

In pursuit of its primary goal of guiding the development of effective and pragmatic policies on regional and global energy issues, CCEE's Weekly Energy Review brings readers the latest developments in the field of energy and environment. The Weekly Energy Review compiles and assesses news on Caspian energy and environment issues. It aims to provide a comprehensive review of regional energy and environmental developments. The Review offers a valuable resource for researchers and practitioners by bringing together related news and features from the leading global news sources. This compact weekly digest offers brief evaluations and commentaries of breaking and ongoing news stories from CCEE experts, helping to shed light on key developments.

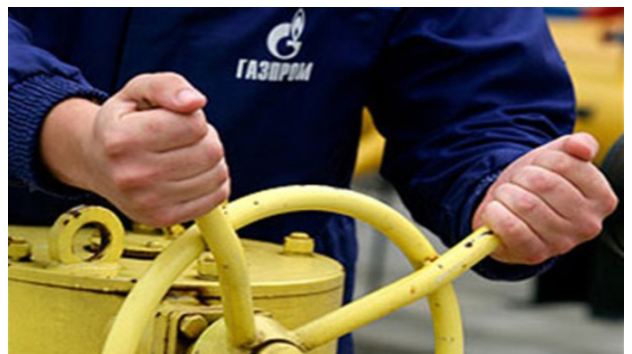


## Brief outline of global energy developments

This week's top stories are once again related to negotiations within the EU-Russia-Ukraine energy triangle. The initial positive outcome of these negotiations is that EU Energy Commissioner Günther Oettinger has brokered a compromise deal, persuading Russia to supply at least 5.0 billion cubic meters of gas to Ukraine, to get the country through the winter period. Russia has agreed to supply this volume for a discounted price of 385 USD per 1,000 cubic meters (valid until next spring), after Gazprom receives the first tranche of 2 billion USD from Kiev. However, the Ukrainian government has still not fully agreed to the deal, and so it has not been finalized.

Recalling the European Parliament's 18<sup>th</sup> September resolution, calling on "EU countries to cancel planned energy sector agreements with Russia, including the South Stream gas pipeline," Russia has finally responded. Gazprom and Rosneft have proposed to amend the subsoil legislation, adding norms that would allow registration and re-registration of field development licenses in the name of a separate subsidiary of a legal entity. The role of foreign investors is mainly limited to having stakes in companies' authorized capital, to the functions of operator under a contract with the license holder. This makes participation in the development of natural deposits less attractive for foreign companies.

In the absence of a final agreement between Kiev and Moscow on gas issue, the situation for the EU remains uncertain; Kiev plays a crucial role as a transit country for Russian gas to Europe. At the 12<sup>th</sup> EU Energy Community Ministerial Council meeting, the Ukrainian government promised to ensure the uninterrupted flow of natural gas through its territory to the European market.



As mentioned above, Kiev has not yet accepted the compromise deal, and Russia's ambitious South Stream Pipeline project remains on the table. For some EU member transit countries

such as Hungary, South Stream offers significant benefits, and it is tempting to think in terms of national rather than EU interests. In this regard, Gazprom Chairman Alexei Miller met with Hungarian Prime Minister Viktor Orban in Budapest last week to discuss Hungary's gas needs for the upcoming winter, and the implementation of the South Stream. A bidding procedure is underway in Hungary in order to select a contractor to carry out design and survey activities, spatial planning and an environmental impact assessment for South Stream's Hungarian section towards Baumgarten in Austria.

## Energy developments in the Caspian region

### Azerbaijan

In the past week, a number of developments have occurred at the policy and industry levels.

The Azerbaijani Energy Minister Natig Aliyev announced that development of the Absheron gas condensate field in the Azerbaijani sector of the Caspian Sea (discovery of which was declared back in September 2011) will start in 2021. Baku plans to invest 25 billion USD in the project itself, along with 45 billion USD for the creation of all the necessary infrastructure in order to ensure the transportation of gas within the second stage of the development of Shah Deniz field.

The other industry-related development is the recent announcement that a polypropylene plant will be constructed in Sumgayit Chemical Technology Park, commissioned in the fourth quarter of 2016, according to Azerkimya Production Association of SOCAR. It is expected that roughly 500 million euros (excluding taxes) will be allocated from the state budget to build the plant. The annual capacity which will be about 600,000 tons of carbamide (2,000 tons per day) and 1,200 tons of ammonia per day.

A key piece of news for local energy consumers is that a 35 KV cable line has been laid on the island of Jilov, from 48th gas turbine power station at Neft Dashlari (the Oil Rocks) and 35/6 KV substation. It was reported that the new substation will eliminate the existing problems that the island experiences as a result of not being connected to the Baku Electric System.

In terms of foreign relations and Azerbaijan's activities in the region, SOCAR and two Bulgarian state energy companies - Bulgartransgaz and Bulgargaz - are in negotiations on energy cooperation. Two separate agreements have been signed, a Memorandum of Understanding with Bulgartransgaz, and a protocol of intent with Bulgargaz. Both documents represent an initial basis for cooperation, which will lead to further negotiations on practical cooperation in the near future.



Meanwhile, Georgia has released some important data; the Georgian National Statistics Service has revealed that Georgia imported 858,520 metric tons of natural gas in oil equivalent worth 176.72 million USD from Azerbaijan in January-August 2014. This shows that Georgia increased its import of Azerbaijani gas by 15 percent.

## **Developments on the Southern Gas Corridor (SGC)**

After the breaking of ground ceremony for the SGC in Baku last week, this week has seen a number of developments related to Greece and Turkey.

First of all, in Greece, the Trans Adriatic Pipeline (TAP) has been awarded a 50-year license for an Independent Gas System in the country. Obtaining an INGS license is a necessary and important step, enabling the installation of the pipeline, compressor and metering stations, block valve stations and other equipment. A month ago, as we reported, the Greek Ministry of Environment, Energy and Climate Change formally approved and signed the Environmental and Social Impact Assessment (ESIA) submitted by Trans Adriatic Pipeline AG (TAP) for the Greek section of the pipeline.

Secondly, the Turkish oil construction company Tekfen (Tekfen Construction and Installation Co. Inc) has won a 2 billion USD contract to build two oil platforms in the Caspian Sea as part of the expanding South Caucasus Pipeline (SCP) project. To date, Turkey as the second largest shareholder in SC has invested 5.2 billion USD in the project. Tekfen has previously proven its capacity through its participation in various contract-based activities in Caspian Sea energy development. It holds a 40 percent ownership stake in the Azerbaijani construction company Azfen J.V, and has signed a 235 million USD contract with SOCAR for the construction of SOCAR's new headquarters in Baku.

## **Developments in the Caspian littoral states**

The major development for the Caspian littoral states was the 4<sup>th</sup> Caspian Summit, which took place in the Russian city of Astrakhan on 29 September. All the littoral states were represented at the Summit at the Presidential level. The agenda encompassed existing and future cooperation among the five countries, and the course of implementation of the decisions made at the previous summit in Baku in 2010. The initial outcome of the recent Summit, according to high level officials across various Caspian littoral states, is that the considerable progress has been achieved, and governments are close to a breakthrough on the agreement on the legal status of the Caspian Sea. It is now expected that this will be reached at the next summit, to be held in Kazakhstan in 2016. The legal status of Caspian Sea has remained a source of major disagreement since the dissolution of the Soviet Union and has been a barrier for bilateral and multilateral cooperation at various levels between these states.

### *Kazakhstan*

One of the negative developments for Kazakhstan this week was the announcement by Malaysian CN Asia Corp Bhd that it has shelved plans to build a liquefied petroleum gas (LPG) plant in Kazakhstan using natural gas supplied by the Rakushechnoye oil and gas field,

located in the Southwestern Part of Mangistau region of Kazakhstan. Under the June 2014 agreement between CNAsia Capital and KenMakmur Holdings, CNAsia Capital had agreed to design, procure, construct and commission a 600 metric ton a day LPG and condensate production plant using the natural gas that will be located at Kuryk or Aktau Port or any other location to be decided by KenMakmur by December 2017. Details of why the agreement has collapsed have not been made public.

Also, Aral Petroleum Capital, LLP has restarted oil production in Kazakhstan according to an announcement from Caspian Energy Inc., which owns a 40 percent stake in Aral and has control of its operations. Oil production has begun from Well #301 in the East Zhagabulak field at a rate of 101 barrels per day, according to the source. Aral currently has a 25-year production contract for the East Zhagabulak field and an exploration contract for a larger area of approximately 566 square miles in the North Block region.

The important other issue is that the European Bank for Reconstruction and Development (EBRD) has signed a syndicated loan in Kazakhstan to finance new environmentally-friendly technologies and improvements in efficiency of oilfield operations. The EBRD has arranged a 200 million USD financing package for KOM Munai, a private oil company operating in the Mangistau region of Kazakhstan. The bank will take on half of the project's costs, and the other half will be syndicated to commercial banks.



### *Russia*

Russian Gazprom Neft announced that the second tanker of oil taken from a field in the Arctic has been delivered to European customers. Gazprom Neft confirmed a tanker filled with 200,000 barrels of oil was shipped to markets in northwest Europe last week. It was the second tanker of oil delivered from the Novoportovskoye field at the Yamal Peninsula.

In addition, Kazatomprom, a state-owned nuclear holding company in Kazakhstan, entered into a cooperation agreement with Rosatom, the central holding company for Russia's entire nuclear energy complex. The two companies agreed to cooperate on personnel training in the nuclear industry, as well as in the promotion of nuclear energy.



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