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AZERBAIJAN'S SOCAR SEES COMMERCIAL BENEFITS FROM OPEC/NON-OPEC DEAL

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Azerbaijan's participation in the OPEC/non-OPEC production agreement will bear fruit beyond stabilizing oil prices, with state-owned producer Socar expecting further commercial cooperation with other members of the coalition, a top company official told S&P Global Platts in an interview this week.

The agreement has benefited Azerbaijan's state budget, which is heavily dependent on energy prices, and has helped Socar plan its capital spending, Elshad Nassirov, Socar's vice president, marketing and investments, said. Socar has budgeted for an oil price of $60/b in 2019.

"Of course the biggest risk is the volatility of prices, but we are pretty sure that this year and next year the price will be stable, not going down below $60/b," Nassirov said.

His comments followed meetings with energy ministers and company officials on the sidelines of the OPEC/non-OPEC Joint Ministerial Monitoring Committee meeting held in Baku this week -- the first time the Caspian country has hosted such an event.

Nassirov said Socar continues to support Azerbaijan's participation in the agreement and does not expect the company to suffer any damage from holding back production.

The deal has increased contact between Azeri and OPEC officials, which Nassirov said may lead to greater commercial cooperation. Saudi officials have taken part in several meetings to discuss expanding energy cooperation with Azerbaijan in recent weeks and last year Saudi Aramco opened an office in Baku.

"The fact that Saudi Aramco opened up a big office in Baku means that they are interested in Caspian Sea development and of course cooperation and possible investments of Saudi Aramco in the Caspian is not limited to the Azerbaijan sector only," Nassirov said.

He did not provide any details on specific cooperation projects

Under the current OPEC/non-OPEC agreement, Azerbaijan has a voluntary production level of 776,000 b/d, which is 20,000 b/d below September 2018 volumes.

Last week the country reported February production of 806,000 b/d, unchanged on the year. Nassirov said the company would eventually get into full compliance through field maintenance.

"Of course that is not a problem for us," he said.

Azerbaijan's crude and condensate output is expected to remain flat over the next few years, as rising condensate output at the Shah Deniz 2 project compensates for declining output at mature fields.

"Our exports will be approximately 32.6 million mt, and overall production is expected at a level of 39 million mt," Nassirov said when asked about crude and condensate volumes in 2019.

This is equivalent to 654,679 b/d and 783,205 b/d respectively.

He added that production at Socar's key Azeri-Chirag-Guneshli project will be 26.5 million mt in 2019, and "approximately the same" in 2020.

Condensate production at its Shah Deniz project is forecast at 3.8 million mt in 2019 and then rising by around 18% to 4.5 million mt in 2020.

EXISTING PARTNERS

As well as developing closer links with OPEC, Socar is looking to bolster cooperation with existing partners, including global oil majors and its Caspian neighbors.

Nassirov said he thinks investment volumes in Azerbaijan's oil and gas sector are sufficient today.

"I think so, yes... since we don't have any problems bringing in foreign and domestic investments," he said.

Last year the ACG production sharing agreement was extended up to 2050, with partners estimating they will invest $40 billion over that period.

Azerbaijan is also looking to increase cooperation with other Caspian states, particularly on transportation. Socar works to maintain flexibility in its hydrocarbons transportation network, for example by maintaining the Baku-Novorossiisk pipeline after the launch of the Baku-Tbilisi-Ceyhan pipeline to keep alternative options available.

Socar transports crude oil from Turkmenistan across the Caspian Sea in tankers to the Baku-Tbilisi-Ceyhan pipeline.

"Last year we transshipped approximately 4.2 million mt [of crude from Turkmenistan]. We expect this figure to be lower this year, but in 2020 I think it will be no less than 4 million mt," Nassirov said.

Socar also signed memorandum of understanding with Kazakhstan's KazMunaiGas earlier this year that envisages increasing cooperation on oil and gas production as well as transportation.

In the medium term this may include Kazakhstan resuming deliveries via the BTC pipeline network as oil production there grows.

"It depends on production in Kazakhstan, but we expect their volumes to be in the BTC pipeline in years to come, in the nearest future," Nassirov said.

He pointed to the fact that BTC has spare capacity and offers direct delivery to the Mediterranean Sea, with no need to pay freight for entry and exit from the Black Sea as advantages of using the route.

GAS, DOWNSTREAM

Socar is also diversifying its portfolio as part of its strategy to mitigate risks associated with volatile oil prices, with gas and downstream operations set to play a more important role.

Azerbaijan's gas output is set to increase by around 20% this year.

Last year the country produced 30.49 Bcm, according to Socar figures. Nassirov said gas output will rise to 38 Bcm in 2023 and to 47.6 Bcm in 2025. Gas output at Shah Deniz 2 is set to reach 17 Bcm by 2021, he said.

These forecasts may increase as projects such as Shafag-Asiman, currently in the exploration stage, are developed.

Socar's diversification program also includes increasing LNG trading volumes, as well as investing in FSRUs and joint construction of oil product terminals. Last year it opened the STAR refinery in Izmir, Turkey, which produces gas oil and jet, with no gasoline.

"We signed a contract with Rosneft and 1 million mt is supplied by Rosneft; other sources are Iraq, Africa and several others," Nassirov said, when asked about feedstock for the Turkish refinery.

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