

Energetika naziri Natiq Əliyevin "Caspian Energy" jurnalına müsahibəsi

25 may 2017-ci il tarixində Vyanaada OPEC Nazirlər Şurasının 172-ci iclası çərçivəsində Neft İxrac Edən Ölkələr Təşkilatına (OPEC) üzv və qeyri-üzv dövlətlərin növbəti görüşü ərəfəsində energetika naziri Natiq Əliyev "Caspian Energy" jurnalına müsahibə verib. Nazir OPEC və qeyri-OPEC ölkələri tərəfindən neft hasilatının azaldılmasına dair əldə olunmuş razılaşmanın Azərbaycanı qane etdiyini və rəsmi Bakının razılaşmanın müddətinin uzadılmasınının tərəfdarı olduğunu açıqlayıb. Bununla yanaşı nazir bəyan edib ki, Vyana görüşündə sürpriz olmayacaq.

We will manage to reach consensus on the issue that makes the world uneasy - Minister of Energy of Azerbaijan

Caspian Energy (CE): Mr. Aliyev, how do you assess the consensus reached between the OPEC and non-OPEC states? Will these agreements be able to help to balance markets?

Natiq Aliyev, Minister of Energy of Azerbaijan: I think we should give a little glance back to the history. Ever since 2014 when oil price started rapidly falling at the world market, many experts, politicians, economists and financiers have begun seeking reasons, main factors which caused rapid oil price decline. The opinions were certainly various. Some thought that it is simply a policy while the second group of experts found it to be a speculation that would not last long. In other words, they expected sooner recovery of the market. The third group of experts associated the market situation with a common decline of the economic development rate of such countries as China and India.

Time had passed before everyone realized that it was absolutely another case. Though, the rates of the economic decline remained at a low level, OPEC's oil production did not respond these challenges adequately. As a result, the price continued falling. Then many experts began to associate the cause of the market situation with the shale oil factor and considered it to be just another game initiated by the USA. Of course, many oil producing countries started facing budget problems because high revenues imply the growth of expenditures. When a crisis occurs, a state is not able to regulate revenues and expenditures moreover long-term obligations play their role. Many countries faced the same situation, including Saudi Arabia. Two years later countries-producers started seriously considering concrete measures because otherwise the financial standing of their economy could become more aggravated. The first meeting took place in Doha late in 2015. Opinions varied there. The participants had to wait four hours, though it was announced that the session would start at 10am. As for explanations, Iran and Saudi Arabia were holding consultations. Though, the preliminary draft agreement was prepared beforehand, Minister Naimi told us that Iran is not among participants while OPEC's rules state that consensus can be reached only if all OPEC members participate in the meeting and express their consent. As it is said, things don't work the first time. I think that meeting did more harm than good for the market situation and caused the rise of speculations at the market. If you remember, it was then that the news saying oil price

would fall below \$30 appeared. There were also pessimists (I would say pessimists for us and optimists for themselves) who assumed that the oil price would even fall down to \$20 per barrel.

Once again I want to emphasize that I find it a negative sample when people gather for a certain purpose and cannot reach the consensus. If the parties cannot reach agreement and no preconditions are available, then it is more reasonable not to gather at all. Secondly, you might remember October 2016 when the market was very unstable and there was a meeting held in Algeria with participation of all parties. It was suggested that if OPEC countries assume an obligation to produce no more than 32.5 mln barrels per day, it was considered to have a positive impact on the oil market. An agreement in Vienna was signed on November 30 right after it where 13 OPEC and 11 non OPEC states gathered. Azerbaijan joined this agreement. 24 oil producing countries gathered. The meeting had a big audience and marked an active discussion. As a result, the non OPEC countries assumed an obligation to cut production. Russia was assigned to stick to 300,000 barrels a day. Our position was based on the real average daily oil production figure of 2016 and the forecast for 2017. Compared to average oil production, we assumed an obligation to cut production by 35,000 barrels per day in the first half of the year. The declaration on cooperation was signed on December 10, where all our obligations were written down. I do believe it was the first important joint agreement reached throughout the whole history of OPEC and non OPEC states. The second significant advantage of this meeting was the determination of the method and mechanism of influencing the market by means of consecutive and agreed reduction of oil production. Monitoring and technical committees were established to study and control the market situation. They have already held two sessions this year. They gave positive conclusions about the fulfillment of these agreements and about the influence of undertaken obligations on the market. Thanks to it, the oil price remained practically stable within \$50-55 per barrel starting from January.

CE: Is it acceptable for Azerbaijan?

Natig Aliyev: It is rather acceptable for Azerbaijan. Price stability and predictability is of great importance to us. We are the country which is certainly dependent on oil price at the world oil market as it is included into the calculation when setting the budget revenues. As you know, this year we have taken \$40 as the basis. If the price stays at \$50, it means that we are going to have a budget surplus during five months. It is rather a positive factor for our economy and is certainly of great importance.

CE: Will there be a consensus reached on prolonging the agreement?

Natig Aliyev: Minister of Energy, Industry, and Mineral Resources of Saudi Arabia Khalid Al-Falih has recently paid a two-day visit to Baku on my invitation. I should say that besides him I talked to ministers of Kuwait, Egypt and they are all quite optimistic. On the other hand they highly appreciate the results of the reached agreements. I have not had relevant consultations with Iran but I think that Iran will not also oppose the agreement in this case either.

CE: Moreover they have reached the pre-sanction production rate making 4 mln barrels ...

Natig Aliyev: They now set the task to reach the pre-sanction oil production and secure the position and quota meeting their potential in the OPEC reference basket. Initially when

the sanctions were lifted they chose the path of assertiveness. It was important to us that OPEC strictly adheres to its undertaken obligation not to exceed production rate 32.5mln barrels per day. The way the OPEC members were going to settle this issue among themselves was their internal business. During my meeting with Saudi Arabian Minister Khalid Al-Falih we exchanged opinions, held consultations and agreed that at the next Vienna meeting we would speak for extension of the agreement as it gave such a positive effect – the producers are satisfied and the most important thing is that the global economy managed to absorb this price. Then the Minister left for Russia and Kazakhstan in order to reach agreement with these countries. I think his trip was successful. We also agreed that Azerbaijan would support the proposal to prolong the agreement until the end of the year. It is a little bit harder with Kazakhstan's position as it launched a new field Kashagan. And it is quite natural that the new field has to reach a certain rate of commercial production. But I think that Kazakhstan will find a solution for this problem. Russian Federation's Energy Minister Alexander Novak has recently met with Khalid Al-Falih. In the course of the meeting it was offered to prolong the Vienna agreement for the following 9 months, namely till the end of the first quarter of 2018. I think that the results of the monitoring held by the technical committee will be announced at the next meeting fixed for May 25. Besides, there will be made certain conclusions regarding the trends and tendencies we are to face till the end of the year. I mean trends and tendencies on economic growth rates of continents and countries, the rate of current oil demand and supply, and whether there is a too high difference between supply and demand. I think each of us will make a suggestion how to make sure that oil supply does not exceed demand too much. After discussing these issues we will probably decide to prolong the agreement and in case of the necessity maybe we even will increase the production cut. The appeal to other countries to take adequate measures on oil production cut is also rather important.

CE: Is it possible to reach agreement with the USA on production cut?

Natig Aliyev: The USA is the cornerstone of the today's financial and price policy in the world market. In fact, they were the catalyst for a significant decline, sharply increasing shale oil production, cost price of which as many people said makes about \$ 90 per barrel. Its production is profitable only in case of high oil prices at the world market. Nevertheless, production volumes of this oil increased and the USA turned from the biggest importer to an exporter and the production turned out profitable at \$60 per barrel. Therefore, when the oil price increased at the market it also raised the efficiency of shale oil recovery. The opposite process would cause the stoppage of production. One thing is clear that everybody will gain if the price is preserved at \$50-60 rate till the end of the year. The higher rate will involve other factors, which will level the production cut. Nevertheless, today I give quite an upbeat assessment of the market condition. Therefore, I do not expect any tricks and surprises from the results of the Vienna agreement. We will manage to reach consensus on the matter that makes the world uneasy.

CE: Mr. Aliyev, you have recently paid a visit to the USA. What are the results of your visit?

Natig Aliyev: In principle this conference which Houston hosts annually is one of the largest exhibitions for technologies, equipment which are applied in the development of offshore fields. It has an impressive subject and it presented know-how in the field of safety, equipment, safe performance of underwater operations, including well drilling. In

general, it is a good platform for specialists to discuss and apply new modern technologies. It is certainly of interest to us to know which companies are at the forefront of the offshore production technologies. In fact these are the same companies which are already working with us – BP, Total, Exxon and others. US Ambassador to Azerbaijan Robert Secuta was also within the Azerbaijani delegation.

I delivered a speech and spoke about challenges that we faced early in 90s when it was necessary to attract new technologies within a short period of time for an efficient and ecological development of our deepwater fields in conditions of the financial and economic blockade. Before signing the Contract of the Century we had faced a dilemma either to postpone the development of offshore fields, including Azeri-Chirag-Guneshli for 10-15 years until we manage to reach the technological level of their development or to invite the companies which already had such experience. Then we chose the second path. The present-day Azerbaijan has turned into a world oil center with its production infrastructure, terminals, oil and gas pipelines. We have become a self-sufficient country now. If we used to seek donors via large companies before, now when 25 years have passed there is a new generation of oilmen who developed, gained new knowledge and experience. Owing to this, we are not so badly dependent on foreign companies any more. Applying new technologies we drill to the depth of 6,000-7,000m. But one should not forget that many of the fields we are working on have been operated for over 50 years.

We must not become self-satisfied. When I was in Norway I was impressed with their technologies of distant control over operations. Jackets and platforms in the open sea are certainly our most vulnerable spot and can cause serious catastrophes.

CE: Are preventive measures taken today against force majeure in offshore fields?

Natig Aliyev: Force majors have always taken place. People and actually all industries are not immune from natural disasters, especially the industry that is associated with nature, subsoil resources. We should be prepared for everything and take maximum preventive measures against the destructive forces of nature, earthquakes, storms. I mentioned the experience of Norway. We are in need of consistency, which in turn requires finance, knowledge, technology.

We do possess fire fighting vessels, we possess vessels specially designed to rescue people in any storm, under any weather conditions. We have special methods for blocking emergency areas. In the process of drilling and development of wells we use capping devices, safety valves and other technical devices. But I believe only preventive measures are not enough. There also should be target-oriented programs so that to plan consequences and have a multiple-option plan of action for each individual case.

To do this, we interact with our foreign partners. They have more effective means for preventing and eliminating consequences of accidents. We should use their experience and knowledge as well.

CE: The matter of rehabilitation of old Caspian fields was actively discussed late in 90s. Is this topic vital now?

Natig Aliyev: Our new oil strategy was announced in 1994. It was aimed at developing our high-efficient ACG and Shah Deniz fields. And we knew they were large fields. Absheron, Umid and others were under exploration then. This new oil strategy was aimed

exactly at quick efficient achievement of economic results. Old fields you are talking about are certainly in need of rehabilitation. But they are not an attractive object for investments of big companies.

CE: But today there are methods to stimulate formation, much deeper penetration, branched-hole drilling...

Natig Aliyev: You know, it is much talked of, but unfortunately, there have been no concrete results or dedicated system work on rehabilitation of old fields yet. Of course there are some proposals to drill a bigger amount of wells, repair wells and produce oil but it still requires rather big investments.

CE: In other words it is impossible to make projects on rehabilitation of production at old fields attractive in terms of investments?

Natig Aliyev: Such technologies do exist. You don't have to go far afield. We did have all-union science-research institutes for oil-fields which were engaged in such tasks. They had certain results at experimental-industrial stage, which means that there is no broad introduction of advanced so called tertiary or thermal formation treatment methods. There were biological ways of increasing the reservoir recovery rate. Special bacteria strains were created. But they were not efficient enough in terms of economy. Only enthusiasts can work here so that to implement a science-research pilot project. For instance, our onshore fields are multilayer. Each field consists of several deposits. Each formation is a deposit which lives its own life. Therefore, we don't have an overall approach for their development yet, except for certain singular cases.

CE: What if we turn attention to the US experience when hundreds of private oil companies revived the market by their technologies...

Natig Aliyev: I would not want to compare Azerbaijan with other countries. Every state follows its own policy and ideology. This issue has not been a part of the state policy there. Private companies work out a project and if it is efficient they invest money and keep developing it further.

CE: How do frequent stoppages of construction on the TAP's route impact on the SGC project?

Natig Aliyev: From time to time we receive full information about the progress of construction and about things happening there. I am quite unanxious because we have repeatedly faced such situations while implementing such projects which were of regional importance in terms of their scale. You know, there are certain forces which sometimes stand against not only Azerbaijan but also the entire regional and international cooperation, development and progress. TAP is a European project. Our mission is to have gas delivered till the EU's border whereafter an intergovernmental agreement will take effect. It will regulate the obligations of the parties, terms of fulfillment of the project and sanctions in case if the infrastructure is not built on time which implies the time when Azeri gas must be supplied in accordance with contracts signed with the European consumers. We have signed an agreement with Italy as with a legal entity of the international law and a sovereign state. In case the terms of the agreement are not fulfilled, we have a legal right to claim the payment of relevant compensations. We hope for fulfillment of conditions of the intergovernmental agreement by Italy because first of all it is Italy which is deeply interested in implementation of this project. Besides, we stay

in constant touch with energy ministers of countries engaged in TAP, including Italian Minister Carlo Calenda. We are aware of his stance on the project and the situation that is coming about. Therefore, it does not arouse any concerns.

CE: As the project is being implemented, the interest of other producers in the Southern Gas Corridor is increasing. Are there any negotiations held on this issue today?

Natig Aliyev: Have you ever heard me talking about alien projects? While building Baku-Jeyhan, Baku-Tbilisi-Erzurum, we were told that we have no oil and gas and that these projects will be unprofitable without the engagement of other Caspian producers. As far as Azeri-Chirag-Guneshli is concerned, they even advised to forget about production in the volume of up to 40mln tonnes. But today time showed that all our projects are based on our own resources and that they are all commercially effective and reasonable. We never staked on others' resources while implementing any certain project. But we always say 'Welcome' to those who wish to join our projects. Like, if you wish to join us, we will create all conditions or provide an infrastructure that you do not possess. But when someone talks about serious intention to join TAP or TANAP, then their approach must be serious as well. We cannot set the capacity above the one that we need because it will affect the profitability of the project and make it simply non-effective in the long run. Therefore, we design the carrying capacity of TANAP or the extension of SCG on basis of gas production volumes that we will have at the initial phase and so on. And we do it gradually. To have new producers joined the project we will need a long-term agreement, for instance for 25 years, investments into the extension of the carrying capacity, etc. Today we hold no such negotiations and all statements about transit or simply about joining of other parties to this project, either Russia, Turkmenistan, Israel, Cyprus or Egypt, don't mean that. This is unserious. All these talks run on the level of experts, political scientists and analysts, so let them talk. If there are concrete serious proposals, we are always ready to discuss them.

CE: Among the EU member states 7 countries consume about 80% of gas in the EU and they are expanding the potential of renewable energy. Do not you think that the EU may not need gas by 2030 as the Greenpeace's representative recently said?

Natig Aliyev: As far as alternative energy is concerned, first of all I would like to note that we have worked out new regulations on the Agency for Alternative Energy. Currently they are under approval. I do not want to disclose their essence in advance, and if the regulations are approved according to my vision, according to how I see the work of this institution, in that case I will share my plans and programs.

I believe that alternative and renewable energy is very important for many countries, especially for those that do not have their own hydrocarbon reserves, fail appropriate production or consume a lot of energy without having their own primary energy resources. This mainly concerns such countries as Spain, Italy, Greece, Portugal, Denmark, and Germany, which suddenly started developing and promoting alternative energy. It is supposed to be a panacea for all woes. Now gas is going to rise in price and this will put a burden on the Western European economies. We should get rid of this dependence, where is a way out? It lies in alternative renewable energy. Government programs were put in place to subsidy producers. So, if you produced such electricity, the state buys it at a fixed price, at a very good price. We have adopted a program to bring the share of

energy produced from renewable sources first to 20% by 2020 and then to 50% by 2030. Whose economy has survived? Only that of the most highly developed countries, including Denmark, Germany, and the Netherlands. All the rest, including Portugal, Greece, Italy, Spain and others, faced default. Nevertheless, we must study their experience. For us, for Azerbaijan it is not so important to have, let's say, 5%, 10% or 420% of energy produced from non-traditional sources only for the sake of saying that we did it. For us, commercial efficiency is important. For example, in Morocco, a huge solar farm is being built, where the cost of 1 kW will be 2.2 cents. I believe this is a breakthrough, a revolution. When the whole world passes through this experience, then we should join it. In the meantime, we need to improve the laws, create a favorable regime to make our private entrepreneurs be interested in investing money and freely selling their products without any interference of the state. This is my vision of conditions required for development of alternative energy plus, of course, attraction of world experience and technologies.

CE: That is, subsidies will be excluded?

Natig Aliyev: Absolutely. I believe this should not happen to be.

CE: Mr. Aliyev, which energy resource can be the most effective in Azerbaijan?

Natig Aliyev: 15-20 years ago wind energy was considered to be the most efficient and rapidly developing sector. Everything has changed now. Solar energy turned much more efficient than, for example, wind. Nevertheless, it should not be ignored. Everything depends on investment. Currently wind turbines are very expensive and ineffective in use. But some companies sometimes implement such projects to make the world talk about them. For such companies this is a good advertisement, as if they flew to the moon.

In short, if a technological revolution happens, then any energy can drop sharply in price and become efficient in a short time. Everything depends on technology.

Thank you for the interview

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