

WEEKLY

# ENERGY REVIEW

18-24 April  
No.19



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, Russia gave its first official estimate of the cost of the Western sanctions to its economy. Russian Prime Minister Dmitry Medvedev said the decision to annex Crimea had sparked a crisis that turned out to be “more difficult” than even the most pessimistic expectations. Western sanctions cost Russia 26.7 billion USD in 2014, and the costs could balloon to 80 billion USD over 2015, reaching a total of more than 100 billion USD. There is no doubt that not only the sanctions but also the plunge in oil prices by 50 percent caused Russian energy exports to drop 40 percent in the first two months of 2015. The government has already been forced to slash spending.

The question of the “Turkish Stream” pipeline was also the subject of discussion this week. Russian Energy Minister Alexander Novak said that his ministry was in touch with Greece regarding the construction of the Turkish Stream gas pipeline. Russia and Greece are working on a memorandum on the construction of the gas pipeline from the Greek-Turkish border to other European countries. An earlier report stated that in order to strengthen Greece's involvement in Turkish Stream, the Russian government has promised debt-stricken Greece 5 billion Euros in advance of a new pipeline to help deliver gas to Europe. At this stage, the possibility of future interference by the European Commission in the project's realization entails added risks. While the framework agreement would probably not require EU approval, without its acceptance Greece - as an EU member state - cannot afford to host Turkish Stream on its territory. Against this backdrop, EU Competition Chief Margrethe Vestager pledged to act decisively against energy companies that break competition law.

At the regional level, while energy developments in Turkey have been under the spotlight, Iranian Oil Minister Bijan Namdar Zanganeh stated this week that Tehran has proposed to double its natural gas exports in exchange for a reduction in price, but that Ankara has rejected the offer. This seems a somewhat contradictory move by Ankara, given that during his visit to Tehran at the beginning of April, Turkish President Recep Tayyip Erdoğan hinted that Turkey could buy more gas from Iran if the latter reduced the price. According to Hurriyet Daily News, sources from the Turkish Energy Ministry stated that Iran declined to make any

cuts in the price of gas exports, but had offered to open a new gas supply line of around 10 bcm at a cheaper price, which Ankara deemed “unacceptable”.

## Recent Reports:

**E**astern Europe, Caucasus and Central Asia: Energy Policies Beyond IEA Countries”, International Energy Agency (IEA). This publication highlights the energy policies and sector developments of Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan during 2013-14 and provides a summary of key recommendations for policy makers in the region.

**I**EA Oil Market Report (April 2015). This report raised its forecast of 2015 global oil demand by 90 000 barrels per day (90 kb/d) to 93.6 million barrels per day (mb/d), a gain of 1.1 mb/d on the year, informing subscribers that the notable acceleration from 2014’s 0.7 mb/d growth builds on cold first-quarter temperatures and a steadily improving global economic backdrop.

## Energy developments in the Caspian region

### Azerbaijan

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

The week’s major event was the President’s approval the law adopted by Parliament on the exploration, development and production sharing agreement (PSA) for shallow waters of Absheron Peninsula. The agreement was signed between British BP and Azerbaijan’s state energy company SOCAR on December 22 2014. This agreement is part of the government’s plan to fully explore all the coastal areas of the Azerbaijani sector of the Caspian Sea. The term of agreement is 23 years with scope for extension. It provides for parity (50%) in terms of participation of both sides.

The other important news is that the Asian Development Bank (ADB) has approved a business plan for operations in Azerbaijan in 2015-2017, allowing the country to receive funds from the bank only as ordinary capital resources for water, transport and energy projects. Thus ADB will finance the “Power distribution improvement project” in Azerbaijan in 2015-2016, for which a total 332 million USD will be allocated. Some 250 million USD of this amount will come from the ADB loan and Azerbaijan’s own funds, according to the ADB business plan on Azerbaijan for 2015-2017. Azerbaijan has also asked World Bank to provide financial assistance for the energy project (approximately 250-300 million USD). A final decision on the matter is expected to be opened for discussion in a few months.

The State Oil Company of Azerbaijan has opened a new gas filling station in Georgia; the number of gas filling stations under the SOCAR brand in Georgia has expanded. The new gas filling station has two gas compressor plants with a capacity of 250 kilowatts, connected to the central



main gas line, which provides a continuous supply of gas. SOCAR, the only producer of petroleum products in Azerbaijan, has two oil refineries, as well as gas filling stations in Azerbaijan, Georgia, Ukraine, Romania and Switzerland.

In terms of statistical news, the Azerbaijan energy market's results for the first quarter of 2015 have been declared. According to the Azerbaijan State Customs Committee, during this period Azerbaijan delivered 8,417,368 tons of oil to foreign markets. The volume of oil exports increased by 4% against the same period last year. From January to March 2015, 6,679,095 tons of oil was exported via the Baku-Tbilisi-Ceyhan (BTC) oil pipeline (of which 543,600 tons of gas condensate from the Shah Deniz field); 1,092,889 tons via the Baku-Sup-sa oil pipeline, 339,491 tons via the Baku-Novorossiysk oil pipeline; and 305,891 tons of oil to the Georgian ports by railway.

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

This week saw a number of developments related to the realization of SGC.

The Trans Adriatic Pipeline (TAP) has awarded first contracts in Albania. The TAP consortium has selected a joint venture formed by Gener 2 Sh.p.K and Sicilsaldo S.p.A. for the construction and rehabilitation of access roads and bridges in Albania. This marks an important step in the preparation for construction of the TAP pipeline section in Albania. In addition, the scope of work for the contract covers construction and rehabilitation of over 100 kilometers of road along the pipeline's route, as well as construction of two new bridges and rehabilitation of approximately 50 existing bridges.

Secondly, the EU has declared key diplomatic support for the SGC. The European Commission Vice-President for Energy Union Maros Sefcovic stated that EU will increase support to Turkey in regard to the realization of the Trans Anatolian Natural Gas Pipeline (TANAP). This support comes at a crucial time, because the local and international media is still debating whether TANAP can successfully compete against the so-called Turkish Stream project. Sefcovic's statement demonstrated that the EU's priority is the realization of SGC, an alternative to Russian gas. Furthermore, the role of the SGC - and TANAP in particular - has been strengthened following the joint signature by BP and the TANAP consortium of a shareholder agreement stating that BP will become one of the shareholders of TANAP (March 13).

In addition, Sefcovic mentioned in another public interview the EU's role in the realization of the Trans-Caspian Gas Pipeline – the projected and debated deep water pipeline between Azerbaijan and Turkmenistan. According to Sefcovic, the European Commission (EC) has offered to update the memorandum of understanding with Azerbaijan and Turkmenistan regarding the construction of the Trans-Caspian Pipeline. Currently the EU is awaiting responses from the Azerbaijani and Turkmen governments regarding opening negotiations on this matter.

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

### *Russia*

Russia's energy landscape has been a topic of global debate due to the events in Ukraine. Bleak projections for Moscow's energy future have been declared by a number of experts. At the recent Russian LNG Congress in Moscow, the pessimistic scenario stated by number

of experts is that Russia has a window of five years at best to successfully enter the global LNG markets -and even that window is closing fast. Nevertheless, the Ministry of Energy is planning to increase Russian global LNG levels from the current 4.5% share to 15% by 2035, which will require a highly unlikely yearly increase of almost 84 bcm. The general consensus of the Moscow conference participants was that the next decade will be difficult for the Russian gas industry, which will face multiple challenges: a stagnating European market, high-cost Asian projects and Western sanctions which have shut the door for investment and technology transfers. Western sanctions have clearly damaged Russia's ability to compete in the LNG field, which requires vital capital and technologies. Russia will likely continue its struggle to develop LNG infrastructure, and this opportunity will pass to more flexible global competitors.

In terms of infrastructural development, Statoil's Executive Vice President Tim Dodson announced that Norway's Statoil and Russia's Rosneft have formed a joint venture and will begin oil drilling in the Okhotsk Sea in 2016. According to Dodson, "We have recently been given some approvals to move ahead with the technical aspects of the offshore joint venture in the Sea of Okhotsk."

In March 2015, Norwegian authorities gave Statoil the go-ahead to conduct joint projects with after determining they are in compliance with Western sanctions against Russia, which targeted Rosneft in 2014. Exploration in the Okhotsk Sea will reportedly be limited to acreage that is not subject to the sanctions.

### *Kazakhstan*

The impact of the global decline of oil prices has damaged Kazakhshtan's energy infrastructure development. The recent statement by the senior executive at Chevron's joint venture Tengizchevroil (TCO), Aidar Dosbaev, reflects this situation: Kazakhstan's leading oil producer has slowed its expansion plans further and cut planned spending this year in response to lower oil prices. As the oil price plunged in the second half of last year, TCO's crude output for 2014 dropped to 26.7 million tons, from 27.1 million tons in 2013. Dosbaev did not specify when production would now reach that level, but industry sources said it could be delayed by up to two years. TCO's output is crucial to Kazakhstan's oil output this year and next, before the giant Kashagan oil plant - shut since October 2013 following gas leaks in its pipelines restarts production in the second half of 2016. c meters per day.

### *Turkmenistan*

Dragon Oil announced increased production from its flagship Cheleken fields in Turkmenistan in the first quarter of 2015. The company, which is considering an approach by its main shareholder Emirates National Oil Company (ENOC) for the remainder of its equity, said average production levels from the fields in March had risen above 93,000 barrels of oil per day (bpd). The average output level for the first quarter was around 88,700 bpd, 23 percent higher than the same time last year.



**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](mailto:ccee@ada.edu.az)

**Web** : [www.ccee.ada.edu.az](http://www.ccee.ada.edu.az)  
[www.ada.edu.az](http://www.ada.edu.az)