

AZERBAIJAN

By Interfax-CNA

Azerbaijan increased its GDP by 10.6% in 2002. The private sector accounted for 73% of GDP. Industrial production rose by 3.6% and agricultural output rose by 6.4%. Production in the mining industry increased by 2.5% and production in the processing industry was up 5.5%. The largest increases were posted in the production of leather and leather goods (77%), metallurgy (43%), the chemical industry (40%) and production of wood and wood products (24%). Total investment in the Azerbaijani economy in 2002 grew by 82%, and foreign investment accounted for 75.5% of the total.

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

The Ministry of Ecology and Natural Resources (MENR) is expected to offer investors opportunities for joint development of precious metals deposits, and exploration by the ministry's geological service has identified a number of sizeable gold deposits.

In 1997, a contract relating to nine of them was signed. The contract was between the US-based company R.V. Investment Group Services (51%) and the Azerbaijani state-owned company Azergyzy (49%) Azergyzy has since been liquidated and its functions transferred to the MENR. Under the contract, nine areas possessing reserves of 400 t of gold, 2,500 t of silver, and 1.5 Mt of copper were to be developed. The US company agreed to invest nearly US\$500 million in the project, but it performed work worth US\$6.8 million and then put the contract on hold. It attributed this to low world market gold prices and said gold production under the contract would be profitable only if prices were above US\$300/oz. Legal analysts have been examining the contract to determine if any terms have been violated, and talks will then be held with the company to discuss the implementation of the contract.

Iron and Steel

Azerbaijan produced 40 t of steel last year, 10.1% less than in 2001. Pig-iron production totalled 516 t, up 11.2%.

The Baku Steel Co. plans to begin a second phase of expansion in 2003 to double production of steel reinforcements from 100,000 t to 200,000 t/y. The expansion is being carried out in three phases. The first phase began in 2001, and has raised annual production to 100,000 t/y for an investment of US\$48 million. The company will invest US\$3 million in the second phase, and the

the third phase, which will cost US\$10 million, will be launched at the end of 2004, and will lift output to 350,000 t/y. The company is preparing to receive a German DIN certificate to produce steel reinforcements, which will help boost sales. Baku Steel currently produces construction reinforcements, but will soon begin making roll and increase the range of its products.

The company finds it difficult to sell its products into the domestic market and in order to help it, the government has imposed new import duties on selected steel products. As from September 2002, import duties were raised from 10% to 15% for rebar and tubes up to 168.3 mm in diameter, and from 5% to 15% for some types of steel semi-manufactures.

In 1998, Baku Steel won a tender for the right to rehabilitate the Baku Welding Plant which involved an investment of US\$50 million. Design capacity is 350,000 t/y of rebar. The company's raw materials include scrap metal and it is fitted with state-of-the-art air purification. The company exports about 70% of its output, to Iran, the United Arab Emirates, Kazakhstan and Turkmenistan. Its main customers are private construction firms and individuals.

Aluminum

Fondel Metal Participation BV, the Dutch company that runs Azerbaijan Aluminum Corp., plans to start building a new aluminum smelter in Azerbaijan during 2003-04. The smelter location has not yet been finalised, but it will either be in Sumgait or in Ganja, and will have the capacity to produce 150,000-200,000 t/y of aluminum. Capital costs are estimated at about US\$150 million.

The existing smelter in Sumgait is only capable of producing 50,000 t/y. Given that only two of the four pothouses are to be renovated in 2003, the Sumgait smelter's capacity will be reduced to a maximum of 30,000 t/y. Azerbaijan Aluminum's Ganja alumina refinery has the capacity to produce 600,000 t/y, hence production of aluminum in the country could be raised to 300,000 t/y.

Meanwhile, the Ganja refinery proposes to sell some of its alumina abroad. A five-year contract was signed with Ansol of the UK to deliver 360,000 t/y of alumina. In 2003, the refinery will produce about 400,000 t of alumina for the Sumgait smelter and for export.

Azerbaijan Aluminum is currently in talks with the electricity company Azenergy with a view to rehabilitating the power station in Ganja. The plant is not operating at full capacity at present. After renovation, the plant will be able to generate 60 MW. Some of this can be used in Ganja and some supplied to the Sumgait city power grid.

Azerbaijan Aluminum was set up in April 2000, by the Sumgaittsvetmetall, Glinozyom Production Association of Ganja, Dashkesan Mining Combine and Zeilik Alunite Co., and has been managed by Fonsk Management, a subsidiary of Fondel Metal Participation B.V. The Dutch company has pledged

to invest US\$1 billion in Azerbaijan Aluminum over 25 years, with US\$500 million to be released in the next five years.

Oil and gas

Production of oil and gas condensate in Azerbaijan in 2002 increased by 2.9% to 15.335 Mt. According to the Azerbaijani State Statistics Committee, gas production in the reporting period fell by 7.1% to 5,143 million m³, including 2,025 million m³ of natural gas. Offshore production was 19.9 times more than dry land production.

Azerbaijan International Operating Company (AIOC) produced 6.34 Mt of oil and 951.6 million m³ of gas, which was 493,100 t and 64.3 million m³ more respectively than in 2001. AIOC expects to produce 6.45 Mt of oil and 890 million m³ of gas under the Azeri-Chirag-Guneshli project.

The State Oil Co. of the Azerbaijani Republic (SOCAR) produced 8.94 Mt of oil, down 0.75%, and 4,096 million m³ of gas. SOCAR plans to produce 8.9 Mt of oil and 4,150 million m³ of gas in 2003.

SOCAR plans to complete structural reforms by the end of 2003. Under a decree by Azerbaijani President Heydar Aliyev, a production association, Azneft, is to be set up based on the two main SOCAR production subdivisions - Oil and Gas production on Dry Land and Oil and Gas Production at Sea. The oil refinery Azerneftyanadjag is to be set up based on the Azerneftyanadjag production association (a SOCAR subdivision producing light fractions) and the Baku Deep-Water Structures Plant will be set up based on the production association Shelfproyektstroi. The production association Trunk Pipelines will be reformed as the Oil Pipeline Department; and the Foreign Economic Relations Department and the production association Azernefttadjizat will be reformed as the Marketing and Economic Operations Department.

Meanwhile, Azerbaijan continues with the implementation of the Baku-Tbilisi-Ceyhan oil-pipeline project. The cost is estimated at US\$2.95 billion and the 1,740 km pipeline will have an annual capacity of 50 Mt. It is planned to commission the pipeline, which is being built by BTC Co., in 2005.