness of an equitable sharing of the wealth inherent in today's and future generations.

The funds of the State Oil Fund are managed in accordance with the Rules on the preservation, investment and management of foreign currency funds of the State

Oil Fund of the Azerbaijan Republic. According to the rules, the fund's partners in long-term relationships may be financial institutions with investment grade credit ratings. In addition, part of the fund (min.30 mil. Azn - maximum 60% of the total portfolio) may be entrusted to foreign partners. To the place it should be noted that the investment portfolio of the fund does not allow the receipt of financial instruments (swap, futures and forward), and investing in securities and real estate is not allowed. Upon initial consideration of these rules, it becomes clear that the policy of the fund is conservative in nature aimed at minimizing the main risk. As you know, the movement of risk and expected return in one direction negatively affects the profitability of the fund (Kalyuzhnova, Y., 2006: p.65).

The formation of the budget of the fund is regulated according to the program "on the execution and compilation of annual expenses and profits of the State Oil Fund of the Azerbaijan Republic". The rules define items reflecting the structure, profitability and expenses of the fund, as well as their sources. The rules of the fund determine the structure, approval and execution of the budget of the fund associated with standard procedures, as well as regulate the distribution of powers, as well as control and reporting mechanisms among the relevant authorities. The document also identifies points and sources depicting the structure, expenditure and profitability of the fund. Thus, the document details the features of the device sources of profits associated with the implementation of the oil agreements and the management of the fund. So, by classifying the budget expenditures of the fund, the basic principles and directions of their formations and performances were depicted.

The profits of the fund are generated from two sources, from the profits acquired from the implementation of the oil agreements and the management of the currency resources of the oil fund. The profits acquired as a result of the implementation of the oil contracts include the following:

– Profits acquired from the sale of uncultivated oil and gas sources attributable to the share of the Republic of Azerbaijan (with the exception of payments provided for by law)

– Bonus payments

– Acrost payments

– Payment for renting the use of state property concluded with foreign companies

– Profits acquired from revenues and assets handed over to Azerbaijan in accordance with signed agreements with foreign companies

– Profits received as a result of interaction with foreign companies.

As noted, another source for generating profits of the oil fund is the profits acquired from the management of funds. According to the Program “on the execution and compilation of annual expenses and profits of the State Oil Fund of the Republic of Azerbaijan”, the profits acquired from the management of funds include interest income, dividends, profits derived from re-evaluation of foreign exchange assets, etc.

2.3. SOFAZ in national economy

On December 29, 1999, the national leader Heydar Aliyev signed the Decree "On the establishment of the State Oil Fund of the Republic of Azerbaijan".

The basis of the philosophy of creating the State Oil Fund of the Republic of Azerbaijan (SOFAZ) is to ensure a fair distribution of oil wealth between generations. If one of the main tasks assigned to the Fund is to accumulate oil revenues for future generations, another equally important task is to use them for current generations, taking into account the current social needs of our country, the requirements of progress and economic development. When creating the Oil Fund, the experience of similar structures from other countries of the world was used, recommendations of international financial organizations were taken into account, and local peculiarities and existing needs were also taken into account (Abbasov Ch.M., 2015: p.147).

It should be noted that one of the main tasks of the state is to ensure an optimal balance between foreign exchange funds used for the needs of the current generation and accumulated as a reserve for future generations.

With the establishment of the Oil Fund, the volume of assets was equal to 271 million US dollars. In 2012, this amount is 34,129.4 million dollars. Since the beginning of the activities of the Oil Fund as of December 31, 2012, the Oil Fund as a whole received 83.4 billion US dollars (67.1 billion manats), and the Fund's expenditures for the period totaled 49.6 billion US dollars (40.6 billion manats).

In accordance with the provisions of the Petroleum Fund, its funds can be used to finance infrastructure projects of national importance, solving problems for the purposes of the country's socio-economic progress.

Most of the Fund's expenditures consist of transfers to the state budget, which are directed towards creating the infrastructure necessary both to improve the quality of life of the population and to further diversify the country's economy. From 2003 to December 31, 2012, the total amount of transfers to the state budget amounted to 35,085.0 million manat.

During 2002-2006, 297.9 million manat was sent from the Oil Fund to finance the share of the Republic of Azerbaijan in the project of the Baku-Tbilisi-Ceyhan oil pipeline named after Heydar Aliyev, which is of great political, economic and strategic importance for the state. This oil pipeline provides direct transportation of Caspian oil to Europe and other markets, increases the geostrategic position of Azerbaijan in the region.

As a result of the Armenian-Azerbaijani, Nagorno-Karabakh conflict, 20% of Azerbaijani lands are under occupation, more than 1 million people have become refugees or internally displaced persons, who for a long time huddled in the most difficult conditions in wagons and tent camps. By decision of the national leader Heydar Aliyev, part of the funds of the State Oil Fund of the Republic of Azerbaijan was directed to finance measures to improve the social conditions of refugees. At the expense of the funds allocated in different regions of Azerbaijan, new settlements were built, equipped with the most necessary housing and communal conditions. Thanks to these activities, the last refugee camp was liquidated at the end of 2007. From 2001 to December 31, 2012, the Oil Fund allocated 1 157.8 million manat to finance this project.

Another key regional project, to finance which in the period from 2007 to December 31, 2012, about 341.5 million manat was directed to the construction of the Baku-Tbilisi-Kars railway - a transit highway, which can be called the “Iron Silk Road”. This road will allow to connect Europe and Asia, as well as to establish passenger and cargo transportation from China to Europe through Azerbaijan. This will serve to increase the transit potential of the countries of the region, speeding up the process of further integration of Azerbaijan into the world economy (Aliyev N., 2018: p.175).

The Oil Fund also finances two projects on water supply. One of these projects is the construction of the Oguz-Gabala-Baku water pipeline. For centuries, the Absheron Peninsula has had an acute problem with water supply. In connection with the expansion of our capital, the growth of the population in the city, this problem has escalated more. So in order to solve this problem, the country's leadership made a decision to build the Oguz-Gabala-Baku water pipeline. As a result of the construction of this pipeline, the population of the city is supplied with clean, fresh water. On December 28, 2010, President of the Republic of Azerbaijan Ilham Aliyev took part in the commissioning ceremony of the Oguz-Gabala-Baku water pipeline. From 2006 to December 31, 2012, AZN 779.6 million was allocated to finance this project. Since 2011, the financing of this project by the Oil Fund has been completed.

Another important project is the reconstruction of the Samur-Absheron irrigation system, which is necessary for the development of the country's agriculture. From 2006 to December 31, 2012, 895.5 million manats were allocated to finance the Samur-Absheron water canal.

In 2007, the Order of the President of the Republic of Azerbaijan on the “Training of Azerbaijani youth abroad in the period 2007-2015” was issued. This project, whose ideologist is President Ilham Aliyev, is a strategic step towards the "transformation of black gold into human capital." As a result of the successful implementation of this idea, Azerbaijan will be able to provide itself with highly qualified personnel necessary to ensure the accelerated development of the country.

From 2008 to December 31, 2012, AZN 54.8 million was allocated to finance this project. At this period, the total number of students enrolled in this program is about 1,590 people.

In 2006, the Oil Fund allocated 90 million manat to form the authorized capital of the Azerbaijan Investment Company. This company, created by order of President Ilham Aliyev, contributes to attracting investment in the non-oil sector in 2006. The purpose of the Investment Company is to make investments through the purchase of a minority share in the authorized capital of joint stock companies and other commercial organizations operating in the non-oil sector. As a result of the activities of the Investment Company in our country, we began to use modern investment mechanisms corresponding to new and modern principles. Thanks to the implementation of the new mechanism, the acquisition of investment shares of companies contributes to the revival of these institutions, the development of the non-oil sector, and on the other hand, the relationship between the public and private sectors is ensured and conditions are created for creating a favorable business environment (Bayramov A.I., 2017: p.45).

From 2013, the Oil Fund will finance the following projects:

1. Financing of the project of creating a high-speed fiber-optic network, providing an opportunity to reach all settlements in the Azerbaijan Republic;

2. Financing the share of participation of the Republic of Azerbaijan in the project of construction of the Oil and Gas and Petrochemical Complex;

3. Financing the share of the Republic of Azerbaijan in the project for the construction of the Star oil refining complex in the Republic of Turkey;

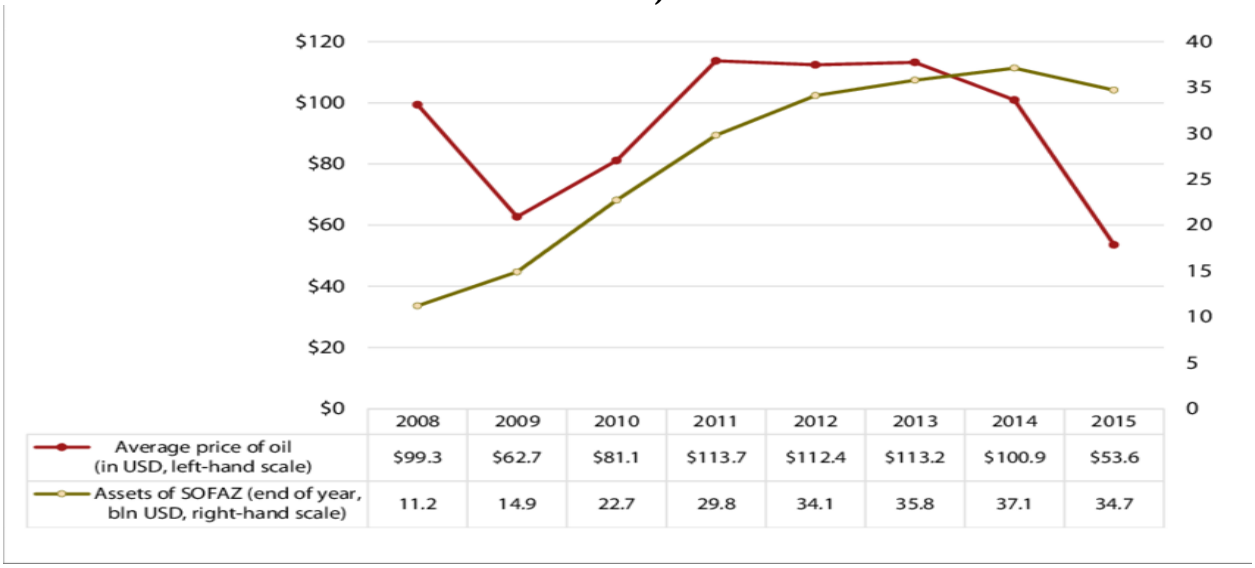
4. Financing the share of the Republic of Azerbaijan in the TANAP project;

5. Financing the share of the Republic of Azerbaijan in the project to build a new modern floating drilling rig in the Caspian Sea.

One of the main achievements of the Fund is the effective management of funds derived from oil. According to the changes in the “Rules for the drafting and execution of the program (budget) of the annual income and expenses of the State Oil Fund of the Republic of Azerbaijan”, approved on October 27, 2011 by President

Ilham Aliyev, a new Investment Policy of the Fund was adopted. According to the new investment policy, as well as to diversify the investment portfolio and increase the yield from its placement, it is planned to add new financial instruments, including shares, gold and real estate, to the Fund's investment portfolio. At the moment, the investment policy of the Fund allows you to invest up to 5% of your portfolio in stocks, gold and real estate, respectively (Hajiyev S.T., 2010: p.145).

Figure 2. Assets of the State Oil Fund of Azerbaijan (SOFAZ, end of 2015, in billion USD)



	2008	2009	2010	2011	2012	2013	2014	2015
Average price of oil (in USD, left-hand scale)	$99.3	$62.7	$81.1	$113.7	$112.4	$113.2	$100.9	$53.6
Assets of SOFAZ (end of year, bln USD, right-hand scale)	11.2	14.9	22.7	29.8	34.1	35.8	37.1	34.7

Source: Research Gate. Azerbaijan: Low Oil Prices and their Social Impact

The investment portfolio of SOFAZ by 50% will be formed from the assets of the fund in US dollars, 40% in euros, 5% in pounds sterling. The remaining 5% of the funds of the investment portfolio of SOFAZ can be placed in long-term liabilities of the United States, Germany, France, Great Britain, Italy, Canada and Japan, countries of the European Monetary Union, Russia and Turkey, stipulating that sovereign bonds of these countries should have a credit rating not lower than A from international rating agencies Standard & Poor's and Fitch Ratings and A2 rated by Moody's Investors Service.

SOFAZ began to acquire gold from February 1, 2012 from banks that are members of the London Association of the Market for Precious Metals. Gold is bought in batches of 10 thousand troy ounces (25 bars each) to minimize the risk of price changes. As noted above, in order to minimize the risk of price volatility, gold

will be introduced into the Fund's investment portfolio within 2 years by dividing the entire amount of gold into weekly purchasing.

At the end of 2012, 14.934 tons of gold (480,146 ounces) were included in the investment portfolio of the State Oil Fund.

The acquired gold is planned to be brought to Azerbaijan in the near future and the gold will be temporarily deposited in the Central Bank.

According to the SOFAZ investment strategy, five percent of the Fund's investment portfolio can be invested in real estate.

In December 2012, the Oil Fund acquired property in London, in Paris and in Moscow. For 177,350 million pounds, the State Oil Fund has acquired an office complex in London in the West End area at St. James 78, and for 135 million euros it acquired a building in Paris at 8, Place Vendome.

The last acquisition of the State Oil Fund has become the Gallery and Actor shopping and office center on Pushkin Square in Moscow. The cost of the transaction amounted to 133 million dollars. The influential index of the MSCI World stock market, which is less exposed to the risk of price volatility and includes more than 1600 large companies in developed countries, was chosen as a benchmark for SOFAZ investments in stocks. In 2012, SOFAZ invested about 600 million dollars in shares.

The Foundation is actively involved in the implementation of the Initiative of Transparency in the Extractive Industries in Azerbaijan. Azerbaijan joined the Extractive Industries Transparency Initiative (EITI) in 2003 (Hasanov R. T., 2014: p.78).

The Executive Director of the SOFAZ is the chair of the national commission on the EITI, established by the Azerbaijani government in November 2003. The EITI implementation (application) mechanism in Azerbaijan has been developed by the State EITI Commission, local and foreign mining companies operating in Azerbaijan, as well as the NGO Coalition on Enhancing Transparency in the Mining Industries. In accordance with this mechanism, the Azerbaijani government regularly discloses reports on Transparency. Azerbaijan is the first country to publish an EITI report (March 15, 2005)

At the 3rd International EITI Conference, held on October 14-16, 2006 in Oslo, the Norwegian capital, to ensure international support for the Initiative on Transparency and Coordination of the Initiative, it was decided to establish an International Board. Azerbaijan, as a country leading the implementation of the EITI, was elected a member of the EITI International Board.

In May 2007, the Oil Fund of Azerbaijan was awarded the UN Award for Public Service in the area of EITI implementation. The UN Award for Public Service, which is considered the most significant award in the field of public administration, was established by the UN in 2003 with the goal of public institutions in these countries for their achievements and the benefits they brought to their country.

The Oil Fund is the first state institution among the countries of Eastern Europe and the CIS to be awarded the UN Award for Public Service. In 2007, about 200 countries joined the struggle for this award, but after several stages only government organizations from 14 countries managed to achieve it.

On September 11, 2008, the Resolution on mutual understanding on the application of the Extractive Industries Transparency Initiative (EITI) in Azerbaijan was adopted by consensus of the UN General Assembly.

In February 2009, the 4th Conference of the Oil Industry Transparency Initiative was held in the city of Doha (the capital of Qatar), where Azerbaijan was accepted as a full member of EITI for its transparent activities, for regular income reports published for the public and for what the first state to pass the evaluation process. Azerbaijan was awarded the 2009 EITI Award. Azerbaijan became the first country to receive full EITI member status among other candidate countries. Azerbaijan was awarded the 2009 EITI Award.

III Chapter EU ENERGY SECURITY AND THE ROLE OF AZERBAIJAN AS A POTENTIAL ENERGY SUPPLIER

3.1. The main essence of the concept of ebergy security and the energy policy

Growth in energy consumption is directly dependent on population growth and income. Since 1990, the population has increased more than 4 times, real income - 25 times, and primary energy consumption - more than 22.5 times. Global trends such as industrialization, urbanization and motorization will significantly affect global energy demand. These trends have in the form of consequences not only an increase in the volumes of consumption and production of energy resources, but also a diversification of energy sources. Coal, gas and oil are gradually replaced by renewable energy sources. However, according to forecasts, hydrocarbon sources of energy will remain major in the consumption of both developed and developing countries.

The situation on the world market is characterized by the following four main cases:

– a sharp increase in the demand of developing Asian countries for energy supplies and non-OECD countries (about 75% of the demand, i.e. 13 million barrels per day;

– the increase in the gap between the volumes of consumption and the volumes of gas production in the developed economic countries (for example, by 2020 from 60% to 70% of Europe’s gas supply will be provided by imports);

– the increasing environmental factor and, as a consequence, the need to develop renewable energy sources (Renewable energy sources);

– insufficient information transparency of world oil trade.

In addition, it is worth noting the trends in demand for certain types of energy resources. According to forecasts, the lowest growth rates can be expected on the demand for oil. Mainly non-OECD countries, especially the rapidly developing economies of the Asia-Pacific countries, will provide this demand. The key factor in the growth of demand will be China, whose economy and industry is developing at

an amazing pace. Its consumption is estimated to increase from 8 million barrels / day (data for 2010) to 17.5 million barrels / day by 2030, and the country will overtake the USA, the world's largest consumer of oil. The annual increase in oil supply will be 1%, and the main increase will be provided by OPEC countries, in particular Saudi Arabia and Iraq. Thus, it can be assumed that the configuration of the countries-exporters of liquid hydrocarbons will not change much.

As for such an important energy resource as natural gas, here the forecasts are completely different. Natural gas is projected to be the fastest growing fossil fuel by 2030. In particular, promising technologies such as LNG (Liquefied Natural Gas) contribute to this. Already in the 1970s, LNG was traded. By 2005, the volume of natural gas liquefaction for exports increased rapidly and reached 189 billion m3. Thus, more than a quarter of natural gas in the modern world is exported in a liquefied form The Middle East will become a dynamic, developing region in gas production and consumption. It will demonstrate the world's second largest growth in these two indicators. The region's share in global consumption will increase from 12% (2010) to 17% (by 2030). And the share in global gas production will grow from 15% to 19%, respectively. Gas will noticeably press coal, especially on the European market, which is connected with the environmental policy of these countries.

All experts agree that in the near future there will be a noticeable increase in demand for VEI (renewable energy sources), which is associated with a shortage of traditional hydrocarbon energy resources and with the increasing influence of environmental factors.

Recently, global economic security has been widely discussed in almost all multilateral forums and conferences. At the same time, we can say that the concept of energy security does not have its own unified meaning, and in some cases the values that countries invest in this concept are completely opposite to each other. However, in the context of understanding this concept as a global security, energy security does not only mean preventing conflicts between suppliers and consumers,

within the group of supplier countries and within the group of consumer countries in the fight against energy resources, but also expanding access to energy.

Aerbaijan, taking into account its own competitive positioning in the global market, understands the problem of energy security as, first of all, the reliability of providing all countries and the entire population of the planet with energy resources.

In today's world, energy security is one of the important factors affecting the standard of living of the population. Moreover, due to its global nature, it is important to note the interconnection of energy policies and consumers and suppliers. Therefore, it can be argued that ensuring energy security is a worldwide task.

To accomplish this overarching task it is necessary to solve a number of serious and interrelated problems, such as:

- high and volatile oil prices;
- increasing energy demand
- the growing dependence of many countries on energy imports;
- the need for huge investments in all parts of the energy chain;
- the need to protect the environment and address climate change;
- politicization of the energy sector.

Azerbaijan makes its contribution to solving the problem of global energy security both directly in the development of the country's fuel and energy complex and in the course of expanding international cooperation.

Energy security is the state of protection of citizens, society, the state, and the economy from the threat of shortages in meeting their energy needs with economically accessible energy resources of acceptable quality, from threats to the uninterrupted supply of energy. At the same time, the state of security is a state that, in normal conditions, meets the fully justified needs (demand) for energy, in extreme conditions - the guaranteed provision of the minimum necessary amount of needs.

The formation of the conceptual apparatus of the DL is partly based on a reliable ideology (partly on the ideology of national security), but unlike the concepts of reliability of energy systems and uninterrupted power supply reliability,

which are attributes of power systems, the concept of energy security is more general load.

Energy security is characterized by three main factors:

– the ability of the fuel and energy complex to provide sufficient supply of economically affordable and high-quality fuel and energy resources (FER);

– the ability of the economy (as a system of consumers of fuel and energy resources) to rationally (carefully) expend energy resources and accordingly limit its demand;

– a sufficiently high level of resistance of energy and fuel and energy systems in general to disturbing influences in the implementation of potential threats to the DL (economic, social, political, technological, natural, managerial and legal), as well as the sustainability of energy consumption to deficiencies and supply disruptions caused by these threats.

At the same time, for the realization of these factors, society and the economy must ensure a favorable economic, political, institutional and other conditions, including a favorable investment and innovation climate. Thus, DL is an attribute not only of energy and even not only of the production sphere, but also of society as a whole. And therefore, DL has not only a techno-economic, but to a certain extent a political sense (World Energy - 2050 (White Paper): 2011).

Foreign experience in the study of energy security could be used very limitedly, since for the most part the developed countries of the world to a greater or lesser extent provide their energy needs by importing fuel and energy resources. This determines the direction of the relevant work on the energy security problems of these countries, mainly by studying (finding ways) to diversify imported sources of fuel and energy resources in order to ensure the energy independence of their countries. In general, works similar to those currently performed by a team of researchers at the Institute of Ecology and Mathematics of the Siberian Branch of the Azerbaijann Academy of Sciences have not been performed either in our country or abroad.

The above understanding (interpretation) of energy security has developed as a result of overcoming the broad and excessively narrow interpretations. A broad interpretation was given in and even in the draft Doctrine (Willenborg R., Tonjes Ch., Perlot W., 2004). According to this interpretation, the EB is determined not only by the infrastructural functions of the fuel and energy complex to meet the energy needs of society, but also by its special, “locomotive” role in the development of the Azerbaijann economy, the performance of such tasks as “ensuring a high measure of fuel and energy participation by the state” (“Maintaining economically viable energy exports”), “meeting technological and environmental safety requirements”, “promoting the strengthening of internal and external integration Discount bonds."

All these tasks really did and in part still stand before the energy sector (partly because the fuel and energy complex is no longer considered a candidate for a “locomotive” role, although the task of earning money through the export of fuel and energy resources (primarily oil and gas) to solve social problems and modernization of the economy is largely preserved). But these are other, in addition to ensuring DL, tasks, namely the tasks of the energy sector, the fuel and energy complex to ensure the economic and other components of national security.

Overcoming the expansive interpretation of the concept of DL was the additional category “energy aspects of national security” proposed by us, which in was defined as “a set of factors determining the influence of the quality and effectiveness of the development and functioning of the energy sector, the growth (decrease) of the energy economy on the level of national security and its separate components (types of safety) ". The explanations indicate that this concept takes into account the "contribution" of energy to the provision of, in addition to the DL, also economic, technological, environmental and other types of safety. Thus, the energy aspects of national security is a broader concept in comparison with DL and includes the latter (http://www.bp.com/ sectionbodycopy.do categoryId = 7500 & contentId = 7068481., 2013).

3.2. The EU energy mix

The problem of the stable provision of the economy with the required amount of energy resources with minimal risks takes leading positions among the foreign policy issues of almost all countries of the world, both developed and developing. Today, one of the most important places in state processes is occupied by the problem of energy security, and in the European Union this issue is one of the aspects of the foreign policy strategy. In the XXI century. the issues of determining the price of oil and natural gas, favorable conditions for the supply of hydrocarbons gradually went beyond the economic plane and got a geopolitical tint. The problems now mentioned determine the stability of political alliances and coalitions, the life expectancy of governments, and are a source of potential conflicts and even regional wars. In the modern system of international relations, energy security is of great importance.

The energy world is clearly becoming multipolar, with Russia being one of the main players in the energy markets as a supplier of natural energy resources, and the EU is the largest consumer of resources in Eurasia (http://www.bp.com/ sectionbodycopy.do categoryId = 7500 & contentId = 7068481: 2013), OPEC policy is becoming more flexible, the role of India and China is increasing. In interstate relations, the energy factor is somehow present at all levels and is on the agenda of many negotiations.

The so-called energy diplomacy occupies a significant place in the foreign policy of most countries, it is an integral part of the mechanisms for ensuring national interests in the world economy. The world energy problem occupies a prominent and very important place in leading scientific processes. Among domestic and foreign studies there are a number of papers that examine the problems and features of the fuel and energy complex of the European Union.

Deepening the development of this issue was due to the emergence of an integrated approach to the disclosure of the logic and pattern of development of the energy policy sectors in Europe.

Among the Russian authors who are exploring the issue of the EU energy policy are V. Bushuev, Yu. K Shafranik, R. S. Greenberg, S. Z. Zhiznina; foreign authors studying this issue should include E.H. Christie, F. Hill, R. Willenburg. These researchers consider the main components of the energy security of states, the conditions of the European energy market, and also assess the processes of energy policy in modern conditions. However, despite the presence of a significant scientific base of the investigated issue, according to the author, it is necessary to consider the features of the EU energy policy in the context of the modern energy market in a more comprehensive manner, and also outline in detail the directions of the EU energy policy from a geostrategic point of view, give a detailed description of diversification processes in Europe, that at this stage of the development of the issue has not been implemented.

The development of the energy sector and the maintenance of its development at a sufficient level is a necessary condition for the functioning of the production and services sector. Within the EU, the tasks of energy development are identified as priorities (http: // eur lex.europa.eu/LexUriServ/LexUriServ.do uri = OJ: L: 2004: 127: 0092: 0092: EN: 2011). The European Union's energy policy is based on a thorough analysis of global energy trends and the possibilities laid down by the peculiarities of the economic development of European countries.

A specific indicator of the state of the energy sector and the potential of partners for cooperation in this field is the fuel and energy balance. The quality of the fuel and energy complex (FEC) is determined by the reliability of obtaining energy resources, their diversity, sufficient quantity, reasonable price, the ability to replace one of the energy sources with another in case of unpredictable circumstances. Thus, at present, the fuel and energy complex of the EU countries is quite stable. This is ensured by the fact that there is no critically high use of any of the primary types of energy.

First of all, in the EU energy processes it is necessary to note a significant proportion of oil. The absence of critical indicators is determined by the fact that the

EU oil market is quite rich and diverse. Oil is supplied in two ways independent from each other: onshore oil pipelines - and by sea tanker fleet (White P., 2016: p.15).

Among other sources in the EU energy policy, a significant place is occupied by nuclear energy and alternative energy sources (solar panels, use of wind energy, etc.). For example, according to the BP report on the global energy situation for 2012, the growth rate of wind power will be on average 7.1% per year (http://www.bp.com/ sectionbodycopy.do categoryId = 7500 & contentId = 7068481: 2013). However, these types of energy production are not yet sufficiently applicable in the conditions of the European energy market, and the main place among energy resources is given to natural gas.

Most EU countries do not have their own gas resources and therefore are forced to import them. The exceptions are Norway, partly the Netherlands, Denmark and the United Kingdom. Norway's resources are valued as part of the EU's internal gas market with low political and technical risks. However, the Netherlands remains another influential gas exporter in the western market. The total volume of signed export contracts is estimated at 815 billion cubic meters. m, which is about 40 billion cubic meters. m annually (//www.esco ecosys.narod.ru/2011_4/art148: 2013). In the case of the entry into force of the so-called "reserve agreements" signed with Germany and Belgium, annual exports could reach 60 billion cubic meters. m of natural gas. The leading position here is occupied by Royal Dutch Shell. Denmark has lower gas production and export opportunities. Gas deposits in the North Sea sector of Denmark were not as significant as predicted. This situation became the basis for the government's recognition that in the next 3-4 years the country could turn from an exporter of gas into its importer. In order to protect themselves from energy risks, the EU countries are trying to diversify energy supplies. The development of alternative gas transmission routes occupies an important place in the strategic plans of European countries. One of the largest projects of such gas pipelines is Nabucco (Bogucharsky M.E.,: 2004: p.25), which aims to diversify the ways and sources of natural gas, as well as reduce Europe's geopolitical dependence on its eastern neighbors.

If you look at energy resources from a simplified position, you can talk about the presence of internal and external sources of diversification for the EU. The European Union cannot provide itself with its own resources; therefore, the main struggle in building the energy market concerns external players and the formation of systemic relations in the matter of ensuring energy supplies.

One of the important geographic directions of the EU energy policy is the African vector. In particular, Algeria is the third largest supplier of natural gas to the EU markets after Russia and Norway. After problems with Russian gas supplies to the EU countries, relations between Algeria and Europe became strategic in the energy sector (Grinevetsky S. R., Zhiltsov S. S., Zonn I. S. Black: 2007: p.45).

Thus, agreements have been reached on investment by European companies in the development of oil and gas fields in Algeria, as well as on the operation of some gas pipelines. In particular, the gas pipeline "Galsi", which connects Algeria with Italy through Sardinia and begins work in 2014. The second priority infrastructure axis of the EU is the direction that connects Algeria with the countries of southern and northern Europe. The project provides for the construction of four gas pipeline lines from Algeria through Spain, Italy, France and other EU countries.

Relevant is the development of relations with other African countries. In particular, there is the possibility of creating the Trans-Saharan pipeline. It is envisaged that the pipeline will pass through the territory of Nigeria, Niger and Algeria. The energy reserves of Nigeria are undoubtedly important for EU countries. This pipeline provides for the supply of natural gas from Nigeria to the Mediterranean countries and can be considered by European powers as an alternative resource for its energy system.

Another, no less important, direction in European diversification is Egyptian. Speaking about the Egyptian direction, it is necessary first of all to analyze the Trans-Arab gas pipeline (TAG). The TAG is designed to reduce the dependence of Turkey and the "young" Eastern European countries on gas imports from Russia. However, it should be noted that, turning to North Africa, Europe does not abandon

its traditional relations in the field of energy supplies with the Russian Federation. There are special ties between these partners in the energy sector.

The construction of the “Northern” and “Southern” pipelines is a sign of a strategic approach to the energy security of both parties. Russia is trying to take part in the EU energy market as an important player by participating in the development of energy deposits in African countries. This allows Russia, in addition to the supply of its own resources, to influence the functioning of the EU's internal energy market.

In addition to these areas, you should consider the possibility of cooperation between European countries and the Black Sea-Caspian region. For the EU, this region is a guarantee of the diversification policy, because the multitude of reserves in the countries of the Black and Caspian Seas basin allows the EU to guarantee supplies that do not depend on Russia (The southern flank of the CIS. “Common neighbors” and “Eastern partners” through the prism of the Caspian Sea. M., 2009).

It should be concluded that the EU energy policy primarily focuses on the diversification of energy supplies. The main idea of the proposed policy is not to achieve energy self-sufficiency and reduce dependence on external supplies, but, above all, to minimize the risks associated with such dependence. One of the main priorities in this direction are the provisions of the Green Paper, which is considered as the “European Strategy for Sustainable, Competitive and Safe Energy Policy” and provides an opportunity to build a diversification policy both geographically and by type of energy carrier.

Thus, the Green Paper, identifying key areas for finding answers to contemporary challenges, aims the EU to create and effectively implement a common energy policy. EU countries are raising the fundamental question of developing a new common European energy strategy, about being ready to follow the main principles on which such a strategy will be based (permanence, competitiveness and security).

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One of the main directions of solving the problem of energy supply in the EU countries should be associated with the development of non-traditional and renewable energy sources and high energy efficiency of consumption, however, classical energy resources occupy the main sector in the energy policy of the European Union. The geographical direction of the energy policy occupies a significant place in the policy of diversification. It can be said that the geography of supplies for the EU is expanding, but Russia still holds the leading place. For the EU, on the one hand, it is important to build relations in a strategic direction, and on the other, to try to create levers to counteract dependence. Therefore, as we see, the EU in its strategy builds active relations with African countries, Middle Eastern countries, as well as the countries of the Black Sea-Caspian region in order to ensure diversification of energy supplies.

3.3. The EU and The Caspian basin Azerbaijan

The oil prospects of the Caspian region are attractive. The report of the US State Department says: "With 27.5 billion tons of oil reserves, the Caspian region can play an important role in the global oil market. If the forecasts are confirmed, in the near future, the oil of the Caspian region may be 1/5 of the world oil reserves and equal to the reserves of Iraq and Kuwait. " Proved hydrocarbon resources are

estimated today at 7.8 billion barrels. By 2010, 3.8 million barrels of oil will be extracted here daily, which is about 60% of today's production in the North Sea, which has been steadily decreasing lately. By this time, more oil will be produced in the Caspian region than in Norway or Brazil, while the proven oil reserves are projected to be 1.5-2 times higher than the similar stocks of the Gulf of Mexico. In this regard, the Parliamentary Assembly of the Council of Europe recognized the Caspian Sea region as one of the main centers of European energy security, and the European Union (EU) will continue to cooperate and develop relations with all the Caspian littoral countries, especially with Azerbaijan. We are talking about the transportation of hydrocarbons from the Caspian region to the EU countries and about cooperation between the EU countries and the Caspian Sea as a whole.

The EU and Azerbaijan signed the "Memorandum on Strategic Partnership in the Energy Sphere", this is the first country with which such a document was signed. In early December 2006, the "Memorandum on Strategic Partnership" was signed with Kazakhstan. The document in its strategic focus is slightly different from the memorandum of the EU concluded with Azerbaijan in Brussels, during a visit to the European capital of Azerbaijani President Ilham Aliyev.

The "Memorandum on Strategic Partnership in the Energy Sphere", signed between Azerbaijan and the European Union, involves three main components. The first main component is the preparation of a strategic program of harmonization of the legislation of Azerbaijan with the laws of the EU countries. The second component is the strategic security of energy transportation from Azerbaijan. The third component involves the improvement of the management system for energy demand in Azerbaijan. These include global climate change processes, the use of renewable energy sources, the Kyoto Protocol and other issues. Summing up, it can be concluded that the memorandum is based on three main components - legislation, security and demand management.

As Azerbaijani President Ilham Aliyev stressed, "Today, the borders of the European Union are more and more approaching our region. Azerbaijan is included in the EU's New Neighborhood Policy. Therefore, the criteria that will be taken as a

basis in our region will become very similar to the criteria in force in the European Union. There is a very active dialogue between Azerbaijan and the European Union. Our transport capabilities, commissioned pipelines create a completely new situation in the region, thus. The Caspian region is even closer to Europe, ”said Aliyev.

The reason for the European Union’s choice of partners namely Azerbaijan, and through it the entire Caspian region, lies in the transport infrastructure already created and functioning through the commissioning of the BakuTbilisi-Ceyhan, Baku-Tbilisi Erzerum pipelines, the Sayyahar Aliyev Terminal. This infrastructure was created on the basis of friendly relations between Azerbaijan and Turkey and is an indicator of the most productive, practical and regional cooperation.

An important part of the geopolitical processes in the Caspian region is the immediate proximity of a number of large regional states and the presence of their interests here (Russia and Iran), the interests of the European Union countries and the USA, and the Caspian direction is one of the top priorities in China and Turkey’s foreign policy strategies.

Turkey, located at the junction of the regions with ¾ of the world's reserves of oil and natural gas, is a natural energy bridge between the main purchasing countries and the countries consuming energy resources. This circumstance brings energy cooperation in relations with the countries of the Caspian basin to the fore. After implementing the Blue Stream projects, Baku-Tbilisi-Ceyhan, Baku-Tbilisi Erzerum, Turkey faces the task of implementing the Samsun-Ceyhan oil pipeline project bypassing the Bosphorus and Dardanelles, as well as the Trans-Caspian gas pipeline. In addition, the expected extension of the BTC to Kazakhstan will strengthen Turkey’s role as a transit and distribution hub. Along with this route, the Nabucco gas pipelines (Turkey-Bulgaria-Romania Hungary-Austria) and Turkey-Greece Italy natural gas from the Shah Deniz field and then from other fields in the countries of the Caspian basin and the Middle East will become the fourth alternative source natural gas supply to European countries. In the near future, these projects will turn Turkey into the main energy corridor. For this, all participants face the task of implementing the East-West Energy Corridor, called the Great Silk Road. Energy

resources of the Caspian Sea are one of the main interests of China in Central Asia. This interest will increase with the economic development of China. The high rates of economic development determine the country's great need for energy resources, where today 160 million tons of oil are produced independently per year, and 200 million tons are already consumed. In this scenario, the Caspian fields are a potential source of oil and gas, since, according to Chinese scientists, oil and gas pipelines from this region are shorter and safer than alternative routes. Among all the Caspian states, Beijing gives priority attention to Kazakhstan because of its geopolitical position. In 1998, Kazakhstan and China signed a contract for the development of a field in Western Kazakhstan, and in the future, China is interested in building an oil pipeline from Kazakhstan. This will depend on the political need to diversify the sources of hydrocarbons, world oil prices and the growth rate of domestic demand for oil (Hill F., 2004: p.45).

As for the USA, the oil factor traditionally occupies one of the priority places in the US foreign policy. Providing free access to energy is one of the primary issues of US national security. In this regard, the zone of the Caspian region with its rich energy resources is strategically important for the United States and allows it to implement its policy to diversify the sources of imported energy resources and ensure their reliable supplies. According to the US global energy strategy, the Caspian region is one of three priority areas along with the American continent and the Middle East. The significance of the Caspian region has increased even more in connection with the critical situation in the Middle East and the confrontation between the USA and OPEC.

CONCLUSION

Today it is generally recognized that the Caspian shelf is one of the richest oil-bearing regions in the world. According to Western experts, only proven recoverable oil reserves of the Caspian Sea are about 4 billion tons (29 billion barrels), which is 2.6% of world reserves, and proven gas reserves are about 7 trillion. cc meters In the modern world, the oil factor is one of the main elements affecting international relations, therefore the oil and gas resources of the Caspian basin significantly influence the balance of power in the global energy market. The deposits of this region can, to some extent, weaken the dependence of the world economy on Middle Eastern oil. Until recently, the oil markets in the Eastern Hemisphere have been fairly stable between major suppliers. The main routes of supplying oil and oil products to the markets of the main consumers of liquid fuels have been established. Middle Eastern oil dominates the Western European and Far Eastern markets, where it is delivered by tankers. Russia can compete with it only in Western Europe. The recent political events in the Middle East and the threat of international and energy terrorism have forced hydrocarbon importers to look for other sources of raw materials, and exporters for other means of transportation.

Today, all the Caspian littoral states are actively engaged in exploration with the involvement of international oil companies, but the unresolved problems of the Caspian region and the resulting political differences can slow down, but not stop, the process of intensive development of the oil and gas resources of the Caspian Sea. stability and security of the Caspian region.

Large hydrocarbon reserves in the Caspian region and the prospects for the discovery of new deposits can significantly increase the level of global energy security. One of the priority issues in this region is to ensure the efficient export of hydrocarbons to the world energy market.

In addition to the vast reserves of energy resources, the Caspian Sea is a transcontinental transport corridor, connecting, on the one hand, Asia Minor, Central Asia and Transcaucasia with Europe, and on the other Europe with South-Western Asia and China. The location of the Caspian between the main existing and potential

markets for oil and petroleum products - Europe and Asia, as well as between the major energy suppliers Middle and Middle East, North Africa and Russia allows it to occupy a crucial place in the distribution and transportation of hydrocarbon energy in the world. Creating a modern, profitable and adequate hydrocarbon transportation system through the commissioning of the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzerum gas pipeline, filling them with high-quality raw materials from this region, the intensive process of integrating the Caspian countries into the world community, their participation in world trade, and the global demand for additional sources of energy raw materials and its uninterrupted supply, the readiness of the countries of the Caspian region for reliable cooperation - all this together leads to the establishment of the Caspian region as the only alternative guarantor of the energy security of the European Union.

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Appendix

SOFAZ 2019 budget approved (28.12.2018)

The incomes of the budget of the State Oil Fund of the Republic of Azerbaijan for the year 2019 are established out of the following revenues:

№	Income sources	Amount (in thousand manats)
2.1	Proceeds from sales of the Republic of Azerbaijan's share of hydrocarbons (deducts the costs of hydrocarbons transportation, banking expenses, customs clearances, independent surveyor, marketing and insurance costs, and also exclusive of the revenues from the SOCAR's share in the projects of which it is an investor, shareholder or partner)	13 218 752.6
2.2	Acreage fees paid by foreign investors for use of the contract areas for the development of hydrocarbon resources	4 692.0
2.3	Revenues from transportation of oil and gas through the territory of the Republic of Azerbaijan	19 040.0
2.4	Revenues from SOFAZ's asset management	1 442 495.1
2.5	Oil and gas agreements signature or performance bonuses paid by investors	765 170.0
Total		**15 450 149.7**

Budget expenditures of the State Oil Fund of the Republic of Azerbaijan for the year 2019 are assigned to the following purposes:

№	Directions of expenditures	Amount (in thousand manats)
3.1	Financing the improvement of social condition of refugees and IDPs	200 000.0
3.2	Upper bound of transfers to 2019 State Budget of the Republic of Azerbaijan	11 364 300.0
3.3	Administrative expenses of the State Oil Fund of the Republic of Azerbaijan	30 938.4
Total		**11 595 238.4**

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