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Azerbaijan's Oil Fund CEO: Stable, long-term approach needed to spending oil revenues **22 October 2009**

News.Az interviews Shahmar Movsumov, chief executive of Azerbaijan's State Oil Fund, SOFAZ.

Some analysts and international organizations forecast the end of the world economic crisis, or at least of its first stage, by the end of 2009. US President Barack Obama has made a statement on this. How would you assess the readiness of the State Oil Fund of Azerbaijan for such force-majeure situations, and have the assets of the fund suffered greatly during the crisis?

First of all, though President Obama has said the crisis is nearing an end, economists still cannot agree on this. It is possible to say that the worst part of the crisis is over. A stabilization process may be beginning and the debate now is about how long it will take to shrug off the recession.

As for the oil fund, despite the decline in almost all kinds of assets in 2008, we have managed to preserve a relatively high rating for our portfolio and have no losses, mostly thanks to the conservative policy conducted on the management of reserves and their investment into less risky equities. I would repeat once again that this is connected with our decision early in the year to adopt a more conservative policy and secure ourselves against possible risks. Most world funds, including pension funds, sovereign wealth funds and regulation funds, have lost money. Meanwhile, thanks to our cautious policy, we have managed to raise our assets. Naturally, when the time comes and a steady emergence from recession can be seen alongside serious economic growth, which is predicted for the second half of next year, SOFAZ will make some changes to its strategy - it will move from a conservative to a more profitable policy. But it is too soon to talk about this now.

The International Monetary Fund and some other financial institutions have voiced concern that SOFAZ is spending funds on strategically important

projects or infrastructure and have called for the accumulated funds to be preserved for future generations. Now that some of these projects have been completed or are in the process of completion, is it possible to say that these comments are wrong and that the use of the oil funds is justified?

First of all, the existence of the fund represents support for future generations in itself. If SOFAR had not existed and all revenues had gone to the state budget, there would have been no support for future generations. The fund has received more than USD 27 billion so far. This figure includes oil and gas revenues and revenues from management of the fund's reserves. The fund's assets have neared 14 billion US dollars, so we have preserved more than half of the revenue received. This means that half of the revenues have been spent on the current generation and half are for the future. A balance in this issue is obvious.

As for the objections of international financial institutions to the use of the fund's reserves on projects, this concern was raised only once and was related to the BTC project. At that time, the fund's idea was that BTC is a commercial project and should be financed by investors, banks and financial organizations. But this issue was settled positively under Heydar Aliyev's leadership. Time has shown that this decision was far-sighted. The BTC pipeline, which bears Heydar Aliyev's name, is Azerbaijan's main, vital connection to the world oil market. It provides the opportunity to transport a million barrels a day. The larger part of SOFAZ revenues depend on the operation of this pipeline. On the other hand, it turned out to be a very profitable financial investment. We receive dividends from our share in BTC. For example, this year we will receive 140 million dollars in dividends, paid by BTC to the oil fund. And that concern of the international financial institutions is not so relevant now. Everyone has realized that the decisions taken at that time were the right ones and had the aim of saving money.

Is the price per barrel of oil set in the 2010 budget justified, considering the difference between current prices and the future price in the state budget?

This is another reason for the existence of our fund and illustration of the danger of not having savings in an oil-producing country. When we were setting an oil price of 70 dollars in the 2009 budget in late 2008, everyone was saying "why are you setting a price of only 70 dollars when the real price is 140?" Time has shown that even 70 dollars was too much. Today, when we are setting a price of 45 dollars for next year, everyone is saying that the world economy and oil prices are stabilizing and the amount is too low. But it is dangerous to tie state expenditure to unstable oil prices, because had it not been for the forecast revenues, the budget would not have been able to pay salaries and pensions. But owing to the oil fund, all these changes in price influence only the budget of this fund. We are a protective cover for the state budget. Transfers from the oil fund to the state budget are fixed in manats. Changes in oil prices affect the balance of the oil fund, not of the state budget. This is mandatory for the countries where revenues from natural reserves make up the greater part of state budget revenues, for as we can

see the prices for natural resources have been too variable in the past two to three years.

Then wouldn't it be easier to set a stable oil price in the budget and not change it every year?

It is too dangerous to run after oil prices. It is better to rely on the question of how much we can spend without spoiling the economic balance; how much we can spend from the fund without damaging the fund's long-term stability. All these indicators are more important than the oil price, as that's something we cannot regulate. When we speak of spending oil revenues, we should always take a long-term, stable economic approach. This should be taken into account so that the oil incomes will last for longer if not forever.

What do you think about reports of secret talks on replacing the dollar as the currency used for oil purchases?

I think that no currency can now reach the level of the dollar or euro, but discussions are being held and Russia and China are voicing their views on the issue. Yet, practice shows that it is impossible to transfer trade carried out in US currency and estimated in trillions of dollars into a different currency.

Azerbaijan is still a leader in the extractive industries transparency initiative. How has Azerbaijan benefited from it and why doesn't it need to lead in this process?

Some processes raise questions, while some questions are answered. The transparency initiative responds to questions and removes them from the agenda. Before we started to implement the transparency initiative, most people, including the media, public organizations and ordinary citizens asked how these oil revenues reached Azerbaijan, where they were held and cited the examples of Turkmenistan or African countries with their problems. This means there was concern amongst the public about a lack of transparency. The transparency initiative has taken all these issues off the agenda. It has informed the public about where Azerbaijani oil revenues are held. As a result, one question has been replaced with another - how should these revenues be used? Certainly, Azerbaijan is leading in the implementation of the transparency initiative and that is important to us. And if any country is lagging behind in this issue, it means it has some problems. For example, Nigeria published a report in 2005. Four years have passed since then, but there has not been any new report. Most countries have some problems with this process.

And have there been any problems in Azerbaijan in attracting companies to the initiative?

Azerbaijan is a strong state and when the government tells a company that it should release its transparency report, the company does it - they always

cooperate with us. I would like to cite an example from another country. When we were discussing Liberia, while making a report they found that an employee of one of the production companies had forged documents and stolen money. Now this person has been convicted. It means that this initiative was a real help to Liberia in revealing shortcomings. Thank God, we haven't found any such negative instances yet and we will continue to implement this Initiative.

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