



SOCAR Proceedings

Economy of Oil and Gas Industry

journal home page: <http://proceedings.socar.az>



ON MANAGEMENT EVALUATION OF OIL-GAS INDUSTRY ENTERPRISES IN MODERN ECONOMIC CONDITION

A.A.Gasimov*¹, G.B.Hajiyev²

¹SOCAR, Baku, Azerbaijan;

²Azerbaijan State University of Economics, Baku, Azerbaijan

Abstract

The article shows the history of the oil industry in our country and its current situation. Since the establishment of the State Oil Company of the Republic of Azerbaijan (SOCAR) to date, a number of successes have been achieved, especially since the launch of a new oil strategy in our country. Thus, during the years of independence new oil and gas fields were discovered, modern technologies were mastered, new agreements were signed with international oil companies, qualified human resources were developed and other achievements were made. International financial reporting and risk management in oil and gas industry enterprises were assessed. The application of the advanced work and projects mentioned in the article has shown that SOCAR has also strengthened its position in the international financial market and benefited from new banking products. As a result, oil and gas industry enterprises with international financial reporting have a favorable investment climate, which allows for efficient management of competitive production.

Keywords:

Oil-Gas industry;
Enterprise;
Development;
Management;
Finance;
Report;
Risks.

© 2021 «OilGasScientificResearchProject» Institute. All rights reserved.

Introduction

After independence, the management of oil and gas industry in the Republic of Azerbaijan differs from that of other industries in organizational and technical terms, in order to obtain detailed information on the production costs of oil and gas industry and to reduce the cost. Unlike the old administrative-economic system, there was a great need for the management of the new economic system in accordance with the new market principles, because of the serious difficulties in providing the country with complete and useful information for making relevant decisions in the oil and gas industry. Therefore, the organization of cost management in the oil and gas industry, the efficiency of information, and the need to improve the management system. From this point of view, in the current economic environment, the organization of the oil and gas industry management system in line with international standards will enable not only management, but also investors, founders and all stakeholders to have detailed information about the enterprise. In this regard, the assessment

of the management of the oil and gas industry in the Republic of Azerbaijan in the current economic environment is acute.

Historical past and present of oil production in our country

The cost system of the oil and gas industry, operating under market conditions, forms the basis of its entire management system. This is because the information about actual costs is formed here, and thus the basis for determining the actual profit. The importance of cost accounting in the management system can now be clarified at the stage of determining its goals and objectives. When assessing the management of the oil and gas industry of our country in modern economic conditions, let us first look at the historical past. Oil production in our country has a long history and in 1847 year, oil wells were drilled in Bibiheybat for the first time in the world and then in Balakhani. Oil produced in our country has been repeatedly mentioned as a source of great income in the works of medieval scholars and travelers. In the XIV century, one of these travelers, Marco Polo, wrote about the use of Azerbaijani oil for various purposes and transportation to nearby countries.

E-mail: anver.qasimov@socar.az
<http://dx.doi.org/10.5510/OGP20210300535>

Notwithstanding, oil was used for domestic and military purposes at that time [1-5].

In 1901, Azerbaijan ranked first in the world for oil production, and this figure was 11 million tons. In 1941, 71.4% of the oil produced in the USSR fell to Azerbaijan (23.5 million tons). For the first time in the world, offshore oil production was carried out in our country, including the discovery of the so-called «Oil Rocks» field in 1949 [6].

Despite the fact that industrial production of oil in the world was first launched in the country, after independence, there was a great need for improving the management structure of the oil industry on the use of oil in the territory of the Republic of Azerbaijan, ensuring the development of the oil and energy complex. Therefore, the management structure of the oil industry was reorganized and improved at that time, and various companies involved in oil and gas exploration, production, transportation, processing, marketing and other activities were brought together. Thus, in accordance with the unified state policy, the State Oil Company of the Republic of Azerbaijan was established on the basis of the State Concern Azerineft and Azerneftkimya Production Association in accordance with the Presidential Decree No. 200 dated 13.09.1992. In accordance with the Decree of the President of the country No. 430 dated 22.12.2014 dated 24.01.2003, the full official name of the company was identified as the State Oil Company of the Republic of Azerbaijan, and the short official name SOCAR [7].

Being an important part of our national economy, SOCAR is a vertically integrated organization along the state-owned production chain. According to the statistics for 2018, the largest employer of the Republic of Azerbaijan, the SOCAR system, has 51139 (50424 in 2017). SOCAR conducts exploration, exploration and development, refining, transportation and retail sales, mainly in the onshore and Azerbaijani sector of the Caspian Sea, as well as in the domestic and foreign markets in various fields of oil, gas and petrochemical industry. In addition to its internal retail activities, SOCAR does this in a number of foreign countries. Thus, these retail and trading activities are carried out in Switzerland, Ukraine, Georgia and Romania.

At the initiative and will of the national leader of our people Heydar Aliyev, the agreement between Azerbaijan and the world's largest oil and gas companies on joint development of the Azeri, Chirag and deep water Guneshli fields in the Azerbaijani sector of the Caspian Sea, known as the «Contract of the Century», has laid the foundation for a new oil strategy by opening up new glorious pages in the history of glorious oil. According to the Decree #933 of the President of the Republic on December 2, 1994 on the adoption and approval of this Agreement, the Republic of Azerbaijan signed a decree on the joint development of the Azeri, Chirag and deep water Guneshli fields in the Azerbaijani sector of the Caspian Sea. State Oil Company Amoko Caspian Si Petroleum Limited Limited S, Lukoil Joint Stock

Company, McDermott Azerbaijan Inc., Pennzoil Caspian Corporation, Remko Caspian Energy Limited, Turkey Petrolleri a. O., the Law of the Republic of Azerbaijan «On Adoption and Approval of the Agreement between UNOC Caspian, Ltd. and its Permission» [8].

Since the establishment of the State Oil Company of the Republic of Azerbaijan (SOCAR) to date, a number of successes have been achieved, especially since the launch of a new oil strategy in our country. During the years of independence, new oil and gas fields were discovered, modern technologies were mastered, new agreements were signed with international oil companies, qualified human resources were developed and other achievements were achieved.

International finance report and risk management methods

Proper management of oil and gas industry allows attracting foreign investments into the national business. Investors prefer to invest in oil and gas industry rather than into credit institutions because of higher returns [9-12].

In 2016, SOCAR issued bonds to diversify SOCAR's financial resources and support the development of Azerbaijani capital markets. The nominal value of these bonds, which create alternative investment opportunities for our citizens in the financial instruments market, is \$ 1000, with an annual maturity of 5 years, and 5% annual interest rate repayment every 3 months.

Design features, high profitability, high liquidity, high confidence in operations ease of purchase and sale transactions, and interest-free repayment schedule and attract the interest of investors. The risk management system consists of the creation of an effective risk management system at SOCAR and the integration of the risk management system into the management decision-making process. During the year 2019, the Company has balanced risk management, taking into account the degree of necessity and seriousness of the risk and the amount of costs associated with its management. According to the Risk Management System developed in accordance with the COSO Enterprise Risk Management Concept, the risks identified by the Operational, Strategic, Reporting and Demand Risk categories for the Company in 2019 are identified and assessed and their respective structural units under control. the necessary tasks for management are given. Thus, in 2019, more emphasis was placed on risk analysis and risk management based on the need for corporate responsibility during the global energy crisis. Risks are classified according to the appropriate risk categories, are placed in the risk matrix in accordance with their impact, and the analysis of risk interest is also reflected in this report.

As with each year, the key performance and financial performance of SOCAR for the 2018 calendar year during the relevant period of 2019, Sustainable Development of Representative Offices

and Subsidiaries overseas along with the Company and its subsidiaries in Azerbaijan and abroad. Information on the results of its activities for the year is prepared and summarized in the annual report. Unlike last year, the scope of the report was expanded by adding information about the Company's specific areas of activity and the activities of SOCAR offices. The report provides information on the activities of SOCAR on sustainable development, all production and financial performance in accordance with international standards, International Financial Reporting Standards and SOCAR Sustainability Reporting Standard (SOCARSS-010.2012). The report provides information on all areas of the oil and gas sector in accordance with the requirements of GRI. The content of the report is compiled in accordance with the principles of significance, stakeholder engagement, sustainable development and completeness as outlined in the GRI, and the report reflects the ideas of balance, comparability, accuracy, timeliness, transparency and reliability. Independent audit of the report is carried out by Ernst & Young.

According to the Order No. 999-IIIQ dated 11 May 2010 signed by the Head of State between the SOCAR and Selected insurer 24.02 after the enactment of the Law of the Republic of Azerbaijan «On Compulsory Insurance of Occupational Accidents due to Accidents and Occupational Diseases» As of 2011, a Partnership Agreement was signed and renewed in 2019, defining the general principles of compulsory insurance of employees' disability due to accidents and occupational diseases [8]. Pursuant to this Agreement, Pasha Life Insurance OJSC and SOCAR and its subordinate bodies are chronically ill and severely affected by the sudden and severe impairment of the body's organs, tissues and health, while impaired and harmful production factors in the performance of work and services. contracts covering loss of professional ability or death of the insured.

The «Voluntary Medical Insurance Agreement» was signed between SOCAR and Pasha Insurance to improve the medical care of former employees who worked in SOCAR, as well as retired and retired. Since the beginning of 2012, all SOCAR employees have been provided with the Voluntary Health Insurance Program. According to the program, employees have access to health care services at agreed prices throughout the year in any hospitals in the country. Ambulance, emergency medical care and evacuation, inpatient and outpatient care, emergency and planned dental care, emergency vaccination, pregnancy follow-up and birth, annual medical consultation, and external medical care. includes. The contract was renewed each year, as it did every year.

In 2019, SOCAR and insurer signed a cooperation agreement on life insurance to improve the standard of living and social protection of workers. The Life Insurance product enables SOCAR employees to benefit from this product by increasing both their life insurance and their income. Thus, by joining this

investment product that offers the highest returns on the insurance market, employees will earn more than 50% of their salary.

SOCAR has developed a holistic approach to detecting, evaluating, controlling and monitoring these risks through a systematic approach to risk management and minimization in the daily operations of the company. SOCAR implements the standards on transparency and accountability, and the Sustainable Development Report, which meet the requirements of transparency and international institutions. Since 2011, the audited reports of SOCAR on Sustainable Development have been properly submitted to users. As of 01.01.2013, the implementation of SOCAR's anti-corruption policy and the nine standards on various factors affecting corruption and transparency have begun. In 2006, an internal audit service was established at SOCAR and reorganized in accordance with the Law of the Republic of Azerbaijan «On Internal Audit Service» adopted by the Presidential Order dated May 22, 2007 No 332-IIIQ [4, 13-15].

Reliability is based on the quality of the report and the participation of civil society representatives in the extractive industry transparency process. In accordance with the Presidential Decree No. 1315 «On Additional Measures to Increase Transparency and Accountability in the Extractive Industries» dated April 5, 2017, the Extractive Industries Transparency Commission should work with all non-governmental organizations, including the public and private sector at all stages of reporting. cooperates with experts [6].

An internal audit service has been assessed by Ernst & Young to further develop internal audit activities, identify key areas for improving audit performance, and improve efficiency and compliance with international standards. The assessment was conducted in accordance with Ernst & Young's methodology and was rated 7 points on a 10-point scale, which is a positive indicator. In modern conditions, PWC is implementing projects to improve and rebuild its internal control system.

On the official website of SOCAR, the Company regularly publishes annual, financial and sustainable development reports that dynamically reflect the latest statistics. The Company's annual report (2014-2018) provides information on its production, processing and sales during the year, including the discovery and development of new fields, the projects it participates in, and so on [16]. The Company's Sustainability Report (2011-2018) provides information on its activities in all areas of sustainable development, including the objectives and future plans for SOCAR. The Company has published its financial statements audited by an external auditor for the period 2009-2018 on its official website. At that time, only an audit was conducted by Ernst Young [17].

Implementation of the above-mentioned activities and projects allowed SOCAR to strengthen its positions in the international financial market and

benefit from new banking products. Thus, in 2012, SOCAR placed its Eurobonds on the London Stock Exchange at a favorable rate of \$ 500 million for a period of 5 years at an annual rate of 5.45%. Further, in 2013, correctly calculating the favorable market situation, SOCAR will re-earn US \$ 1 billion for a period of 10 years, at the London Stock Exchange. The successful placement of the securities placed by SOCAR in the secondary market with great interest among the important investors is highly appreciated by the investors and creates new interest in the Company's operations in the market.

SOCAR continues to expand its cooperation with the world's leading banks. Such banks include Deutsche Bank of Germany, French Natixis, BNP Paribas and Societe Generale banks, Dutch Bank, Swiss SWISS Bank, Japan's SMBS and BTMU banks, Citi Bank of the United States and JP Morgan banks, Turkey's YapiKredi Bank and other major global banks. An example is an example.

According to a market research conducted by PWC in 2013 during the preparation of SOCAR's financial strategy, it was found that the interest rates on borrowings by SOCAR are similar to those of neighboring countries (Russia, Kazakhstan, Georgia, Turkey, Ukraine, etc.). is almost twice as low as companies.

Implementation of successful financial and corporate governance policies has enabled SOCAR to acquire and finance assets both domestically and abroad. Thus, in 2008-2018 the assets of the SOCAR

group of companies increased from 8.0 billion manat to 62.1 billion manats, which contributed to the growth of the company's value in the international markets.

Studies have shown that significant changes in SOCAR's sales structure in recent years have led to a significant increase in demand for essential oil products and natural gas across the country, increasing the share of domestic oil products sold at regulated prices to approximately 72%, and sold to major consumers. The specific weight of gas (up to 42 manats per cubic meter) is about 55%, and regulated prices are lower than world market prices and other commercial entities for natural gas, which results in a significant reduction in the Company's revenues [18].

Taking into consideration that domestic prices for oil products have not been reviewed since 2007, SOCAR has revised the price of gas sold to major consumers directly connected to oil products and main pipelines in January 2015, while maintaining the current absolute level of excise tax (in absolute figures). He appealed to the Cabinet of Ministers of the Republic of Azerbaijan. In this regard, the Tariff (Price) Council of the Republic of Azerbaijan in accordance with the Resolution No. 8 of July 15, 2017 «On Regulation of Tariff (Price) Council of the Republic of Azerbaijan on Regulation of Tariffs (Prices) of Oil Products in the Country» dated January 14, 2015 The price of gas sold to major consumers and major consumers directly connected to the main pipelines has been revised.

Conclusion

They should be regulated through the implementation of organizational measures that are an integral part of the management of the oil and gas industry. Thus, such adjustments should aim to eliminate deviations from the actual cost of planning. Here cost management should play a special role. The basis for this type of control is to predict any changes in the internal and external environment. Under the theory of management, cost management is treated as supply chain management. Supply chain management is the regulation of total annual costs to maintain material resources to ensure continuous operation of the enterprise.

In world practice, rating systems are integrated into companies' pricing systems, and they usually study their accounting records to assess how risky their activities are. Under the current economic conditions, the accounting system of oil and gas industry enterprises satisfies credit institutions because they are organized in accordance with international standards. However, they have previously provided the bank with a satisfactory schedule for those who wish to obtain a loan to obtain more detailed information about the company's operations and to analyze potential risks.

Research has shown that, despite the long-standing evolution of traditional management theory, some of the provisions of this theory cannot be addressed for most businesses operating in a rapidly changing business environment. For this reason, modern approaches to budgeting in modern software management of oil and gas industry enterprises of the Republic of Azerbaijan have been formed: non-budgetary management, best budgeting, process-oriented budgeting, balanced system of indicators. However, the traditional budget model is being introduced in the country's oil and gas industry, and it takes years of experience to transform this budget model into a seamless system. It is only possible to switch to advanced budgeting techniques once this experience is gained.

References

1. Aliyev, I. G. (2003). Caspian oil of Azerbaijan. *Moscow: Izvestia*.
2. Abdullaev, R., Gasimov, S. (2017). Practical guide to improving the operating activities efficiency of an oil and gas enterprise. *Moscow: Nedra*.
3. Aliyev, N. A. (1994). The history of oil in Azerbaijan. *Azerbaijan International, USA*, 2, 22-23.
4. SOCAR (2019). SOCAR Annual report – 2018. Sustainability report. *Baku: SOCAR*.
5. Tagiyev, C. O. (2003). Azerbaijan oil and oil pipelines-end of XX century-beginning of XXI. Dissertation of PhD. *Baku*.
6. Annual report (2019). Annual report of Transparency Commission in Production Industry of Azerbaijan Republic. *Baku*.
7. www.e-qanun.az
8. www.president.az
9. Jamal, M., Al-Mufarej, M., Al-Mutawa, M., et al. (2013, October). Effective well management in Sabriyah intelligent digital oilfield. SPE-167273-MS. In: *SPE Kuwait Oil and Gas Show and Conference held in Mishref, Kuwait*.
10. Davidenko, L. M., Miller, A. E. (2016). Technological integration of the industrial enterprises of old industrial regions. In: North-East Asia Academic Forum (Publication of scientific articles). *China: Harbin University of Commerce*, 1(11), 94 – 97.
11. Davidenko, L. M., Miller, A. E., Miller, N. V. (2015). Formation of integrated industrial companies under current conditions. *Asian Social Science*, 11(19), 70-81.
12. Karnauhov, A. A. (2014). Formirovanie effektivnogo mekhanizma realizacii investicionnyh proektov v neftegazovom stroitel'stve: Discertaciya na soiskanie uchenoj stepeni kandidata ekonomicheskikh nauk. *Moskva*.
13. Transparency report (2019). Summary report of Transparency Commission in Production Industry in Azerbaijan Republic. *Baku*, 2019, p. 34
14. SOCAR (2019). SOCAR Annual report – 2018. *Baku: SOCAR*.
15. SOCAR (2019). SOCAR Annual report – 2018. Financial statement. *Baku: SOCAR*.
16. www.socar.az
17. <http://socar.az/socar/assets/documents/az/socar-financialreports/Maliyye.hesabat.2018.pdf>
18. Abdullaev, R., Gasimov, S. (2017). The history of SOCAR transformation. *Baku*.

Оценка управления предприятиями нефтегазовой отрасли в современных экономических условиях

А.А.Гасымов¹, Г.Б.Гаджиев²

¹SOCAR, Баку, Азербайджан

²Азербайджанский государственный экономический
университет, Баку, Азербайджан

Реферат

В статье показано, что добыча нефти в Азербайджане имеет давнюю историю и обсуждается ее текущее состояние. Со времени создания Государственной Нефтяной Компании Азербайджанской Республики (SOCAR) до сегодняшнего дня был достигнут ряд успехов, особенно после запуска новой нефтяной стратегии в нашей стране. Таким образом, за годы независимости были открыты новые месторождения нефти и газа, освоены современные технологии, подписаны новые соглашения с международными нефтяными компаниями, подготовлены квалифицированные кадры и достигнуты другие достижения.

Была проведена оценка состояния международной финансовой отчетности и управления рисками в нефтегазовой отрасли. Отмечается, что в результате работ по улучшению и реализации проектов, упомянутых в статье, SOCAR удалось укрепить свои позиции на международном финансовом рынке и получить выгоду от новых банковских продуктов. В результате было отмечено, что предприятия нефтегазовой отрасли с международной финансовой отчетностью имея условия благоприятного инвестиционного климата созданы условия для эффективного управления конкурентоспособным производством.

Ключевые слова: нефтегазовая отрасль; предприятие; развитие; управление; финансы, отчетность, риски.

Müasir iqtisadi şəraitdə neft-qaz sənayesi müəssisələrinin idarəedilməsinin qiymətləndirilməsi

Ə.A.Qasimov¹, Q.B.Nasıyev²

¹SOCAR, Bakı, Azərbaycan

²Azərbaycan Dövlət İqtisad Universiteti, Bakı, Azərbaycan

Xülasə

Məqalədə ölkəmizdə neftçıxarmanın uzun tarixə malik olduğu göstərilmiş və onun bu günkü vəziyyətindən bəhs olunmuşdur. Azərbaycan Respublikası Dövlət Neft Şirkətinin (SOCAR) yaranmasından bu günədək xüsusilədə ölkəmizdə yeni neft strategiyasının başlanmasından sonra bir sıra uğurlara imza atılmışdır. Belə ki, müstəqillik illərində yeni neft və qaz yataqları kəşf olunmuş, müasir texnologiyalar mənimsənilmiş, beynəlxalq neft şirkətləri ilə yeni Sazişlər imzalanmış, bacarıqlı kadr potensialı hazırlanmış və sair nailiyyətlər əldə olunmuşdur.

Neft-qaz sənayesi müəssisələrində beynəlxalq maliyyə hesabatlılığı və risklərin idarə edilməsi vəziyyəti qiymətləndirilmişdir. Məqalədə göstərilən təkmil işlərin və layihələrin tətbiqi SOCAR-ın beynəlxalq maliyyə bazarında da mövqelərinin möhkəmləndirilməsinə və yeni bank məhsullarından bəhrələnməyə imkan yaratdığı göstərilmişdir. Nəticədə beynəlxalq maliyyə hesabatlılığına malik neft-qaz sənayesi müəssisələrinin əlverişli investisiya mühitinə malik olduqları şəraitdə rəqabətqabiliyyətli istehsalın səmərəli üsullarla idarəedilməsinə şərait yarandığı qeyd olunmuşdur.

Açar sözlər: neft-qaz sənayesi; müəssisə; inkişaf; idarəedilmə; maliyyə; hesabat; risklər.