

BIWEEKLY

ENERGY REVIEW

16-30 October
No.23



In pursuit of its primary goal of guiding the development of effective and pragmatic policies on regional and global energy issues, CCEE's Biweekly Energy Review brings readers the latest developments in the field of energy and environment. The Biweekly 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 biweekly digest offers brief evaluations and commentaries of breaking and ongoing news stories from CCEE experts, helping to shed light on key developments.



KEY FACTS & STATEMENTS

K Azerbaijan's Southern Gas Corridor CJSC has invested 7.6 billion USD of the total 12.3 billion USD funding needed from the Azerbaijani side for construction of the Southern Gas Corridor (SGC) during 2014-2020. The total cost of the SGC is 45 billion USD.

Russian Energy Minister Alexander Novak said that Russia's compliance with the global output cut deal had been 102 percent in the past nine months.

Brief outline of global energy developments

The key focus in Europe was Nord Stream 2. At the international conference on reforming Ukraine's energy sector, the US Ambassador to Ukraine Marie Yovanovitch, stressed that "The launch of the second thread of the Nord Stream pipeline will significantly impact Ukraine's economy by cutting the transit of natural gas through the country", adding that "This may lead to losses of up to three percent of the country's GDP." The 1,200-kilometer Nord Stream 2 pipeline will bypass Ukraine and double the delivery capacity of the existing Nord Stream pipeline from the current 55 billion cubic meters of gas per year. The project has faced fierce opposition from the Baltic States, Poland, and Ukraine. Critics claim the Gazprom-led project will make Europe more dependent on Russian gas as it bypasses Ukraine as a transit country. President of the European Commission Juncker said on October 19 that the European Commission aligned itself with members who had raised objections to the deal, and asked for a mandate from EU leaders to negotiate with Russia over the project.

US President Donald Trump's rhetoric on Iran nuclear deal poses a threat to the international energy companies, as he refused to formally certify that Iran was complying with the nuclear deal. He warned that he might ultimately terminate the agreement. In response to Trump, Total Chief Executive Officer Patrick Pouyanne told International Oil Daily that Total would examine the consequences of Trump's decision, and if there are any laws that oblige it to withdraw from Iran, it will comply. However, Pouyanne hinted that if this is unilateral action, e.g. by the US, then this will not work: "If Iran is compliant, if the European Union and China and Russia continue to consider that the JCPOA (Joint Comprehensive Plan of Action)

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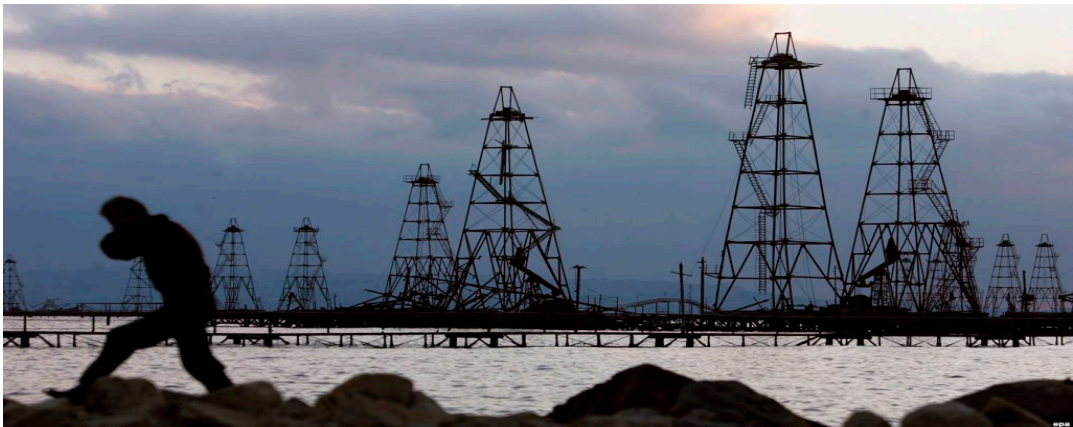
can be applied, then that means the US would have to take unilateral sanctions.”

Energy developments in the Caspian region

Azerbaijan

In Azerbaijan’s energy market, the main developments were related to improved energy efficiency in the domestic gas market, and non-oil sector development.

Azerbaijan’s Energy Ministry provided further information about the establishment of two working groups in Azerbaijan, one to implement the “Strategic Roadmap for the Development of the Oil and Gas Industry”. A second working group will observe and tackle the action plan envisaged in the Strategic Roadmap for the Development of Utilities and the Strategic Roadmap for the Development of Heavy Industry and Machine Building, which covers four strategic objectives and nine priority areas within the roadmap for the development of utilities and activities. The creation of effective gas distribution infrastructure is one of the main strategic goals set forth in the roadmap. The document on Electric Power Industry and the Rules for the Use of Thermal Energy was prepared by the Energy Ministry of Azerbaijan and presented to the Cabinet of Minister for consideration.



The stabilization of the oil market in recent months, with one barrel of Brent oil up to 60 USD, is helping with the infrastructural development of the domestic energy market, following from increased financial backing due to oil revenues. The Energy Minister of Azerbaijan, Parviz Shahbazov emphasized in his recent interview to Russian information agency TASS, “The situation in the oil market has stabilized recently and a certain balance has been reached.” OPEC economists in the monthly report for October revised their production forecast for non-member states for 2017, lowering it by 10,000 barrels per day for an average of 57.7 million barrels per day. In September, however, output from Azerbaijan was one of the contributors to non-OPEC growth. The Azerbaijani Energy Minister’s comments came one day after Igor Sechin, the head of Russian oil company Rosneft, said US shale oil production was out of OPEC’s control and could threaten the drain on the surplus in the five-year average for global crude oil inventories.

Another renewable energy related development was the announcement by the Deputy Director of the State Agency for Alternative and Renewable Energy Sources of Azerbaijan (SAARES) Jamil Melikov that China will grant Azerbaijan autonomous energy systems consisting of solar and diesel generators worth 3 million USD. According to Melikov, “The capacity of these aggregates varies between 5kW to 100 kW”. He added that the strategical road map envisages an investment of 1.04 billion manat in Azerbaijan’s alternative energy sector. Several international financial institutions are interested in allocating funds for this field in Azerbaijan.

Developments on the Southern Gas Corridor (SGC)

The financing of Southern Gas Corridor was the main development this month; the European Bank for Reconstruction and Development has approved crucial \$500 million financing for a pipeline to bring Azeri gas from the Caspian Sea to the EU. The bank’s board approved the loan to a mostly Azerbaijan-owned consortium building the Trans-Anatolian Pipeline, or TANAP. The project is the central link in the so-called Southern Gas Corridor aimed at reducing Europe’s reliance on Russian gas.

Another development related to the TAP pipeline and its section in Italy. Vitaliy Baylarbayov, Deputy Vice President of the State Oil Company of Azerbaijan Republic (SOCAR) announced that “All the authorizations received from the Italian authorities and the recent decision by the Italian Constitutional Court will allow project TAP to move ahead quickly from the current 57% accomplishment and reach 100%, expected for 2020.” In phase one, TAP will deliver 8 billion cubic meters of gas to Italy, approximately 12 percent of current Italian consumption. According to Baylarbayov, TAP project will have a positive impact on the Italian economy, as existing contracts with companies across Italy are worth almost 7 billion USD.



A further development was that the Serbian Energy Minister, Aleksandar Antic, has said that in December, the government expects the EU to approve a 49.6 million Euro (\$55.2 million) grant under the Instrument for Pre-Accession Assistance for the construction of a gas interconnection with Bulgaria. The Bulgaria-Serbia and Greece-Bulgaria connectors are

recognized by the EU as a means of connecting Southeast Europe (SEE) to the Southern Gas Corridor, comprising the Trans-Anatolian pipeline (TANAP) In March, the Serbian government said that an interconnector linking the gas transmission systems of the country and neighboring Bulgaria should be completed by 2019 and become operational a year later. The European Investment Bank (EIB) intends to provide financing of up to 30 million Euro (\$33.8 million) for the project in 2018, a senior EIB official said in May.

Developments in the Caspian littoral states

Russia

Russian officials made clear their disappointment on new global sanctions; the Russian Foreign Minister Sergei Lavrov has accused the United States of resorting to sanctions in order to “elbow” Moscow out of weapons and energy markets.

Lavrov said at a meeting with members of the Association of European Businesses in the Russian capital that new sanctions introduced by the US were aimed at downgrading joint projects in energy across Europe and elsewhere”. This is indication of how Russian officials perceive the latest sanctions.

Iran

The Iran- Turkmenistan discussion on the gas swap deal was on the agenda, as Turkmenistan is proposing a gas-swap deal with Iran to transport Turkmen gas to Turkey, where it could be pumped into TANAP, which is currently under construction. Iranian National Gas Company (INGC) Director Hamid Reza Araki, who is also deputy oil minister, replied that Iran was not “positively disposed” to the idea. Relations between the two countries have undergone a difficult period since the end of 2016 when Turkmenistan demanded Iran pay around 2 billion USD for supplies of Turkmen gas to northern Iran during the winter of 2007-08. Iran countered that the figure was too high.

Iran continues to weigh options to transport its profuse natural gas resources to Europe, as all of Iran’s gas exports, of about 40 million cubic meters per day, flow through pipelines, mainly to Turkey and Iraq. Thus, Iran is considering greater investment in LNG, according to Mohammad Hossein Adeli, the Iranian secretary-general of the Gas Exporting Countries Forum: “Gas export through pipelines will be cheaper. LNG allows Iran to transport its natural gas anywhere in the world without facing political challenges”.

It therefore came as little surprise that National Iranian Oil Company has just signed a 20-year contract with IFLNG, a joint venture between Norwegian firm Hemla and Iran’s Khark Gas Refining Company for the sale of gas destined to be shipped as LNG. Gas originating from the South Pars gasfield’s seventh refinery will be delivered via the Caribbean FLNG vessel, which is owned by Belgium’s Exmar. A total of 500,000 tpy of production from the vessel is expected.



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