Azerbaijan: Oil and Gas Sector Briefing

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<tr>
<td>Population:</td>
<td>9.8m</td>
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<td>GDP:</td>
<td>$38.2 billion</td>
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<td>GDP per capita:</td>
<td>$3,914</td>
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<td>Inflation:</td>
<td>13.9%</td>
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<td>Average monthly salary:</td>
<td>470 AZN/ 276 USD</td>
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<td>Unemployment:</td>
<td>5.07%</td>
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<td>Ease of doing business rank (2017):</td>
<td>57th (out of 190)</td>
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Azerbaijan holds 1% of the world’s oil and gas reserves; however, it has disproportionate importance for the European energy security;

Azerbaijan is home to 4000 UK nationals with 513 UK companies in operation. The vast majority of these support BP’s activities;

The UK is the single largest investor in Azerbaijan responsible for 51% of total foreign investment and 10% of the country’s GDP. BP & its partners have invested $66 bln since 1994.

Azerbaijan operations make up 20% of BP’s global production;
The value of UK exports to Azerbaijan £800m - service sector, technologies, engineering equipment and oil machinery

The value of Azerbaijan’s exports to UK £40m - oil and oil related products

UK-Azerbaijan JETCO (Joint Economic Trade Cooperation Committee) – Annual Ministerial Dialogue

Aims:
- to increase bilateral business
- ease market barriers and issues
- provide a formal platform for UK Energy supply chain companies to discuss issues and receive UK government’s support
On 14 September 2017, State Oil Company of Azerbaijan and BP-led consortium signed an agreement on extension of PSA for ACG fields until 2050.

- 40 bln $ investment in the next 10 years
- 3000 jobs in the UK & Azerbaijan
- Opportunities for 200 supply chain companies
Opportunities: Fields and Prospects

Azeri-Chirag-Guneshli
BP (op): 35.83%
Statoil: 8.6%; Chevron: 11.3%
SOCAR: 11.57%; INPEX: 11%; Exxon: 8%; TPAO: 6.7%; Itochu: 4.3%; ONGC: 2.7%

Shah Deniz
BP (op): 28.8%
Petronas: 15.5%; NIC: 10%
SOCAR: 16.7%; Lukoil: 10%
TPAO: 19%

Bahar Gum-Deniz
Bahar Energy: 80%
SOCAR: 20%

Bulla Deniz
SOCAR: 100%

Umida-Babek
SOCAR Umid JV
SOCAR: 80%
Nobel Oil: 20%

Umid-Babek
SOCAR Umid JV
SOCAR: 80%
Nobel Oil: 20%

Nakchivan
RWE: (op): 50%
SOCAR: 40%

Baku

Shafag Asiman
BP: (op): 50%
SOCAR: 50%

D230
SOCAR BP HoA

Absheron
Total: (op): 40%
SOCAR: 40%
GDF: 20%

Absheron
BP: (op): 50%
SOCAR: 50%

Shallow Water
Absheron Peninsular
BP SOCAR PSA

SWAP
Shallow Water
Absheron Peninsular
BP SOCAR PSA

SOCAR BP HoA

D230

SOCAR BP HoA

Alov-Araz-Sharg
SOCAR: 90%
TPAO: 10%
High technology parks established near Baku with the purpose of attracting foreign investors and developing local manufacture. **Special tax regime** is provided for residents of such industrial and technology parks. It includes certain tax holidays and exemptions for 7 years:

- No income tax on any income
- No profit tax
- No VAT on import of machinery, technological equipment and plant
- No property tax
- No land tax

Examples: Sumgait Technologies Park (STP), Sumgait Chemical Industrial Park (SCIP)
PSAs in Azerbaijan prevail over the existing legislation.

- 30 PSAs & 90 supplementing Protocols though not all are operational
- no one set of rules which is applicable to all PSAs
- PSAs provide more transparent framework for operations
- 0% VAT

PSAs are negotiated with SOCAR, commented on by relevant state departments, ratified by the Parliament and firstly, approved by President.
Local content requirements in Azerbaijan are generally contractual as most originate from PSAs rather than legislation.

Price premium is 10% as per ACG & Shahdeniz Protocol concerning Azerbaijan Republic import & export duties.

Strong support to:

- local manufacture and assembly
- Joint ventures (SOCAR-Cape, SOCAR-KBR, SOCAR-Petrofac, Millers Oils Azerbaijan)

Foreign companies/contractors are required to undertake a nationalisation plan for 5 years. They commit to develop national professionals so that they can take over the maximum number of jobs.

- 90% of nationalisation of professional staff
- a revised recruitment strategy
- various learning and development initiatives
Launched in October 2015

Aim: to help UK and Azerbaijani companies form long term relationships in the oil & gas industry

4 Programme visits so far and over 60 companies have participated in the market engagement 24 partnerships formed in engineering, fabrication, components/ materials, manufacturing

Export wins totalling £1.7 billion gained

Future focus: technical workshops to introduce ‘supplier led’ advances. Subsea Technology and Field Integrity Enhancement enabling De-manned Operations and Regional Skills Development, including Drilling and Operations.
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Thank you!