

WEEKLY

ENERGY REVIEW

1-8 October
No.12



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

Top on the European agenda this week was the fate of Russian gas, and related to that, the resolution of Ukraine's gas problem. This week, Norwegian energy firm Statoil signed a deal to sell gas to Ukraine state gas firm Naftogaz, and Ukraine received its first supplies from Norway via Slovakia, paying a much lower price than for Russian gas. Under this agreement, Statoil is the supplier of gas to Slovakia, but is not responsible for transportation to Ukrainian territory. In relation to this, another aspect of the Ukraine-Russian gas problem raised questions in Russia, where lawmakers have questioned the legality of reverse Russian gas flows from the European Union to Ukraine. This week Gazprom confirmed that Ukraine has received 1.7 billion cubic meters of Russian gas this year in reverse flow from neighboring Slovakia, Poland and Hungary. Russia opposes the provision of Russian gas by European consumers to Ukraine. Gazprom believes that Russian natural gas, destined at the point of sale for European consumers rather than Ukraine, is being supplied to Ukraine under the so-called 'virtual' reverse scheme, but which entails the movement of gas across the Ukraine-EU border. Russia wants to halt this 'virtual' reverse phenomenon, which is weakening the Russian hand in its gas negotiations with Ukraine. As a consequence, Russian lawmakers are drafting a bill banning Russian exporters from supplying oil and gas to debtor countries and states that "virtually" re-export hydrocarbons to the debtor countries.



In another negative development for the Russian energy sector, Western sanctions may delay joint projects between Russian state-owned oil major Rosneft and Statoil. Recently US ExxonMobil suspended 9 out of 10 joint projects with Rosneft due to the sanctions, including exploration drilling of the Universitetskaya-1 well in the Kara Sea, which stopped on October 10th. As a result of the sanctions (see further details under the Russia country update below),

Russia has strengthened its ties with Turkey. Gazprom agreed with Turkey to pump more Russian gas to the Blue Stream. According to Gazprom's official statement, 'it was agreed to load Blue Stream with Russian natural gas to full capacity as soon as possible in order to satisfy the growing demand of Turkish consumers.' The decision implies there will be investments in infrastructure in both Turkey and Russia.

Energy developments in the Caspian region

Azerbaijan

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

SOCAR Polymer LLC, the newly formed plastics subsidiary of SOCAR, will open a planned 200,000 metric tons per year polypropylene plant towards the end of 2016. This Polypropylen unit is the first of two polymer lines planned for SOCAR's newly created Sumgayit Chemical Industry Park (SKSP) petrochemicals zone. SOCAR Polymer was created with total authorized capital of around 41 million Euros (51.7 million USD) for the implementation of the scheme. Beyond this, it is also highly likely that there will be significant investments in modernizing the existing processing capacities of the oil refineries due to the increase in fuel consumption in Azerbaijan. For now, oil products are produced at two oil refineries with a total capacity of 16 million metric tons of oil per year.

The other important issue this week was SOCAR's statistical review announcement, which provides key insights into Azerbaijan's energy production capacity. According to the recent statistical review, SOCAR exported 8,534 thousand tons of petrol, 83,334 tons of diesel fuel, 19,174 tons of aviation fuel and 72,889 tons of vacuum gas oil in September 2014. This includes 84,796 tons of crude oil from the Novorossiysk Port, 253,829 tons of crude oil from the Supsa Port, and 1,725,423 tons of crude oil from the Ceyhan Port. Overall, during January-September period, 9,280 tons of gasoline and 712,941 tons of diesel fuel, 138,889 tons of aviation fuel, 417 tons of black oil, and 358,772 tons of vacuum gas oil were exported. The indices of crude oil exported by SOCAR reflect the volumes of crude oil belonging to both Azerbaijan and SOCAR.

Developments on the Southern Gas Corridor (SGC)

This week saw a number of changes in the shareholders of TAP project. Since E.ON (9 percent) and Total (10 percent) left the project, Enagás, S.A., a Spanish energy company has become a new shareholder in the project with a 16 percent stake. In addition, existing shareholder Belgium-based Fluxys has increased its stake in TAP from 16 percent to 19 percent. Following these changes, TAP's shareholding is now comprised of BP (20 percent), SOCAR (20 percent), Statoil (20 percent), Fluxys (19 percent), Enagás (16 percent) and Axpo (five percent). Notably, the new shareholder

Foodstock for chemical industry in the near future:

Materials	year/tonne				
	2013	2014	2015	2016	2017
1 Ethylene	102 000	113 000	145 000	165 000	165 000
2 Propylen	88 000	100 000	180 000	200 000	200 000
3 Polyethylen (LLDPE)	99 000	110 000	140 000	160 000	160 000
4 Polypropylene		150 000	150 000	150 000	150 000
5 BHF	28 000	30 000	36 000	42 000	42 000
6 Pure isopropyl alcohol	15 000	18 000	20 000	22 000	22 000
7 Propylene oxide	8 000	10 000	10 000	10 000	10 000
8 Propylene glycol	7 000	7 000	8 000	8 000	8 000
9 Tar of light pyrolysis	56 000	60 000	72 000	80 000	80 000
10 Tar of heavy pyrolysis	11 800	12 800	14 500	15 200	15 200
11 Urea			600 000	600 000	600 000
12 Propane	17 000	21 600	35 000	42 000	42 000

structure could change again in the coming months, especially after Statoil left TANAP project, this could be interesting to witness whether they will stay in TAP or not.

In technical level, according to BP Azerbaijan, two contracts worth 200 million USD awarded within the second stage of Azerbaijani Shah Deniz gas condensate field development. These contracts, which are for subsea flow-line coating and early subsea export line coating, have been awarded to Bredero Shaw International B. V. Coating and will commence in late 2014, with initial deliveries of coated pipe being available for commencement of the first offshore pipeline installation campaign in 2015, and later deliveries for the second campaign in 2018.

Developments in the Caspian littoral states

Kazakhstan

With oil prices falling, Kazakhstan is facing problems in relation to its oil export future. Crucially, the continued closure of Kashagan oilfield limits the country's oil production and export rates. Kazakhstan expects its oil production to stay around 2013 levels until 2016, when it hopes to restart the giant Kashagan oilfield, where production has been halted by an industrial accident. According to Kazakhstan's Deputy Energy Minister Magzum Mirzagaliyev, the country aims to produce 81.8 million tons of crude this year.

Meanwhile, Kazakhs officials have hopes for another project, the Kazakh-Russian Eurasia project, which involves exploration in the Northern part of the Caspian Sea, where the initial costs of the work are estimated at 500 million USD. To date, significant work has been done to launch the Kazakh-Russian Eurasia project, which will involve drilling test wells. For now, computer modeling of 15 sedimentary basins has been completed. The results of the computer modeling and our estimations indicate that the northern part of the Caspian Sea (shore) may contain significant oil reserves. According to Kazakhstan's Deputy Energy Minister, Magzum Mirzagaliyev, at this stage the project is only a concept, but it has nonetheless attracted attention from international as well as Russian companies.

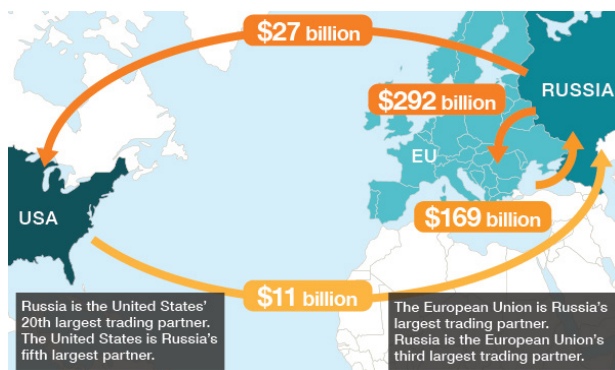
Additionally, a recent announcement by Kazakhstan's Energy Minister Vladimir Shkolnik revealed that Kazakhstan will launch a system for deep processing of hydrocarbons by the time the EXPO-2017 international exhibition opens. Under this timeline, the system of production of base products - polypropylene, polyethylene, benzene, paraxylene - will be operational in the petrochemical industry by 2017. In fact, Kazakhstan has implemented a number of key projects which form sectorised innovation systems in accordance with modern international approaches.

Russia

In Russia, the drop in oil prices in addition to the international sanctions targeting Moscow's energy sector have affected growth. However, the Russian Energy Ministry's data shows that oil production in Russia increased by almost 0.9 percent month-on-month in September to 10.61 million barrels per day (bpd), largely because of increased output at joint ventures with foreign majors. In tons, Russian oil output reached 43.411 million in September versus 44.472 million in August, a month which has one more day than September.

The ministry does not provide a breakdown of the data for the projects, which include Sakhalin-1 of Rosneft, ExxonMobil, ONGC and Sodeco; Sakhalin-2 involving Gazprom, Shell, Mitsui, and Mitsubishi; and Kharyaga with Total, Statoil and Zarubezhneft.

The international sanctions and the drop in the price of oil are collectively having a negative impact on Russia's economy, considering the fact that exports of crude oil, petroleum products and natural gas account for nearly 70 percent of all Russian export revenues in 2013. According to Russian Central Bank Director Elvira Nabiullina, "It's already obvious that we will not reach our goal on inflation this year; according to our assessments, inflation will be around 8 percent". The bank earlier stated it expected inflation to be around 7 percent for 2014.



Iran

According to the country's Customs Administration, condensate export declined to below 0.2 million barrels per day last month. The country's total gas condensate exports during the first half of the current fiscal year (From March 21 to September 22) reached 9, 233 thousand metric tons. Since signing the interim nuclear deal with world powers, Iran's financial gains increased as a result of its energy exports, in December 2013-January 2014 reaching 2.15 billion USD, and 2.25 billion USD in the April-May 2014 period; in latest period income has dropped to 657 million USD as a result of declining oil prices.

Iran has started construction of the oil product pipeline Bender-Abbas-Rafsanjan. According to Ali Asgar Sajedi, General Director of the National Iranian Oil Engineering and Construction Company (NIOEC), the contractor for the implementation of the project has been already found, and the project will be implemented within 30 months. The pipeline will be 468 km long and branches to the cities located on the way of the pipeline will be built. The total length of these branches will be 23 km. Investments into this project will total 22 million Euro about 95 million USD, plus an additional planned 100 million USD.

Iran is expanding its international outreach strategy; notably it is increasing its cooperation with Turkmenistan. Turkmen Vice Prime Minister Murad Artykov has proposed increasing Turkmen electricity exports to Iran. Turkmenistan exported over 1.5 billion kilowatt hours of electricity to Iran in 2013 and by investing 5 billion USD, Turkmenistan aims to become an electricity exporting hub in the region by 2020, and the Iranian deal is one component in this plan.



Caspian Center for Energy and Environment

ADA University
11 Ahmadbey Aghaoglu Street
Baku, Azerbaijan, AZ1008

Tel : [+994 12] 437 3235 ext 307

Fax : [+994 12] 437 3236

E-mail : ccee@ada.edu.az

Web : www.ccee.ada.edu.az
www.ada.edu.az