Azerbaijan’s Petrochemical Industry

Investment Opportunities at the Crossroads between Europe and Asia

Making Inroads - Located at the crossroads between Europe and Asia, Azerbaijan is working hard to become a serious player in the global petrochemical market. The former Soviet country has huge resources of oil and natural gas, which makes it appealing both up- and downstream businesses. CHEManager Europe asked Zaur Mammadov, Deputy CEO, Sumgait Chemical Industrial Park in Azerbaijan, about the company's initiatives in the chemical industry and its ever-increasing involvement in petrochemicals.

CHEManager Europe: Azerbaijan is known for its huge oil and gas industry. The increased engagement in the petrochemical sector seems to be a logical step.

Z. Mammadov: Yes absolutely. The economic policy of Azerbaijan's government is directed at solving the most important and acute problems of the Republic and take the country forward on a path towards prosperity. The main target is to ensure economic growth, the development of the non-oil sector, macroeconomic diversification, socio-economic growth of regions, the establishment of a competitive economy and the integration in the world economy.

Countries with huge resources of oil and natural gas should take advantage of their access to feedstock - and that is no different in Azerbaijan. We have a long history in that industry: In 1994, Azerbaijan opened up to foreign investors in the upstream business. In the last years, we have strengthened our midstream operations, e.g. with the planned pipelines to deliver Caspian gas to Europe. Now Azerbaijan is fostering the downstream business. We are getting closer to our goal of becoming the chief petrochemical industry center of the Caucasus and Middle East region and a serious player in the global petrochemical market.
CHEManager Europe: Why do you see the chemical industry as a promising market for Azerbaijan?

Z. Mammadov: The expansion of the petrochemical sector is one part of Azerbaijan's greater energy plan. Innovative and modern oil and gas processing plants enable an increased added value in Azerbaijan's raw materials business as well as broader access to the world market.

At the same time, the petrochemical industry is of major importance for our country's overall economy, which is still diversifying.

It is one of the most important basic industries of any modern economy. By providing crucial linkages to several downstream industries like engineering, automotive, consumer durables, or food processing, it is key to the economic development of a country and offers enormous potential.

CHEManager Europe: Which projects in Azerbaijan are interesting for the international petrochemical industry?

Z. Mammadov: There are a number of very interesting projects. One is the Oil & Gas Processing and Petrochemical Complex (OGPC). The complex is located on 1,500 hectares, including a refinery and a gas processing plant as well as a petrochemical complex.

The gas processing plant has the purpose of treating the raw natural gas and separating it into ethane, propane, butane and methane. According to the State Oil Fund, starting in 2018, the production capacity of the refinery plant will consist of 10 million tons, the gas processing plant of 10 billion m$^3$ and the petrochemical complex of about 1.8 million tons.

The plant will work as a provider for the new petrochemical plant that will mainly produce polyethylene and polypropylene. Additionally, the OGPC will contain an ethane cracker to produce olefins and polyolefins as well as a crude oil refinery.

CHEManager Europe: Which are key factors of success for the development of Azerbaijan's chemical industry?

Z. Mammadov: First of all, Azerbaijan is one of the leading countries globally in terms of economy growth rates and well-known as an energy carrier today. Furthermore, the availability of cheap raw materials is one of the most important points especially for starting a chemical related business.
Finally, the location of the country on the crossroads of Europe and Asia as well as the well-developed highways, railroads, international airports and a sea port make it easy to access regional markets such as Europe, CIS, Central Asia and the Middle East.

**CHEManager Europe:** What needs to be done to further expand Azerbaijan's chemical industry?

**Z. Mammadov:** In a nutshell, there are three major steps that are largely taking place simultaneously: First, we will need to install modern plants complying with the highest technological standards. This will be accomplished with the support of foreign investors. Our objective is to gradually establish a modern chemical industry and to attract private enterprises to the area.

Secondly, the obsolete plants, mostly from the Soviet era, will need to be dismantled. Thirdly, we will need to manufacture a broader range of products from local raw materials. This will help us to be more competitive and to advance the opening of our market.

**CHEManager Europe:** What projects are planned in Sumgait, the center of Azerbaijan's chemical industry?

**Z. Mammadov:** There is a great variety of different projects. Let me just point out one of the biggest projects in Sumgait: the Sumgait Chemical Industrial Park, short SCIP. A urea, polypropylene and high density polyethylene plant will also be built in Sumgait in the next few years.

**CHEManager Europe:** For which branches of the chemical industry is SCIP relevant?

**Z. Mammadov:** At the initial stage having access of 167,66 hectares of land, SCIP has the space to be open to different branches of the chemical industry, e.g. for polymers, intermediates used in the manufacture of polymers, manufactured plastic products, pharmaceutical products, specialty chemicals, etc.

**CHEManager Europe:** Why should corporations invest in SCIP?

**Z. Mammadov:** Azerbaijan, and Sumgait in particular, offer a number of advantages given its favorable location, such as the closeness to raw materials, a direct transport connection - a freeway access, a railway station, and a seaport are close by - energy availability at low cost and the connection to modern electricity and gas grids as well as to water and sewage networks. In addition, the political
and economic stability of Azerbaijan and a highly qualified workforce facilitate low risk investments.

Other important factors are the incentives that will be provided to SCIP's residents: foreign investors, for instance, will benefit from a seven-year exemption from VAT on imported equipment and technology as well as from corporate income, property and land taxes.

**CHEManager Europe: How would you sum up the situation in Azerbaijan for investors now?**

**Z. Mammadov:** The situation is in some ways similar with the one two decades ago. Foreign corporations that invested in the upstream business at that time benefitted from the country's oil boom. Most of them have stayed in the country and have increased their commitment. Now we have the same situation in the downstream business providing great opportunities - and today investments are even more secure. The current situation in the petrochemical industry in Azerbaijan is open to all: who comes first, gets the best piece of the cake.

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Interview with Zaur Mammadov, Deputy CEO, Sumgait Chemical Industrial Park

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