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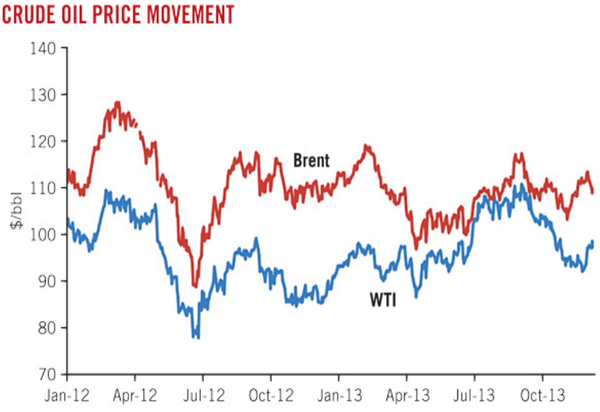
In pursuit of its primary goal of guiding the development of effective and pragmatic policies on regional and global energy issues, CCEE's Weekly Energy Review brings readers the latest developments in the field of energy and environment. The Weekly Energy Review compiles and assesses news on Caspian 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 agenda for the world energy market is the decline of crude oil prices, which have plunged by 25 USD, or more than 20 per cent, since mid-June. The main losers are this situation exporter countries. If the price drops further to 80 USD, OPEC countries would lose some 200 billion USD of their recent one trillion USD in earnings. The eyes of the world energy market are focused on the OPEC countries' scheduled meeting in November. However, last week OPEC stated that growth of world oil demand remained broadly unchanged, averaging at 1.05 mb/d for 2014. As a result, total oil demand stood at 91.19 mb/d. For 2015, growth is expected to be around 1.19 mb/d. The Paris-based International Energy Agency's (IEA) recently released monthly market report provides further insights, stating that lower economic growth expectations mean the forecast for global oil demand is down, but should recover in 2015. However, the IEA also cut its oil demand prediction for the year by 200,000 barrels per day from the previous month's report to 92.4 million barrels per day.

CRUDE OIL PRICE MOVEMENT



The other important issue relates to Russia's South Stream project; this week the EU saw a setback. Serbia, both a transit country for South Stream and an EU candidate country reaffirmed its commitment to build a leg of the South Stream pipeline. As declared by Serbian Deputy Prime Minister and Foreign Minister Ivica Dacic, "everything is fine with the South Stream. We are ready to build it. All preparatory works are running as planned. All other matters will be settled between Russia and Brussels". In this sense, Brussels is gently pressuring Belgrade in relation to Serbian accession to the EU. Belgrade's decision to accommodate Gazprom's plans could indeed slow down the accession process, creating further doubts on the compatibility of Serbian and European plans. However, the recent information on South Stream's financing reveals that all is not well. The cost of the off-shore section of the South

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Stream gas pipeline is reported to have passed the ten billion Euro mark. Gazprom has originally pegged the total cost of the project at 16 billion Euros, but it could reach more than 20 billion euros.

Energy developments in the Caspian region

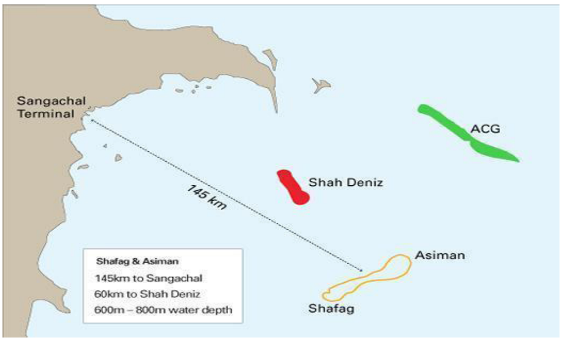
Azerbaijan

This week, the main energy developments were policy related, due to the declining oil prices on the world market, which threatens the incomes of oil exporting countries.

On 8 October, the Cabinet of Ministers met in an enlarged session devoted to the results of the third quarter. President Ilham Aliyev stressed that the government must fix a proper oil price in the state budget, stating that "[we] must be ready to deal with [a further decline on oil price] and build our plans in accordance, because the world economy has not overcome the crisis yet". In this situation, the task of the government is not only to fix the price of oil in the state budget, but also to review and work out government's investment programs in accordance. This year's state budget envisages the oil price at 100 USD per barrel; for fiscal year 2015, the government will probably calculate it at 90 USD or even 80 USD per barrel.

Statistics published this week revealed a decline in oil pumping by third parties on the Baku-Tbilisi-Ceyhan pipeline (BTC), down 20.7 percent in September versus August. According to this data, 385,597 tons were pumped in September, against 486,320 tons in August, 418,773 tons in July and 664,910 tons in March 2014 (the peak for 2014). Turkmen oil delivery via BTC for May 2014 totaled 456,359 tons, compared with 282,370 tons in March (April data is not available), 200,250 tons in February and 250,462 tons in January. This data also revealed that Tengizchevroil (TCO) exports on average up to 5 million tons a year through Azerbaijan.

The other important development this week was Statoil's exit from Azerbaijan's Shah Deniz gas project, selling a 15.5 percent stake to Malaysia's Petronas for 2.25 billion USD as part of asset sales to shore up returns to shareholders. It earlier sold a 10 percent stake in Shah Deniz. French oil major Total sold out of Shah Deniz in May, saying it was planning to focus on operating projects rather than holding minority stakes.



Additionally, a major development took place in Azerbaijan's neighbor and strategic energy partner, Georgia. Two private Turkish companies (Calik Holding and Ahlatci Group) signed a 500 million USD deal with the Georgian government for the construction of three hydroelectric plants. These hydroelectric power plants, with a total capacity of 223 megawatts, will be constructed on Rioni River in the western Racha region. The plants will produce over one billion kilowatt hours of electricity annually. Another planned plant, to be built by Dolra of Ahlatci Group, will have a capacity of 30 megawatts and will produce 125 million kilowatt hours of electricity annually. Georgia has been exporting electricity since 2007, and has sold energy to all its neighboring countries, including Turkey.

Developments on the Southern Gas Corridor (SGC)

On October 14, contracts for the supply of pipes to be used in the TANAP construction were singed in the Turkish capital of Ankara. Contracts were signed with six Turkish and one Chinese company. Turkey's Mannesmann-Noksel-Erciyas and Umran-Emek consortiums, Toscelik Profil ve Sac Endustrisi company, as well as a Chinese contractor Baosteel Europe won the pipes supply tender. All the companies that will take part in the construction and the supply of the TANAP in Turkey are exempt from Value Added Tax (VAT).

In another positive development, Trans Adriatic Pipeline AG (TAP) has issued the first major Invitation to Tender (ITT) for the construction of the onshore section of the pipeline. This is an Engineering Procurement Construction (EPC) contract, which includes the engineering, procurement and construction of approximately 760 km of the cross-country onshore pipeline in Greece and Albania. Construction of the Trans Adriatic Pipeline is planned to begin in 2016 and, currently, will be split into five lots (or sections), three lots in Greece and two lots in Albania. TAP's highest elevation will be 1800 meters in Albania and the pipeline will cross multiple roads and rivers. Companies being invited to bid are international pipeline construction organizations, including companies from TAP's host countries. The next Invitation to Tenders (ITT) that will be issued by TAP for compressor stations in Greece and Albania, procurement of compressor units for the compressor stations, and procurement of large diameter ball valves. TAP plans to issue these ITTs in the fourth quarter of 2014.

Developments in the Caspian littoral states

Kazakhstan

We reported last week on the delay of exporting energy resources from Kashagan and the impact on Kazakhstan's oil exports in the next two years; further details of the problem are now emerging. The consortium – which includes Royal Dutch Shell, ExxonMobil, Total, Eni and CNPC – marked first production at the Kazakhstan field in September last year after spending 50 billion USD on its development, but production was shut weeks later when sulfur-containing gas was discovered leaking from pipelines between the field and the shore. It was clear this week that the cost of replacing the pipelines and restarting production had been estimated at between 1.6 billion USD and 3.6 billion USD, depending on the specification of the equipment chosen.

Prior to this development, the Kazakh Energy Ministry declared that Kazakhstan will not build new oil refinery. Meanwhile in order to meet the demand of the domestic market for gasoline and petroleum, the country's Shymkent refinery will be expanded from the current six million metric tons to nine million after 2024, which will allow Kazakhstan to meet its needs for light oil products until 2035.

In a positive development for local consumers, according to Samruk-Green Energy LLP, a new solar power plant established with a capacity of 2 MW in Kapshagay (southern Kazakhstan) is ready to play in a role in supplying electricity to the Almaty region. The main objectives of the plant's construction are to increase the share of renewable energy sources and to reduce the use of hydrocarbon energy resources for power generation.

Russia

The framework of an agreement has been reached between Gazprom and the German chemical company BASF, under which Russia will acquire Europe's largest underground gas storage facility. The gas storage facility is located in the small German town of Rehden, Lower Saxony. However, interestingly the initial agreement was reached back in December 2013 and approved by the European Commission - and therefore will not be subject to the current international sanctions towards Russia.

The Urengoiskoe field.

Russia is trying to maintain its centrality in the gas markets through a mix of renewed efforts in the upstream. To this end, Rosneft's subsidiary Rospan International performed hydraulic fracturing at the Urengoiskoe field, which resulted in a significant increase in production rate. In addition, Gazprom Neft Orenburg (a subsidiary of Gazprom Neft) has completed its 100 percent acquisition of OOO Yugra-Intek, which has a license to search, explore and produce oil in the Kuvaisky area in the Orenburg region.

Iran

Iran is looking to finalize a new model for oil contracts, known as Iran Petroleum Contract (IPC) to replace "buy-back" contracts, in an attempt to attract foreign investors (provided that the Western governments lift their sanctions against Tehran). Iran's Petroleum Minister Bijan Namdar Zangeneh has said that the country's new model of oil contracts is to be finalized soon. According to Mehdi Hosseini, head of Petroleum Ministry Oil Contracts Revision Committee, "in case the sanctions are annulled, a new model of oil contracts will be unveiled in London," between February 23 and February 25, 2015.

The other development is the recent announcement by the Iranian Wind Energy Scientific Association that the largest (20 megawatts) and the first photovoltaic power plant in Iran and the Middle East will be built in Zahedan. According to projections made so far, the first phase of the plan will become operational one year after the launch, and the second phase in two years time. Currently, Iran enjoys the most extensive power network in the Middle East with more than 72K MWe of installed capacity.

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