

## Gazprom-related WikiLeaks



For the first time the public disclosure of dispatches written by American diplomatic officials (the information was presented on the Wikileaks web portal)

has been directly related to the Russian fuel and energy companies, namely Gazprom. The published cables of the U.S. Ambassadors in Russia and Norway, John Beyrle and Barry White, say that the Russian gas corporation is corrupted, badly managed and, moreover, it is a tool of political pressure on the counterparts of Moscow.

Barry White refers to the assessments given by Statoil President Helge Lund, who expressed his concerns about corruption in Russia, including cooperation with Gazprom on the Shtokman Project.

In his turn, at the height of the crisis (in summer 2009), the Ambassador in Russia sent two reports on the Gazprom's economic status to the key experts in the President Barack Obama's team on Moscow energy policy.

The dispatches are based mainly on emotional assessments and contain few facts and figures, taking all analytical value away from them.

### ERTA view

The lack of competency of the monopoly's management is supported by one of the embassy's staff impressions: Gazprom export CEO Alexander Medvedev was reported to talk on hockey with more spirit than on gas. But in fact, this evidences the great professionalism of A. Medvedev to be able to keep his mouth shut, rather than his incompetency in the gas area.

The publication in RBC Daily titled "Will Gazprom follow RAO UES" is a much more indicative event for the industry. This article reports on the next round of the discussion on division of the Gazprom business into production and transportation independent entities. If to follow the logic of Western experts, such publication in the "Russian mass media which are totally controlled by the state" is an evident indicator of radically changed attitude towards this question in relevant spheres.

## Rosneft international risks are picking up

### Yukos legal cases limit state company's overseas business

Tags: [Rosneft](#), [Yukos](#)

The Supreme Court of the Netherlands has admitted Yukos International UK B.V. to be the legal owner of the money earned from the sales of a set of foreign Yukos assets and held that the company's accounts should be defrosted. The sum blocked is not revealed. It is likely the approximate amount of \$1.5 bn. In 2006-2008, Yukos International sold 53.7% of shares in the Lithuanian refinery Mazeikiu nafta for \$1.2 bn and 49% of shares in the Slovak pipeline company Transpetrol for \$240 mn.

In 2009, the Dutch accounts of the company, where the earnings had been transferred, were frozen under the decision of the Amsterdam Court of Appeal: the Promneftstroy company owned by the American businessman Stephen Lynch claimed its rights on that money. The company tried to prove its ownership rights on

the parent company of Yukos International - Yukos Finance B. V. (bought in 2007 during the Yukos bankruptcy). However, in October 2010, the Court of Appeal of the Netherlands admitted the purchase of Promneftstroy illegal and held to sell the shares of Yukos Finance on the open auction (the court has not yet made the decision on its performance and the procedure of money distribution).

In fact, Yukos International is under control of the Stichting Foundation CEOs. They are former Yukos managers: Bruce Misamore, David Godfrey, Stephen Theede, and Tim Osborne.

But this is not the end of the investigations. The Polish PKN Orlen, which had bought from Yukos its share in Mazeikiu nafta, claims for a part of the money from the Dutch accounts of Yukos International. In 2008, the corporation made complaints about unreliable information on the refinery, submitted by Yukos International at the moment of the deal. In May 2010, PKN Orlen filed an action against Yukos International in the Court of Appeal of the International Chamber of Trade for the sum of \$250 mn.

The Dutch courts have made many decisions in favor of former Yukos affiliates. The first of them was the decision to reject Yukos bankruptcy in Russia made by the district court of Amsterdam on October 31, 2007. The court did not admit the authorities of the Yukos bankruptcy manager Eduard Rebgun and his decision to change ➤ Page 3

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## News brief



For the first time the public disclosure of American diplomatic dispatches on Wikileaks has been directly related to the Russian fuel and energy companies, namely **Gazprom**. The published cables of the U.S. Ambassadors in Russia and Norway say that the Russian gas corporation is corrupted, badly managed and, moreover, it is a tool of political pressure on the counterparts of Moscow. The dispatches are based mainly on emotional assessments and contain few facts and figures. ➤ Page 1

The Supreme Court of the Netherlands has admitted **Yukos** International UK B.V. to be the legal owner of the money earned from the sales of a set of foreign Yukos assets and held that the company's accounts should be defrosted. There are about \$1.5bn on the accounts of Yukos International and it is controlled by former Yukos managers. Polish PKN Orlen also claims for a part of the money. ➤ Page 1

The **Rosneft** Board of Directors approved a record investment program for almost \$14bn (including acquisitions). The company will spend money on bringing the Vankor field into full stream and the construction of a new petrochemical facility in the Far East. As well agreement on purchasing 50% of Ruhr Oel with shares in four German refineries for \$1.6 bn. ➤ Page 3

In 2011 **Rosnedra** plans to set for auction 203 fields with total C1 reserves of 40.9 mnt of oil, while vast majority of the blocks have been assessed at categories of D1(D2). However, not auctions, but tenders on fields of federal importance will be the key intrigue of the coming year. ➤ Page 4

The **FAS** accused the Siberian Coal Energy Company (SUEK OJSC), the "Russian Coal" OJSC, and StroyService CJSC of setting coal price and sharing energy coal market between the sellers. According to the investigators, SUEK OJSC obtained illegal profit in the amount of more than \$5 mn. ➤ Page. 5

The Federal Tariffs Service of Russia (**FTS**) approved the tariffs for gas transportation services through trunk gas lines of Gazprom for independent companies, beginning with January 1 of 2011. Average tariff growth is 9.3% (comparable with inflation rate forecast). ➤ Page 5

In late December of 2010, the Board of Directors of the state energy holding company **Inter RAO** approved the parameters of follow-on offering. The state will preserve its control over Inter RAO. The package of 52-58% company shares will be divided between several state companies: Federal Grid Company, Rosimushchestvo, Rosatom, RusHydro and VEB (5%). The biggest private minority stakeholder of Inter RAO, Norilsk Nickel, will exchange 85% of WGC-3 stock for 13-15% of the energy holding company's shares. ➤ Page 5

**Gazprom Neft** and **TNK-BP** will set up a new JV to develop Messoyakha group of fields. Gazprom Neft will be the project operator. Direct management of the asset will speed up key decision-making process and simplify the procedure of financing a large-scale investment program. ➤ Page 6

**Gazprom** refused to make any concessions to other neighboring countries of Former USSR. Starting from January 1, 2011 gas price for Belarus will be 50 \$/mcm higher (230 \$/mcm). Import price for Lithuania will amount to 356 \$/mcm (36 \$/mcm higher the price of the third quarter) and for Moldova it will be 320 \$/mcm (52 \$/mcm higher the price of December). ➤ Page. 7

**Russia** and **Belarus** failed to come to an agreement on the price for Russian duty-free oil, beginning from January 1 of 2011. Final accountings are made at the end of month, so the parties still have two weeks for negotiations. ➤ Page 7



## Rosneft international risks are picking up

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the directors of the Dutch Yukos Finance, Bruce Misamore and David Godfrey, who represented the interests of Group Menatep, the main Yukos stakeholder. The Amsterdam Court of Appeal took thing a step further. On October 19, it held that the Yukos Finance shares had been illegally sold in the course of bankruptcy in 2007 and refused to admit the buyer of the Yukos Finance package, Promneftstroy OJSC of Stephen Lynch, as Yukos Finance owner. This decision led to unfreezing the bank accounts of the other Yukos structure - Yukos International UK B.V.

At the end of the year, Rosneft made a complain to the European Court on Human Rights against the Netherlands, since its courts allowed the former Yukos affiliate, Yukos Capital S.a.r.l. of Luxembourg, to collect about \$424 mn

from Rosneft. The Russian company believes that the decisions of these courts were unfair, since they deprived the defendant of the possibility to appeal the decisions of inferior instances.

Concerns of Rosneft can be explained by the fact that its problems may not be limited by loss of \$424 mn. Last year, Yukos Capital claimed for about \$160 mn of interest on this sum and filed an action in the High Court of Justice. Moreover, the Luxembourgian company tries to collect approximately RUR11 bn from Tomskneft and \$118 mn from Samaraneftgaz, other former Yukos affiliates now controlled by Rosneft. Decisions on collection of these loans were made in 2007 by the International Court of Appeal of the International Chamber of Trade of the World Business Organization.

## Rosneft: no yield to Gazprom in any respect

The Rosneft Board of Directors approved a record high investment program since the times of purchasing the Yukos assets

Tags: [Rosneft](#), [Vankor](#)



The Rosneft Board of Directors approved a record investment program of the company since the times of purchasing the Yukos assets. In 2011, the company is going to spend RUR415 bn (nearly \$14 bn), including the acquisitions. It is likely that the growing ambitions of Rosneft are related to the change of

complex.

In 2007, net investment expenditures if the state company exceeded \$20 bn (the similar indicator was: in 2008 - \$10.8 bn, in 2009 - \$8.8 bn). The Rosneft's plan for 2010 was almost one and a half times as lower, approximately RUR280 bn or \$9 bn). The numbers reflected the capital investments only. And 2010 actual figures are available for nine months only: \$6.2 bn are capital investments, \$8.4 bn are net investment expenditures (total investments minus gain on asset sales).

E. Khudainatov has previously said that the company would make investments into bringing the Vankor field into full stream and the construction of a new petrochemical facility in the Far East. In addition, the company has come to an agreement on purchasing 50% of Ruhr Oel with shares in four German refineries for \$1.6 bn (this transaction is planned to be closed in the first quarter). There will likely be other big acquisitions.

the company's head. In September Sergey Bogdanchikov stepped down in favor of Eduard Khudainatov. The status of Bogdanchikov has been uncertain in the latest years, due to his controversies with Igor Sechin, the Chairman of the Board of Directors and supervisor of the fuel and energy

### ERTA view

Taking into account that \$20 bn was allocated in 2007 to acquisition of the Yukos assets, \$14 bn is really a record sum for Rosneft. The conclusion like "most of that will be stolen again", which is inherent for modern Russia, draws attention away from deeper problems in the industry.

These include catastrophic deterioration of skills and qualification in the new oil and gas construction, from engineering to launching new facilities into production. Under the conditions of strong political jawbone ("to build at any price"), this problem results in the observed phenomenon: to build at any cost, sometimes rebuilding a facility or its parts several times in order to make it work.

This does not mean that nobody is slealing. But causes and effects are not so evident. Tightening the screws will in no way influence the qualification of industrial builders, since the staff-training school has already died.

Modern stories of the ESPO construction, development of the Vankor field, construction of the Far East gas pipeline further confirm such assessments.



## Tenders still rule

### There's another shift from auctions to tenders

Tags: [Rosnedra](#), [auction](#), [Naulsk](#), [Lodochnoye](#)



Rosnedra published the list of the hydrocarbons subsoil blocks planned to be set for an auction in 2011. This list includes 203 fields with total C1 reserves of 40.9 mnt of oil (i.e. approximately 0.2 mnt

of crude oil per one block). However, only fifty fields only can claim for such extent of exploration.

In 2010, 288 auctions and tenders were held, less than 50 of them were admitted successful. Subsoil users paid RUR9 bn to the budget for the ownership rights for new blocks.

However, not auctions, but Rosnedra tenders will be the key intrigue of the coming year. Several fields of federal importance will be tendered. In spring of 2011 the winner of the Naulsk field will be announced (there were no bidders on this field in the last year). The Minister of Natural

Resources Yury Trutnev has informed that the Lodochnoye field in the Krasnoyarsk Krai would be tendered (its reserves include 46.9 mnt of oil and condensate, 71.1 bcm of gas). One more intrigue concerns the reissuing of the license on the gigantic Kovykta gas and condensate field, currently owned by RUSIA Petroleum company, which is now under the bankruptcy proceedings.

#### Tenders in 2011

The information on most of the blocks contains only possible resources. In total, all fields listed have the  $D_1$  ( $D_2$ ) resources in the amount of approximately 970 (215) mnt of oil and 3,200 (740) bcm of gas.

Foreign companies are not allowed to participate in tenders on three of the blocks, namely the Verkhneyangareysk ( $D_1$  oil resources – 5.4 mnt), Yangareysk (8.4 mnt) and Sibiryaginsk (1.1 mnt) blocks in the Nenets Autonomous district. These blocks are located on the Yugorsky Peninsula, close to the constructed Yamal-Europe gas pipeline.

#### **ERTA view**

Ambitious licensing plans are being elaborated again. Mechanisms aimed to stimulate the companies to carry out geological exploration are actively discussed. However, less than 20% of auctions held last year were admitted successful.

The government is afraid of non-controllable production drop in the period of political debates, when the budget will need money more than ever before. But the problem is that the industry will not be able to withstand such terms by pure technological reasons. Politics lives by quarters: people forget the promises of the authorities, while production lives by dozens of years: field preparation takes five years at least.

It is time for the government to leave annual planning in favor of at least five-year process. Industrial decisions of the government should be strategic, public, and require annual correction based on the actual results. But they have not managed to do that so. The government isn't used to review the past, to control the results and to admit its own mistakes. Up to the moment, the government has been living in a political world, when the industry has been living in a technological one.

Everybody knows the attempts to place the industry in the political position: super-expensive super-projects. The modern history has not seen many reverse attempts, that is, to make management industrial-specific. The problem does not lie in the lack of strategies written, but rather in the lack of lessons learned from the failure to follow them. The state authorities do not fulfill most of their supervisory functions. This is just not advantageous.

To set (approve) plans of the companies is much more advantageous. It is rumored that obligatory plans on geologic exploration are being discussed. Such plans will be handed down to all subsoil users. They will differ by the natural resource extracted by a company, its size and region of operation. The other condition will be an obligation to carry out geological exploration of the territories adjacent to those of companies operation.

So, it seems that motivations have not been forgotten. The plan includes reduction of the mineral extraction tax collected from the companies in the amount of 1 to 10 (mineral extraction tax (MET) collected from a subsoil user will be reduced in the amount of 1 ruble per each 10 rubles invested into geological exploration).

There is a well-forgotten old: a Mineral Restoration Tax. The experience was unsuccessful, either in terms of budget gains or in terms of the status of the mineral raw material base. Learn your lessons better.



## To manipulate by manipulators

Cutting short any attempt to manipulate prices leads to share prices manipulation

Tags: [FAS](#) , [SUEK](#)

Having beaten the oil majors last year, FAS started attacking coal companies. In late December, the Russian FAS accused the Siberian Coal Energy Company (SUEK OJSC), the "Russian Coal" OJSC, and StroyService CJSC of violating the paragraphs 1&3 of Part 1, Article 11 of the Federal Law "On Protection of the Competition". The mentioned companies came to competition-limiting agreements in the coal market, thus setting coal price and sharing energy coal market between the sellers. Following that, the Ministry of Internal Affairs instituted a proceeding against SUEK OJSC and other players according to Clause 178 of the Criminal Code of the Russian Federation over the collusion.

Earnings obtained by SUEK OJSC, the "Russian Coal"

OJSC, and StroyService CJSC from coal sales under competition-limiting agreements were more than RUR100 mn. According to the investigators, illegal profit obtained by SUEK OJSC in the amount of the margin between competitive coal price and non-competitive market, was more than \$5 mn.

For the first time investigation of an antimonopoly case and proof of a cartel agreement formation were carried out by the Russian FAS in cooperation with the Russian Ministry of Internal Affairs. The documents and information obtained during operational search actions was used.

After the explosion in the Rapsadskaya mine, Prime Minister Vladimir Putin personally ordered to cut short of all attempts of price manipulation.

## We only dream about a single tariff

Transportation tariff as a key business factor for independent producers

Tags: [FTS](#), [tariffs](#), [transportation tariff](#), [trunk pipeline transportation](#), [independent](#)



The management of the Federal Tariffs Service of Russia (FTS) approved the tariffs for gas transportation services through trunk gas lines of Gazprom OJSC for independent companies,

beginning with January 1 of 2011. Average tariff growth was 9.3%, compared to the existing level, exceeding the inflation rate forecast by 0.5%.

Gazprom has asked to rise the tariff 15%, independent gas producers – 7%. The FTS representatives said they leaned towards 12.5%, but the final decision was found to be more favorable for independent producers (at the forecast level of inflation). This confirms the forming trend of strengthening of the lobbying resources of NOVATEK led by Gennady Timchenko.

### ERTA view

This was a hard decision for the FTS. At first, the tariffs for independent producers should have been considered and approved at the meeting of the Administration of the Service on December 17. However, the decision was postponed. They say, that the FTS head S. Novikov said at that meeting: "When Igor Sechin holds a meeting on this matter, then we will make our decision".

The problem is likely not only in the power of NOVATEK/Timchenko's lobby. This is just a real situation, where Gazprom has run out of solid reasons to raise transport tariffs higher than the level of inflation. And the trivial remark that "Also we need to invest" isn't accepted any more as a decent reason.

## Sechin as Chubays's alter ego

The inverse process of energy assets consolidation has been sped up

Tags: [Inter RAO](#), [OGK-3](#) , [RusHydro](#)

In late December of 2010, the Board of Directors of the state energy holding company Inter RAO approved the main parameters of follow-on offering. Within its framework, 13.8 tn of new shares of the company would be exchanged to the shares in other energy assets. In particular, the Board approved the evaluation of its own stock: with nominal price of RUR 0.02809767, additional shares will cost RUR 0.0535. Also, the price of energy companies' shares to be accepted in payment of additional follow-on offering was approved.

Valuation of InterRAO's stock was 9% higher the market. Valuation of most of the assets was some lower than stock exchange quotations at the end of the year.

In October 2009, the reverse consolidation project on the base of Inter RAO energy assets was started. Energy assets

were divided in the course of the reform of the RAO UES of Russia. Initially, the purpose was to obtain the packages left in state ownership (in particular, Irkutskenergo) and on the balance of the Federal Grid Company (the FGC) and RusHydro. When Inter RAO changed its management (Boris Kovalchuk replaced Eugeny Dod, who had left for RusHydro), the list of assets was extended, including private companies, power sales companies of RAO Energy Systems of East, machine-building and engineering companies. The final signal to the start of the "large follow-on offering" of the holding company was made in late September, 2010 by President Dmitry Medvedev, who signed a decree on handing over energy assets owned by the Federal Agency for State Property Management (Rosimuschestvo) to ➤ Page 6



M&amp;A

## Sechin as Chubays's alter ego

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Inter RAO.

In the result of the additional follow-on offering, the state will preserve its control over Inter RAO; however, this package will be divided between several state companies and state corporations. Currently, the formal control over the holding company belongs to the Rosatom (Russian Federal Atomic Energy Agency) (45.1%) and the Bank for Development and Foreign Economic Affairs (VEB) (18.3%) structures. After the additional follow-on offering, the major Inter RAO stockholders will be presented by FGC (17-20%), Rosimushchestvo (13-15%), Rosatom (12%), RusHydro (5-6%) and VEB (5%). In total, all these shares will form approximately 52-58% of the authorized capital. The biggest private minority stakeholder of Inter RAO, Norilsk Nickel, will exchange 85% of OGK-3 stock for 13-15% of the energy holding company's shares. The NorNickel Board of Directors approved this deal on December 28. Inter RAO was valued at \$2.27bn for the deal (RUSAL of Oleg Deripaska also claimed for the purchase of OGK-3 and offered \$2.1 bn in cash). The terms

of this agreement includes restriction of sales of Inter RAO shares by NorNickel for the period of one year after the deal. Norilsk Nickel will be able to sell its share in Inter RAO within 1.5-2 years.

### What Inter RAO finally gets?

The major energy assets to be obtained by the holding company include: the control stock package of OGK-1 (divided between the state FGC and RusHydro) and OGK-3 (owned by MMC Norilsk Nickel), Novosibirskenergo (controlled by the structures of Mikhail Abyzov), the state share of TGC-11, 40% of Irkutskenergo stock (controlled by the structures of Oleg Deripaska) which are now on the balance of Rosimushchestvo, and 100% of stock of the Unified Energy Sales Company OJSC (OESK) owned by RusHydro, which controls five large regional energy sales companies, including Mosenergosbyt and the Petersburg Sales Company (PSK). Actually, the Irkutskenergo package will be further given to RusHydro in exchange of its shares. As a result, InterRAO may get nearly 10% of RusHydro stock.

### ERTA view

The long-expected event occurred. Inter RAO launches its transformation into one of the biggest energy holding companies of Russia. In the context information about the share price and share exchange details can be of any interest to shareholders and market players only.

The critical importance for electric power industry will be information on the role played (or not played) by InterRAO in the industrial management processes and various structures ("Market Council", Asian Pacific Council, partnerships of generators and guaranteeing suppliers...), as well as on the lobbying influence of the company on the state management bodies.

We believe that all this will become clear in summer of 2011. Quite possibly, the Company will expand its ambitions to the "energetic" one, in the global sense. Then we could see the most interesting evolutions, including those on the gas market.

## A new Alliance

Joint development of the Messoyakha group of fields will help TNK-BP to solve transportation problems

Tags: [TNK-BP](#), [Gazprom нефть](#), [YANAO](#), [Messoyakha](#), [Slavneft](#)

Gazprom нефть and TNK-BP have decided to buy 50% each of Messoyakhaneftegaz CJSC, which owns the development licenses for the group of Messoyakha oil and gas fields in the north of the Yamal-Nenets Autonomous district. Gazprom нефть will be the project operator.

According to the official version, by direct management of the asset, the stakeholders will be able to speed up key decision-making process, to simplify the procedure of financing a large-scale investment program, and to expand possibility to raise capital. According to the preliminary evaluation, investments to the development of the

Messoyakha group of fields may amount to \$15-18 bn.

Necessity to hasten the preparations on development of this group of fields is connected with the federal decision to finance the construction of the oil pipeline infrastructure in the region (the Subarctic – Purpe) by means of state guarantees. TNK-BP and Gazprom нефть were the main players lobbying this decision. They even participated in elaboration of the special program on development of the oil and gas resources of the North of the Krasnoyarsk Krai and the Yamal – Nenets Autonomous district, though this program has not yet been approved.

### ERTA view

This event lies within the current logic of development of the Russian oil and gas industry. Russian companies have set to develop a new region. Strictly speaking, it cannot be called new, since it is a prolongation of the West Siberian oil and gas province.

However, while the government often has to drive oil men by force to new West Siberian fields, it seems that they go to this region by themselves, negotiating on cooperation in construction of new pipelines.

What is the reason? Well-established logistics and sales, known geological and administrative and political environment? Or just the reason that it is safer by the slump. If the last reason is true, then the development of East Siberia depends on establishment of powerful multilateral alliances. If the government is afraid to lose control over those processes (Gazprom as an insolvent coordinator of the Eastern gas program), then it should lead them.



## And what's in return?

Having reduced gas prices for Latvia starting from January 1, 2011, Gazprom refused to make any concessions to other neighbors

Tags: [long-term contracts](#), [Belarus](#), [Moldavia](#), [Lithuania](#), [transit](#), [export](#), [Ukraine](#)

Ukraine, Moldavia, Belarus and Lithuania will continue buying gas under the long-term contracts, which include the price-rising formulas (at least, for the first quarter of the year). Armenia is the only one to continue negotiations. This country hopes to postpone the transition to the market pricing scheduled for April 1, 2011.

Last spring, Ukraine got a significant discount (30%, but not more than \$100 per 1 mcm) from Russia, in exchange of extension of the terms of the RF Black Sea Fleet's presence in Sevastopol. The state leaders have declared many times, that this is an exhaustive measure of assisting the Ukrainian economy, and the government would be ready to consider price reductions only along with establishment of a Gazprom-Naftogaz joint venture based on Russian fields and the Ukrainian gas transport system. The price for Russian gas is approximately \$264/mcm in the first quarter (already discounted).

Minsk tried to save at least the 10-percent discount for the gas price which was valid in the last year, according to the 5-year contract. Moscow wouldn't give in. The price will still be formed in strict compliance with the contract, and it will rise for nearly \$50, to \$230/mcm, since January 1. The contract expires at the end of the year, and the parties will face difficult negotiations on terms of a new agreement. Belarus is hoping to reduce the prices down to the level of domestic prices in Russia. Moscow has promised to consider this term, if Minsk will be more cooperative in the process of creation of the Common Free

Market Zone of Russia, Belarus and Kazakhstan.

The price for Moldavia has risen to \$320/mcm (\$268 in December), due to the scheduled cancellation of the 10-percent discount. The margin between this price and the Belarusian one is explained by the 30-percent export duty, which is considered for Kishinev, unlike Minsk.

Since January 2011, the Lithuanian gas company Lietuvos dujos (Gazprom owns 37.1% of its stock, E.ON Ruhrgas – 38.9%) has been importing the Russian gas for the price of \$365/mcm, which is \$8 more than the price of December, and \$36 more than the prices in the third quarter. According to the explanations given by Lietuvos dujos, they have been negotiating through the whole year 2010 on gas price reduction, but their initiatives were not supported by the Lithuanian government and the Ministry of Energy. Vilnius was threatening to the Lietuvos dujos owners with rapid implementation of the EU Third Energy Package by the strictest standards (which anticipates the handover of the gas transport system management functions to third parties, or even nationalization of the assets) during the year. Though, the law "On Gas" introduced into the parliament of the state in last May has not been adopted.

The gas prices for Armenia remained the same - \$180/mcm. According to the agreements, beginning with April 1, 2011, they should reach the market level (approximately \$235/mcm for the Trans-Caucasian region, but Erevan still hopes to get a new prolongation.

### ERTA view

We'd like to say some words on the events that did not occur in 2010. There were no gas conflicts with Belarus and Ukraine which seemed traditional. Though, they can hardly be named unexpected.

Everybody met the New Year quietly. However, the matter for discussions remains. As for Ukraine: strictly speaking, not all problems have been solved, and it is difficult to forecast the transit volumes of the country. Pricing matters are being discussed all the time. So, in 2010 we have only stopped quarrelling with our neighbors; we still have to learn how to hold amicable negotiations.

## State tolling

Russia and Belarus failed to come to an agreement on the price of Russian duty-free oil, beginning from January 1 of 2011. Due to that, duty-free oil did not come to Belarus during the New Year holidays. However, final accountings are made at the end of month, so, the situation has not yet grown to the critical level, and the parties still have two weeks for negotiations.

Last year, in accordance with the previous agreement, Moscow was ready to deliver 6.3 mnt annually to Minsk for free, collecting the full amount of export duty from the rest of the volume (16.2 mnt).

Belarus was attempting to cancel the duties along with the negotiations on the Customs Union and the Common Free Market Zone creation. Moscow, in its turn, offered to allocate the duties collected by Minsk for oil products exports (produced from Russian oil) to the Russian budget.

Last November, the parties came to a principal agreement on this matter and signed an interstate agreement in December, according to which Russia should have to deliver the duty-free oil to Belarus, beginning from January 1.

Weekly analytical comments **Energy News Weekly** prepared Analytical Group ERTA on the basis of materials published in the following publications and information of news agencies: Kommensant, Vedomosti, News Time, Izvestia, Nezavisimaya Gazeta, RIA Novosti, Finmarket, Interfax, PRIME-TASS, Oil and Capital, Oil and Gas Vertical, Oil of Russia, Lawtek, etc.

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