

A time to gather stones

Inter RAO adopted the five-year plan of power assets consolidation and considered the domestic market more prospective than the export one

Tags: [Inter RAO](#), [electric power industry](#), [RAO IES](#)



Inter RAO, headed by Boris Kovalchuk (son of the co-owner of Bank Rossiya and one of the most influential businessmen close to V. Putin) has presented the 5-year development strategy with the

prospects until 2020. This document, approved by the Board of the Directors of the company in late December, describes the target indicators of the state company after completion of consolidation of the assets.

According to this document, the installed capacity of Inter RAO's stations will increase six times from the existing 6.6 GW (only the assets in ownership are considered) to 40 GW by 2015. This should help the company to enter the top ten of largest world energy companies and to occupy one-fourth of the Russian sales market.

New plans are more aggressive than those elaborated for the company by RAO IES of Russia in 2008. At that time Inter RAO was going to increase the installed capacity to 30 GW till 2015 by purchasing foreign assets and obtaining

control over them. According to the new plans the foreign assets will cover 10 of 40 GW of the company's capacity by 2015, i.e. the focus is shifted to the Russian market.

Inter RAO demonstrated the intent to transform from the power trader to the full service company a year ago, when I. Sechin lobbied the decision to hand over to the company all non-privatized assets (except for grid ones and RusHydro) remaining after liquidation of RAO IES of Russia. The company registered the issuance of 13.8 trillion shares for approximate \$24.5 bn. Currently management plans to exchange the shares for the assets value of \$9-15 bn. Of them, the assets for approximate sum of \$5 bn have not been announced yet.

Inter RAO intends to become a diversified company dealing not only with production, transfer and distribution of electric power, but engineering and construction, equipment manufacturing, production and supply of fuel as well. For now, the company has publicly announced about its negotiations with Farkhad Akhmedov on obtaining the rights to 49% of Nortgaz shares, however other assets, in particular coal companies, are considered as well.

As for the assets where Inter RAO will get considerable packages from 10 to 50%, the management ➤ Page 3

BP (England) versus Alfa (Russia), score 2:3

The English diplomats have been searching for a contact with the Russian state companies since 2008, and the relations between commercial entities have older roots

Tags: [TNK-BP](#), [BP](#), [Mikhail Fridman](#), [Viktor Vekselberg](#), [Rosneft](#), [Igor Sechin](#), [shelf](#), [Arctic](#)

The Russian TNK-BP shareholders consortium AAR (Alfa Group of Mikhail Fridman, Access of Leonard Blavatnik and Renova of Viktor Vekselberg) has found

violations of the shareholder agreement between AAR and BP in the Rosneft - BP deal after preliminary examination. According to the agreement signed by TNK-BP partners, the Russian-British company has the exclusive right to realize oil and gas projects in Russia and Ukraine. There was no such a proposal to

TNK-BP within the deal with Rosneft. Nevertheless, AAR is not planning on taking any actions for the time being, explaining that by the necessity to study the agreement between the partner and the state company in detail. It is clear, though, that messing up with BP will be more difficult now, regarding the fact that the resource of the Deputy Prime Minister for the Fuel and Energy Complex, the Chairman of Rosneft's Board of Directors Igor Sechin (who has initiated the deal with BP) will be on the British side. Rosneft officially stated that BP should settle everything with TNK-BP by itself, but it excluded the possibility of changing the deal's structure.

Rosneft and BP signed a set of agreements on strategic alliance. They agreed to exchange the shares: BP gave 5% of its stock for 9.5% of that of Rosneft. The estimated value of packages is \$7.8bn. BP can pretend to the post in the Rosneft's Board of Directors (Rosneft will likely get the same privilege), but its representative will not get any special decision-blocking rights. ➤ Page 3

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Inter RAO has presented the development strategy till 2020 after consolidation process. Total installed capacity of Inter RAO's stations will increase six times to 40 GW, which is more aggressive than plans elaborated by RAO IES of Russia in 2008. Generation will become the main activity of the Holding and account for 75% (now 53%) of EBITDA structure (which, by estimates, will reach Euro2.8 bn). In 5 years Inter RAO plans to get 25% of the Russian sales market and the profit of approximately Euro5 bn. The management estimated the company's capitalization after consolidation at \$15 bn.

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The Russian **TNK-BP** shareholders consortium AAR (Alfa Group, Access and Renova) has found violations of the shareholder agreement between AAR and BP in the **Rosneft - BP** deal. Nevertheless, AAR is not planning on taking any actions till the agreement is examined in detail.

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The discussions on the new softening **tax regime** for oil-producing companies may soon enter the governmental level. The tax regime "60-66" proposed by the Ministry of Energy anticipates decrease of the oil export duty by approximately 7% and equalization of the duty for light and dark oil products at the level of 66% of the oil duty. The budget income will not incur any losses, since the crude oil export volume will increase, but it may lead to a decrease in oil refining.

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The amendments to the governmental resolution aimed to legalize the role of Sberbank as the main regulator and seller of the emission reduction units on the **Kyoto** market have been submitted to the Ministry of Justice. Sberbank may be given an exclusive authority and in this case the State Bank plans to rescind all contracts signed with other regulators.

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The issuance of the license to the **Trebs and Titov fields** to Bashneft has probably been delayed because a claim laid by a discoverer. Severgeologiya owned by Young Energy Prize of Nickolay Bogachev may have rights to the part of the Titov field.

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The **Russian-Belarusian oil struggle** is dragging on. The problem was solved on the governmental level in the end of the last year, but delivery contracts between oil producers and refineries have not been signed yet. V. Putin said that Russia would continue subsidizing the Belarusian economy at the level of not less than that of 2007-2009, however, without mentioning the exact procedures.

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Azerbaijan continues hard bargaining with Europe on the terms of gas supplies within the framework of the second stage of Shakh-Deniz. While Gazprom and SOCAR confirmed that Russia would buy up to 2 bcm of the Azeri gas in 2011; the price in the formula will be linked to the oil basket. European negotiators insist on linking the contractual price to spot quotations.

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A time to gather stones

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plans either to gain controlling stake (by purchasing stocks or exchange with other stockholders), or to agree with the existing managing companies on division of the assets. In particular, this concerns TGC-6 (20%) and TGC-7 (32%), now controlled by IES Holding of Viktor Vekselberg.

Generation will become the main activity of the Holding. In 2015, EBITDA structure (which, by estimates, will reach Euro2.8 bn), generation will account for 75% (now 53%), another 7% of profit will be brought by sales and energy service companies, and engineering and trading will bring 5% each. In five years, Inter RAO plans to get 25% of the Russian sales market and the profit of approximately Euro5 bn.

After consolidation, Inter RAO is going to launch the option program for 2% of stock valued at \$300 mn. The management estimated the company's capitalization after consolidation at \$15 bn.

The shareholder structure anticipates preservation of the control by the state; also, one or two strategic investors would purchase 25% of the company. These investors could include the Italian Enel (the state company is already negotiating the exchange of assets) and the French EdF, which already cooperates with Inter RAO.

ERTA view

In earlier times, Inter RAO attracted the professional interest by its historic organizational model of a monopoly on export of power energy. Since late 2010, the company has been attracting the attention by its development strategy.

When Inter RAO purchased a part of Norgas it became clear that a large vertically integrated (from fuel production to power and heat sales) state-controlled company was being formed. This is a certain Russian variant of the German E.ON Ruhrgas, with the only difference that the majority of the German company shares are in free float.

If developing, such a trend could form the basis for a new configuration of the Russian gas market. Its core will be formed by several large vertically integrated companies able to become political opponents to Gazprom. In addition to Inter RAO, this list can be added by Enel with WGC-5 and SeverEnergia, LUKoil with TGC-8, TNK-BP... Long-term agreements – approved by the state, of course – on gas supplies to the power generation facilities will form the basis of this market.

The rest of the market (if any) will be built around and according to the rules of such an oligopoly. There is no doubt, though, that influence of Gazprom will be very significant even within such a model.

BP (England) versus Alfa (Russia), score 2:3

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In addition, the companies agreed on creation of a joint venture for exploration and development of three East Prinovozemelskiye sections of the Kara Sea shelf within two years. Rosneft will hold 67% of this joint venture, BP will hold the rest 33%. At the first stage, BP will provide \$1.5-2bn financing for geologic exploration.

Resource estimation of the East Prinovozemelskiye sections is as follows: 49.7 mnt of oil, 1.8 tcm of gas and 49 mnt of condensate, but it was made in the Soviet times. The sections are located within the extreme environmental conditions. The Rosneft's President Eduard Khudainatov declared that Rosneft and BP would prepare their suggestions on the tax regime for the Arctic within the nearest weeks.

Meanwhile, WikiLeaks has published a new portion of dispatches written by American diplomatic officials. According to them, BP has been considering the possible partnership with Rosneft and Gazprom on the base of TNK-BP assets since 2008.

This was said by former Executive Director of the British company and the head of its Russian representative office David Pitty to the U.S. ambassador in Russia in the height of the last corporate war with AAR. The diplomatic dispatch says that BP "sees rather Rosneft than TNK-BP as its partner". The British company did not exclude the possibility of setting a joint a partnership with state companies rather than with AAR.

ERTA view

The Russian TNK-BP stockholders will likely not break the deal of such an importance for the country, which has been endorsed on the highest state-governing level. However, the Russian stockholders have the documentary-stated rights. Russia is known to be a rule-of-law state. So, it is possible to claim for compensation for violated rights (or their limitation). Or to find one's own modest place in the newly launched project.

Crude oil withdrawal pain

New tax initiatives aim to increase crude oil export and to reduce oil products export

Tags: [taxes](#)

Deputy Prime Minister for the Fuel and Energy Complex Igor Sechin is still lobbying the new softening tax regime for oil-producing companies in the government. At the meeting held by I. Sechin last week, basic provisions of the new tax regime "60-66" were approved. After that, the discussion will enter the governmental level.

The tax regime "60-66" proposed by the Ministry of Energy anticipates decrease of the oil export duty by approximately 7%. Currently it is calculated under the following formula: \$29.2/ton plus 65% of the difference between the monitoring price and 182.5 \$/ton (equivalent of \$25/bbl). The Ministry of Energy suggests to replace 65% by 60% in this formula. The rate of duty for the basket of oil products is 55% of the oil duty (70.7% for light oil products and 38.1% for dark oil products). The Ministry of Energy suggests that the duty for light and dark oil products should be equaled at the level of 66% of the oil duty.

According to the authors of this idea, the budget income will not incur any losses, since the crude oil export volume will increase. At the same time, however, the new tax regime will evidently lead to decrease of oil refining at the legal refineries by about 20-30 mnt annually. This contradicts the

latest declarations of the state government about the need to develop the refining industry.

About a half of more than 500 mnt of crude oil produced in the Russian Federation is processed within the country. About 100 mnt of the produced 250 mnt of oil products cover the domestic demand, and the rest 150 mnt are exported. The significant part of oil products exported (about 90 mnt) is dark oil products and low-quality diesel fuel left after saturation of the domestic market with gasoline and kerosene. Another 50-60 mnt of annual export are covered by specifically export-oriented oil refining. Its cost efficiency is mostly assured by relatively low oil product duties.

The new tax regime must touch this very segment, reducing the volumes of export-oriented oil processing twofold.

For now, the most advantageous market for oil products is the domestic market, followed by oil products export. Export of crude oil is least advantageous due to high export duties. Oil prices growth makes the situation even worse by strengthening the ruble and making oil production more costly.

Not all oil companies support the new regime. Bashneft and LUKoil stood against it. Besides, the Kirishsky refinery owned by Surgutneftegaz will have problems.

Kyoto kingpin

The government states the new trading rules on the Russian carbon units market

Tags: [Kyoto](#), [Kyoto protocol](#)

The amendments to the governmental resolution aimed to legalize the role of Sberbank as the main regulator and seller of the emission reduction units got within the projects of mutual implementation on the Kyoto market have been submitted to the Ministry of Justice. In case of positive conclusion, the government will be able to give to Sberbank the exclusive authorities in the emission quotas trading area. The State Bank plans to rescind all contracts signed with other regulators.

The proposed amendments to the Resolution of the RF Government N 843, dated October 28, 2009, significantly

expand the authorities of the "operator of carbon units", namely Sberbank, on the Emission Reduction Units (ERU) market, assigning it the third party for all ERU sales contracts and assuring the market sales prices. In addition, according to the amendments to the resolution, the ERU purchasing contracts will be signed in accordance with the RF law.

This could bring problems with the purchasers, who, firstly, do not feel much confidence to the Russian jurisdiction and, secondly, there are some objective problems related to the absence of the practice regulating such deals in Russia.

ERTA view

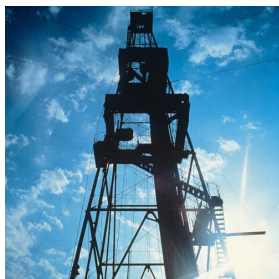
On a global scale, the emission reduction topic is a magnet drawing tricksters and speculators. The Sberbank's activities on Kyoto consist of at least two aspects. On one hand, this is another attempt to maintain order, as disorder is inherent for Russia. On the other hand, this is an intent of the state to control one more source of profit.

At the next stage of the Kyoto projects development in Russia, the state will have to decide on whole set of questions which are definitely beyond the area of Sberbank's responsibility. In particular: when and how will the tax officials assert themselves? How will they accept the Emission Reduction Units (ERU) and the money got for them in terms of taxation?

«Poison license»

Out-of-competition issuing the license to the Trebs and Titov fields to Bashneft has probably been delayed because a claim laid by a discoverer

Tags: [Trebs and Titov fields](#), [Bashneft](#), [SRC](#)



As early as on December 2, the bid committee recommended giving the license for the Trebs and Titov blocks to the only bidder – Bashneft. According to the Subsoil law, the governmental resolution (with the decision on the license) would have to appear within 30 days. But the government has not yet signed

the necessary documents.

The cause of delay is unknown. But just now it has become known that Severgeologiya owned by Young Energy Prize of Nickolay Bogachev (former co-owner of Tambeyneftegaz) and Tatneft may have rights to the part of the Titova field.

In 2010, Severgeologiya discovered the Yambotinskoye field in the Nenets autonomous district on the block

bordering the Titov field in the north. The findings of the State Reserves Committee (SRC) say that “the crude oil deposits of Low Devonian reservoirs (depth 4100-4300 m) of the Titova field possibly enter the Yambotinsky license section”.

Severgeologia pretends to obtain the production license, based on the preemptive right of a discoverer. But the state may decide, that it is “economically reasonable” to develop both fields – the Yambotinskoye and Titova ones – by the same enterprise, and give the licenses to both sections to Bashneft. And it is possible that the preparation of such decision may have caused the delay.

The recoverable reserves of the Yambotinsky field amount to 7.24 mnt, geologic reserves amount to 36.18 mnt ($C_1 + C_2$, according to the SRC data). Recoverable reserves of the Titov field amount to 57.59 mnt (or more than 140 mnt together with Trebs).

ERTA view

Now N. Bogachev is a quite well-known person who has earned a controversial name for himself in the Russian oil and gas industry, along with a quite definite style. His intensive activities on promotion of the previous resonant project “Yamal LNG” will leave a mark for a long time. Those who deal with him should always remember the Russian proverb: “Measure thrice and cut once”.

Check offer

On December 19, NOVATEK became owner of 51% of Sibneftegaz stock

Tags: [NOVATEK](#), [Sibneftegaz](#), [Itera](#), [Igor Makarov](#)



Last week, NOVATEK, which became the owner of 51% of Sibneftegaz shares on December 19, made an offer to purchase the rest of the Company's stock, in accordance with the law. The maximal sum that can be spent is RUR25.88

bn, which corresponds to the company's valuation used for the purchase of the control package from Gazprombank. This offer will be valid through April 2011 (the exact date is not announced).

The largest minority stockholder of Sibneftegaz is Itera (48.94%), its main owner is Igor Makarov. In early 2000s, Itera controlled Sibneftegaz, planning to launch its major field, the Beregovoe. But Gazprom locked the access to the pipe. Finally, after three years of unsuccessful attempts, Itera handed the control over Sibneftegaz to Gazprombank

for \$131.1 mn, and the latter sold it to NOVATEK.

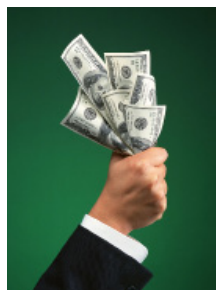
Currently Itera has ownership in two major gas-producing assets – 49% of Purgaz (controlled by Gazprom) and the same share in Sibneftegaz.

According to the previous assumptions, the offer should have been a formality only, since Igor Makarov was not planning to leave the business. He even agreed with NOVATEK on purchases of gas to be supplied to Sverdlovsk region.

Sibneftegaz has one more minority shareholder, Gazenergofinance CJSC, close to Gazprom's management (its General Director is former Deputy Director of Lentransgaz, a businessman who collaborated with the Committee for Foreign Relations of the Saint Petersburg's Administration in the mid-1990s - Adyl Khidirbekov). Gazenergofinance may receive about \$1 mn from sale of that asset.

Gazprom demands of the profits

Boards of WGC-2 and WGC-6 energy companies controlled by the gas monopoly have approved their dividend policy



Boards of WGC-2 and WGC-6 energy companies controlled by Gazprom have approved their dividend policy. They obliged to pay the stockholders 5-35% of net income by the Russian Accounting Standards (RAS), but under two conditions: the company's reserve fund should not be less than 5% of the capital; and not less than 35% of the income should be spent

on investments. The similar rules have been recently approved by the Board of Directors of the other Gazprom Energoholding affiliate – TGC-1, and Mosenergo is going to follow them. This will lead to unification of dividend policies of all Gazprom's energy assets.

The new policy will be applied for 2010 payment calculation. The companies have not yet disclosed the last-year income by RAS, but as for the nine months of 2010, WGC-2 earned RUR3.95 bn, WGC-6 – RUR1.4 bn. Based on that, the former could pay the stockholders RUR0.2-1.38 bn, the latter – RUR0.49 bn. Gazprom controls 49% of WGC-2 and 50% of WGC-6.

WGC-2 and WGC-6 have not paid dividends for the latest years. The former paid dividends for the first quarter of 2007 last time, and the latter – for the same period of 2008.

Under the political roof

The absence of mutual accusations evidences that the controversies between Russia and Belarus will soon be regulated

Tags: [Belorussia](#)



The Russian-Belarusian oil struggle is dragging on. Even the meeting of Prime Ministers Vladimir Putin and Mikhail Myasnikov held on December 20

(the day before inauguration of Alexander Lukashenko for the next term as President) did not help to regulate the controversies on the oil price.

Despite the fact, that in the end of the last year Moscow and Minsk worked out the scheme of Russian oil deliveries free of export duty (in exchange for the obligation of Belarus to pay the oil products duty to the Russian budget) on the governmental level, the delivery contracts between oil producers and refineries have not been signed yet. In the first quarter of this year, LUKoil and Surgutneftegaz have planned to deliver to Belarus 1 mnt each, Rosneft – 0.9 mnt.

Today they cost five rubles, but they are bigger...

The Gazprom's Board of Directors has decided to split up the company's American depository receipts (ADR)

The Gazprom's Board of Directors has decided to split up the American depository receipts (ADR) to enhance liquidity of the stock in Europe and the USA, thus stimulating company's market capitalization. The company has been working over this matter for two years. When the relevant agreement with The Bank of New York Mellon (depository of the Gazprom's ADRs) is signed, the number of common shares of the company per one ADR will be reduced from 4 to 2. According to gas monopoly's opinion, this will help to make Gazprom's receipts available for a wider range of investors, to enhance liquidity of the receipts and, as a result, to promote the long-term growth of the company's market value.

A share price of up to \$15 is considered to be an attractive one for small private investors. After liberalization of trade operations with Gazprom shares, price for them has increased significantly (exceeding \$10 per share). I.e., ADRs have lost their attractiveness for physical players. Even the drop of the corporation's capitalization during the crisis (current quotation of its shares is \$5-6, ADR - \$20-25) has not led to growth of the receipts market liquidity.

However, this will enhance the Gazprom's attractiveness to a minor extent only. Fundamental risks (country, tax and effective management risks) are dragging down company's market cap much stronger than expensive ADRs.

Formally it happened due to the fact that the suppliers suggested to raise the price up to the level of equal profitability with that of the non-CIS states (for \$45 per ton). The Belarusians did not agree with that initiative; so, deliveries of the Russian oil to the refineries have stopped since 1 January.

Since 2007 until late 2010, the Russian oil price for Belarus included the price of marine export to the non-CIS states (Rotterdam netback), reduced export duty and \$1.5 per barrel (\$12/ton) premium. When export duties for deliveries to Belarus were zeroed, the Russian oil producers demanded to increase either this premium to \$45 per ton (this is approximately half of refineries' margin from oil products export sales) or increase the share of oil refined on terms of processing up to 100%.

Based on the results of negotiation with his Belarusian counterpart, V. Putin said that Russia would continue subsidizing the Belarusian economy at the level of not less than that of 2007-2009 (i.e. before

International

Under the political roof

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introduction of the duties). However, the corresponding procedures have not been mentioned, as well as counter steps of the Belarusian government. It is possible that they are expecting from Minsk to provide another set of concessions on privatization of the Belarusian refineries by Russian oil companies. At the same time, absence of mutual accusations (as well as political character of energy supply matters inherent for the interrelations in the last years) evidences that the controversies will soon be overcome and the next oil war will not occur.

ERTA view

The Russian and Belarusian economies are channeling off more and more due to their organizational forms. This case is the same. The state heads came to principal agreements. Following that, the matter of particular prices of the deliveries to Belarusian refineries quite naturally came down to the companies' levels. The Russian companies started discussing this matter with the Belarusian refineries. But the Belarusian refineries have no possibility to discuss the matter freely, since the government has stated the maximal price for them!

The low price brings no advantage to the Russian companies. In this case, it is more advantageous for them to export crude oil, and they started doing so, while stopping deliveries to Belarus.

It seems that the statement saying that «it is on the companies to agree on details» is a mere wishful thinking. These are the states who should agree, and the agreements are determined not by the extent of liberalization of the Russian market, but rather that of the market of its partner.

A. Lukashenko, though, holds the President's post again, and his hands are free to make tradeoffs, and he has enough space for maneuvering...

Recently, we have seen the same economical and state interrelations within the framework of gas negotiations with Ukraine.

+1... gas market player?

Azerbaijan continues hard bargaining with Europe on the terms of gas supplies within the framework of the second stage of Shakh-Deniz

Tags: [Azerbaijan](#), [Shakh-Deniz](#), [Nabucco](#)



Only a week after the visit of the European Commission's Head Jose Manuel Barroso to Baku and Ashkhabad (where he and the President of Azerbaijan Ilkham Aliyev signed the next declaration on commitment of Azerbaijan to the Southern Gas Corridor projects on supply of the Caspian gas beyond Russia), the Chairman of the Gazprom's Board Alexei Miller and the

SOCAR President Rovnag Abdullaev confirmed in St. Petersburg that the Russian Federation would buy up to 2 bcm of the Azeri gas in 2011, compared to 800 mcm in 2010. Moreover, the parties agreed to increase the deliveries in 2012 "over the previously agreed volumes, in addition to the contract of September 3, 2010". "The Azeri gas will be purchased based on the price formula linked to the oil basket and without long-term limitations on the purchasing volumes", says Gazprom, making hints about its readiness to buy all free Azeri gas volumes (up to 10 bcm of gas annually beyond 2010). Therefore, Moscow seriously undermines negotiating positions of European buyers, who would like to receive the Caspian gas on the basis of spot gas prices.

The European Union has tried to seize the initiative by taking control over the Azeri gas export. In the course of numerous conferences and workshop meetings, the European officials promised to buy Azeri gas for Nabucco, but no commercial negotiations were held (and they couldn't, as such) ➤ Page 8

Our overview

On the expected regulatory documents of the Russian gas industry

In Accordance with the Resolution 333, Gazprom will have to sell the gas under the price formula since January 1 of 2011, but it can't. The formula is specified in the Order of the Russian FTS 156-e, dated 05.07.2007.

The new governmental resolution aimed to eliminate legal uncertainties was expected to appear immediately after the New Year holidays. It is known that the draft resolution had been prepared by FTS.

Time is coming, but there is no resolution... Pre-election campaign and clear-cut statements of the state government on impossibility of extra tariffs growth have appeared on TV recently. Likely, the delay with issuance of the resolution is not accidental.

This is really a difficult task, or even a dilemma. How to avoid substantial growth of gas prices, not rejecting the long-term policy of budgeting new gas projects on their account.

Gazprom-CNPC negotiations

China hosted a new round of commercial negotiations between Gazprom and the China National Petroleum Corporation (CNPC) on organization of the Russian gas deliveries to China. The Gazprom's statement mentioned a possible Chinese loan: "... alternative ways of financing a project of Russian gas deliveries through the "western" route (Altai Project) have been considered, which could make it more economically efficient".

It was followed by the comments: "It will be like with the ESPO". But it will not. Delivery warranties serve the basis of such agreements. So, the question of the price comes to the first place. For the oil companies, it is clear: it is the price of oil on regional markets with a relatively small discount applied.

Last time, Gazprom offered the price over \$300/mcm. As for China, it is known to buy the Central Asian gas for approximately \$200/mcm. So, the difference is "only" \$100. Possibly, the parties have already come closer in their calculations of the basic delivery price, according to Gazprom export CEO A. Medvedev. But will Gazprom be able (or wish) to sell its gas at a lower price than that of from the Central Asia?

+1... gas market player?

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negotiations must be held only by companies that actually sell gas in Europe).

In mid-January, Jose Manuel Barroso visited Baku and Ashkhabad, intending to sign the declaration on gas delivery for Nabucco; instead of that, I. Aliev demanded to replace Nabucco for the Southern Corridor (which includes, in addition to Nabucco, the ITGI (Interconnect-Turkey, Greece, Italy), Transadriatic Pipeline, and the AGRI – the own Azeri project on transportation of liquefied or compressed natural gas via Georgian ports to Romania).

In his turn, the President of Turkmenistan Gurbanguly

Berdymukhamedov refused to sign any documents with the EU at all, promising to supply the required gas volumes to Europe just from the next day. The EU, however, must offer the buyers and investors to the projects on transportation of the Turkmen gas through the Caspian Sea and (according to informal data) persuade Azerbaijan to cede a part of its Caspian shelf fields (Baku considers them belonging to it).

It should be noted, that last week the Gazprom's Board considered the gas off take and sales policy on the CIS territory, confirming its plans to buy gas at the last-year levels – 38.8 bcm of gas (including Azerbaijan).

Cash-free memorandum

Chernomorneftegaz and LUKoil will perform oil and gas exploration and production on the Black Sea shelf

The Cabinet of Ministers of Ukraine gave to Chernomorneftegas (a company within Naftogaz of the Ukraine) and LUKoil the permit for mutual exploration and production of oil and gas on the Black Sea shelf. The companies plan to start mutual activities on the Odesskoye, Bezimyannoe and Subbotinskoye fields. According to the resolution, the state-owned Chernomorneftegas' share in the joint venture should be not less than 50%. The Ukrainian company will deal with geological and economical assessment of oil and gas reserves, while the Russian partner will finance the activities and provide the technological base. As for LUKoil, this is an opportunity to expand its business on the Black Sea shelf fields due to the fact that it has no right to develop such fields in Russia.

Chernomorneftegaz deals with development of the Ukrainian shelf and production in the Crimea. The company operates the trunk gas lines and the Glebovskoye UGSF located on the peninsula. 100% of the joint stock company's shares are managed by Naftogaz of the Ukraine. The Odesskoye, Bezimyannoe and Subbotinskoye fields are one of the biggest fields on the Black Sea shelf. Reserves of the Bezimyannoe and Odesskoye gas fields amount to

more than 35 bcm, and those of the Subbotinskoye oil field, according to estimates, amount to 100mnt.

In July of 2010, the company, together with the American Vanco International started geological exploration on two Romanian offshore fields, E Rapsodia and Trident. LUKoil already has a set of offshore projects. The company is developing the Caspian Jury Korchagin field (production started in April 2010, the planned production level of this year is 1.4 mnt), and it plans to start in 2015 the production from the Vladimira Filanovskogo field. Also, LUKoil is producing from the Kravtsovskoye field in the Baltic Sea. All those licenses, however, had been obtained before the Russian legislative pressure tightened up.

Meanwhile, Chernomorneftegas has no funds to finance the operations, as the full amount of the company's income from gas and oil sales is going to the budget. In addition, according to the Ukrainian law, the gas produced on the shelf by the state company should be sold to the Ukrainian population at privileged prices.

For the moment, the companies have signed a memorandum on intent. They plan to establish the joint venture until the end of this year.

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