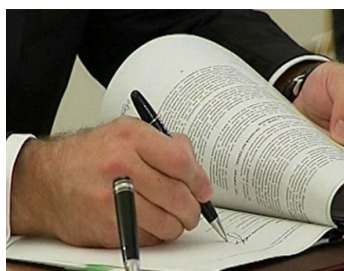


Oats are expensive now

Rosneft attracts Western investments. International majors are less and less inclined to recall old offences

Tags: [Chevron](#), [Val Shatsky](#), [Black Sea](#), [Rosneft](#), [ExxonMobil](#)



Rosneft, politically supported by Deputy Prime Minister Igor Sechin, has occupied the Gazprom's niche of setting strategic partnerships with transnational corporations. Following Chevron, which became a partner on

joint exploration of Val Shatsky in the Black Sea, and BP, which became the first company participating in Rosneft's Arctic projects, the world-largest oil and gas corporation, ExxonMobil, signed an agreement with the state company. Westward-oriented activities of Rosneft, which has been focused until recently on collaboration with the Chinese companies, may be connected with the changes in Igor Sechin's understanding of development priorities, as well as with the general diversification vector, related with expiration of the informal quarantine policy after the Yukos case. And besides, return of the Americans became possible

after the political reset launched by Dmitry Medvedev and Barack Obama.

It is typical, that the agreement with ExxonMobil was signed on the forum in Davos. Exploration and further production in the Tuapse Depression is the first-rank project within this agreement. The detail agreement on the project is to be signed until the end of this year. Actually, the principal terms are standard: Rosneft's share in the future joint venture will be 66.7%, the share of Exxon – 33.3%. Total estimated costs of exploration are approximately \$1 bn, the American corporation will finance the initial stage.

For long, Exxon has been very skeptical about the development in Russia. Sakhalin III license revoked, problems with regulators and Gazprom during Sakhalin I implementation, together with strict increase of legislative pressure on foreign subsoil investments made the projects of no interest for Exxon. All three American companies once refused to enter the Shtokman project of Gazprom, when the Russian counterpart announced that it would commercialize all production of the first ➤ Page 3

Ill debts

Former Yukos managers used the classic scheme of corporate struggles and its most reliable tool – bill of credit law

Tags: [Novatek](#), [Yukos](#), [SeverEnergiya](#)

In the memorandum on offering of Eurobonds for the sum of \$1.5 bn, NOVATEK announced that SeverEnergiya had the disputable shares. The matter concerns the bills of exchange of SeverEnergiya's affiliates – Arcticgaz, Urengoil and Neftegaztehnologiya for the total sum of RUR10.3 bn, which were issued in 2003\2004, when the assets belonged to Yukos.

TOP NEW

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In 2007, gas assets owned by the oil company of Mikhail Khodorkovsky were purchased on the auction by the Italian companies - Eni и Enel, which further resold 51% of SeverEnergiya's shares for \$1.6 bn to Gazprom, and it resold the control package in late 2010 to NOVTEK and Gazprom neft (JV Yamal razvitiye) for \$1.8 bn, including the debts.

Glendale Group Ltd, controlled by former Yukos managers, submitted a claim

to SeverEnergiya for nearly a half of that sum (RUR5.25 bn, including the interests). In late 2008, Glendale submitted the matter to the Arbitration Court of the Yamal Nenets Autonomous district, but the decision has not yet been made. The last decision of the Yamal Nenets Autonomous district was made in December 2010: to suspend the legal action for the indefinite term to perform the expert examination of the bills of credit, required by the defendants. The limitation period on the rest of the bills of credit (for the sum of RUR5.09 bn) has already expired, yet the risk of their presentment still remains.

In total, Glendale deals with four similar proceedings in Russia. In addition to two claims towards SeverEnergiya, two more claims were filed toward Rosneft's affiliates. A claim in the sum of RUR26.48 bn was filed towards Tomskneft (in 2008-2009, Glendale failed in the suit in three instances) and Angarsk National Holding Company in the sum of RUR2.75 bn (in February 2010, the appeal court rejected the claim). After that, however, the proceedings were moved to international courts, with much more chance for Glendale. In particular, the court of Amsterdam has already blocked the Rosneft's accounts for RUR3.5 bn in relation with the claim set by Glendale on payment of Yuganskneftegaz bills.



ExxonMobil, which has been very skeptical about the development in Russia, signed an agreement with **Rosneft** on the forum in Davos. The detail agreement on the project is to be signed until the end of this year. The first-rank project is exploration and production in the Tuapse Depression. Rosneft's share in the future joint venture will be 66.7% and the share of Exxon – 33.3%. The American corporation will provide \$1 bn to finance the initial exploration stage.

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The **Antimonopoly Service** again accused **oil companies** of unfair competition. This time it is about excessive diesel prices, which has overrun that of gasoline Ai-92. The claims may be filed to Rosneft, LUKoil, Gazprom neft and TNK-BP, as well as to Bashneft.

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Gazprom has decided to consolidate the foreign upstream projects on the base of **Gazprom EP International**. Currently there are two companies exist: Gazprom EP International and **Gazprom Zarubezhneftegaz** CJSC. Projects of the former are concentrated in the West hemisphere (North Africa, Nigeria, Latin America), while Zarubezhneftegaz has been operating in the Central Asia, India and Vietnam. Gazprom EP International, but it will be led by Zarubezhneftegaz head Valery Gulev.

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The trader **Glencore** plans to hold the double **IPO** in Hong Kong and in London in April, and sell shares valued at \$7-10 bn (estimated capitalization - \$60-70 bn. Deripaska may buy 1% of Glencore.

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The oil conflict between **Russia** and **Belarus** was settled. Minsk agreed on the oil price growth for \$46/ton in January and deliveries of the duty-free oil to Belarusian refineries renewed. Russian companies will get half of profit from oil products sales. Meanwhile, Moscow and Minsk renewed full-scale cooperation in the energy field. Rosatom and the Belarusian government agreed on the construction schedule and the price formula for the Belarusian nuclear power station (NPS). The two-block NPS with total capacity 2.4 GW should cost \$6-7 bn.

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The **Lithuanian** Ministry of Energy declared that it had sent the request to the European Committee to investigate **Gazprom's** activities in the context of the Third Energy Package. According to Vilnius, Gazprom takes advantage of its monopoly position on the gas market of the country, practicing the non-transparent, unfair and discriminating policy towards Lithuania in the gas supply area.

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Joschka Fischer, ex-Minister of Foreign Affairs of Germany and adviser to the consortium Nabucco, suggested that the EU would integrate all projects included into the Southern Gas Corridor in a single project. Nabucco gas pipeline should become the main route, while Trans Adriatic Pipeline and Poseidon (planned to transport gas from Caspian region) are too small to form the beginning of the Southern Corridor. **Azerbaijan** is the most real new gas supplier to Europe and is ready to bargain. Now Baku pretends that it is actively working out its own project of gas supply to the EU via Georgia.

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Highlight

Oats are expensive now

Continued from page 1

stage of development by itself.

At the same time, it should be noted that offshore exploration projects imply high risks and are distant enough (by time periods) from the beginning of commercial production.

Eight years ago, Rosneft signed an agreement with the French Total on joint development of the Tuapse Depression. Then the project was also approved by top officials. The deal had been announced on the eve of the visit of then-Prime Minister of France Jean-Pierre Raffarin to Moscow (and before the meeting between the Total management and then-supervisor of the fuel and energy complex Viktor Khristenko). Total and Rosneft planned to establish a parity joint venture Tuapsenftegaz. However, joint activities failed, in particular, due to controversy on the right to develop the Vankor field.

It should be noted that, when two American and one British company come to be Rosneft's partners in practically the same time, it is connected with total deficit of available oil resources in the world. And Russia, unlike the Middle East, demonstrates again its readiness to accept Western investments into oil production and offshore technologies.

Meanwhile, the Russian TNK-BP shareholders – AAR consortium – have decided at last on radical measures, petitioning the London High Court of Justice and demanding, as provisional measures, to suspend the BP-Rosneft deal. The court session is scheduled for February 1. According to AAR, BP has breached certain points of the shareholders' agreement. In particular, the British should have realized their Russian and Ukrainian projects by

means of the joint venture, reported on the negotiations underway and participated, without prior agreement, in portfolio investments with the share less than 20% only (while the consortium considers the BP-Rosneft exchange of shares a strategic deal).

BP didn't admit the complaints and offered AAR to arrange the express examination on the essence of the conflict in the Stockholm arbitration (which was specified as a place of conflict arrangements in the AAR-BP agreement). In exchange, the British company asked AAR to withdraw an action from the London Court. The express examination takes several weeks, but its initiation requires approval of both sides. For now, AAR has rejected this proposal, since the express examination does not anticipate such a provisional measure as suspension of the deal between BP and Rosneft.

Besides, the AAR consortium, due to its controversy with BP, wants to lock the payment of \$1.78 bn as dividends to TNK-BP for the fourth quarter of 2010.

Rosneft is not interfering in the discussion for the time being. I. Sechin remains indifferent in the dispute as well, saying that he does not see any risks for the deal, and the handling between TNK-BP shareholders is their personal business.

Intentions of the consortium are not quite clear. They may be connected with the attempts to improve the negotiating positions on purchasing the BP's assets in third countries (Vietnam, Algeria), as well as with the longer-term play aimed to preserve its share in TNK-BP, or to get maximal price in case of the forced selling.

ERTA view

The agreement between Rosneft and the major world oil and gas companies on joint offshore projects implementation may be qualified as the success of negotiations. Mutual success, it is. The success of particular projects, however, will strongly depend on further building of this cooperation. The signed documents are only declarations on intentions on very long-term projects. The offshore prospecting works may lead to launching of projects only in many years.

ExxonMobil is characterized by a hard style of business-making. However, this has not been successful in terms of all Russian projects of the company. In 2010, the company could hardly approve the work budget schedule for Sakhalin I. In 2011, the record budget was endorsed as early as at the beginning of the year. This is one more ExxonMobil's GR success. Will its managers be able to maintain the same pace in negotiations with I. Sechin, who has certain influence on the Rosneft's position? It may require from ExxonMobil to stretch a point for the Sakhalin Project.

There have been rumors in the expert community for a long time about good relations between I. Sechin and G. Khan. These very rumors make believe that the right decision will be made concerning the situation with AAR behavior in the BP-Rosneft deal.

Cat-and-mouse

FAS continues acting like a demonstration tool of struggle for social justice

Tags: [FAS](#), [Rosneft](#), [LUKoil](#), [TNK-BP](#), [Gazprom neft](#), [Bashneft](#)

Only in several months after the settlement of FAS claims to oil companies on excessive gasoline prices, the antimonopoly service again accused them of unfair competition. The officials suspect of the excessive diesel price, which has overrun that of gasoline Ai-92. According to the FAS head Igor Artemiev, the claims may be filed to the Big Four companies: Rosneft, LUKoil, Gazprom neft and TNK-BP (which have been already subjected to return fines), as well as to Bashneft.

In 2010, sale prices to jet kerosene increased 21%, Gasoline Ai-80 – 20%, Ai-92-22%, Ai-95 – 18%, summer diesel – 36%, winter diesel – 39%. Along with that, the oil price increased only 20% in 2010. In mid-January 2011, according to the data of the Information and Analytical Centre Kortes, the average retail price of gasoline Ai-80 increased 2.3%, compared to that of December 30 of 2010, Ai-92 – 0.8%, Ai-95 – 0.7%, winter diesel – 2.6%. Within the third week of January, the diesel price increased 44 kopecks to RUR 25.18 per liter (average Russia). The retail diesel price came to be higher than that of gasoline Ai-92 in all federal districts, except for the Southern district.

Oil companies would face the third round of antimonopoly judgments, which have already led to penalty charges of fines in the total sum of nearly RUR25 bn. Oil companies were not able to avoid them in the court and had to solicit a truce with FAS, thus reducing the sum of penalties in exchange of avowal of guilt and certain behavioral

obligations. Penalties for Rosneft and TNK-PB for the second case have been reduced from RUR5-6 bn to RUR 1.2-1.5 bn, Gazprom and LUKoil are currently completing negotiations on the peace agreement.

The current situation in the diesel market threw discredit upon the exchange auction practice promoted by FAS. On the FAS demand, since the beginning of this year, oil companies should have sold by exchange auctions from 10 to 15 percent of oil products realized on the domestic market. According to Igor Artemiev, oil companies refer to correspondence between their wholesale and exchange auction prices; so, FAS is going to ask the Federal Financial Markets Service (FFMS) to check the prices on the exchange markets. In fact, the exchange markets became the mechanisms aimed to legalize the monopoly high prices, since the companies merely started to deal with their sales structures by means of the exchange houses.

Return penalty charged by FAS is 1 to 15 percent for the year preceding the violation (by the products causing claims by their prices). In 2009, Rosneft, LUKoil, TNK-BP, and Gazprom neft sold the diesel volumes in the approximate sum of \$9.7 bn. Along with that, Bashneft only could account on the minimal penalty - 1% (\$18-19 mn or more), while Rosneft, LUKoil, TNK-BP and Gazprom neft, if accounting by the maximal levels, could be charged penalties for approximately \$1.2 bn.

ERTA view

Retail consumers have been concerned about the situation on the diesel market since late November. At last, FAS started speaking loudly about it. This situation is aggravated by the general price growth in the country in January (2%, according to Rosstat) and upcoming elections.

But such a delayed reaction causes certain concerns. The government suddenly pays attention to the fact already well known by all interested parties. The question of non-effective operation of the recently founded exchange houses is like suddenly raised. But the auction participants have been talking about that for at least half a year... The forced play of oil companies on the stock exchange has not brought any material effect.

It is evident already that warnings made by FAS on previous collusions have not given clear results as well. The oil companies were not frightened.

We dare suppose that the oil companies force the state to make a package decision, with the matters of general taxation of the oil industry as its major constituent.

Cunning numbers

Struggling for the federal preferences, the state company appeals to low profitability of its operations

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

he debates between Deputy prime Ministers Alexei Kudrin and Igor Sechin on the preferences for the Rosneft's Vankor field have been brought to the level of the Chairman of the Government. According to mass media, their "face-off" in the presence of Vladimir Putin will take place within the days. Last week, the Prime Minister commissioned his Deputies to report him on this matter personally. According to the Ministry of Finance, all preferences to the cost-efficient field should be cancelled starting from May 1. Rosneft confirms its cost-efficiency, while saying that, if preferences are cancelled, Vankor will not reach the target production of 25 mnt annually.

The political decision on export duty preferences to the East Siberian fields was made by the government as early as in February 2009. Despite of the Minfin's protests, the duty has been zeroed for 22 fields since December 1, 2009. The financial crisis and budget deficit of 2010 made the government to renew discussions on the preferences: since June 1 of 2010, the reduced rate (about one-third of a usual one) has been introduced for 22 preferential fields of East Siberia instead of the zero rate. Supposedly, the preferential rate will be preserved until the moment when the field reaches the profitability of 15%. Rosneft submitted to the government its proposals on preservation of the export duty preferences for Vankor to 2013 and zeroing the duty for the Yurubcheno-Tokhomskoye field until 2015. In December, the government decided to preserve the export duty preference for Vankor for another four months,

until May 1, 2011. The Ministry of Finance approved this extension, because the production volumes of the Vankor field in 2010 were lower than the target levels.

This position has been already reported by Sergei Shatalov, deputy Minister of Finance. Vankor will reach the required level of profitability and will be transferred to the common export duty scale by May. Preservation of the existing export duty preference for Vankor until 2013 (under the same pricing environment) will cost the budget almost 400 billion rubles.

The Rosneft's officials say that the Vankor's profitability amounts to 10% in rubles, 8% of this is consumed by inflation. So, real profitability of this field's development is 2%. They say in the company, that this low level of profitability will remain in 2011 and 2012. In other words, while being deprived of export duty preferences, the company will not be able to reach in 2013 the declared Vankor production levels of 25 mnt annually. This will be the very point Igor Sechin will bring attention to, since Vankor is the only field, which increases oil production level in Russia providing the ESPO loading.

Vankor is the forward echelon of the struggle between Igor Sechin, who has transformed himself into an industrial lobbyist in the government, and the Ministry of Finance. The department headed by A. Kudrin believes that the preferences should be taken from the Verkhnechonskoye field in 2012 and the Talakanskoye field from 2013.

ERTA view

The situation with taxation of the oil industry is slowly, but surely moving towards the model existing in the gas industry. The matter, as usual, is approved on the state management level. The Ministry of Finance and its head A. Kudrin acts as Scrooge McDuck languishing upon the gold, who wants it more and more. And the industries headed by a personified lobbyist struggle with him. This was Gazprom and A. Miller in the gas industry (to say nothing about the higher-level persons), and an informal consortium of oil companies together with I. Sechin, who has become already a true lobbyist, not a critic – in the oil industry.

Judging from experience, we can note that it will always be a defendant of the budget. Usually, he is alone. Even in case they replace A. Kudrin, a new person on the post of the Minister of Finance will, in the nature of things, on the very next day, actively defend the budget. Noblesse oblige.

As for the oil industry's lobbyist, the recent Russian experience shows the following. His replacement may provide one or two years for new positioning, real work and negotiations. But all this inevitably ends in creation of a new old lobbyist...

M&A

Revolution in exploration

Gazprom has decided to consolidate the foreign upstream projects on the base of Gazprom EP International

Tags: [Zarubezhneftegaz](#)



Gazprom has decided to consolidate the foreign upstream projects. Currently, Gazprom EP International (registered in Netherlands) and Gazprom Zarubezhneftegaz CJSC deal with exploration and production beyond the Russian

territory. The core of consolidation will be Gazprom EP International, but it will be led by Zarubezhneftegaz head Valery Gulev. The current General Director and initiator of Gazprom EP International Boris Ivanov will retire (on performance of the corporate procedures).

The starting point of the whole area's restructuring has been likely the struggle for the money, which, according to the corporation's plans, would be invested into foreign geological exploration projects. Last autumn, the Gazprom's Board approved the exploration program in Russia and abroad for 2011-2013. The company has not disclosed its details. It comprises all corporate plans on exploration of hydrocarbons with cost estimates. The resulting sums are astronomical, including the foreign projects. Along with that, the real budget is highly limited (Gazprom's investment program for 2011 envisages RUR20 mn to fulfill license commitments abroad), and the final list of projects has not been yet approved. The idea is that creation of a united operator for exploration works beyond Russia should reduce the corporate struggle and enhance work efficiency.

The cause for this HR decision concerning B.Ivanov (who is a professional diplomat, an expert on the North African countries) could have been provided by unsuccessful drilling in Venezuela in 2009, when the first (and, finally, the only) well drilled into the offshore block Urumako -1 was badly designed, leading to Gazprom's losses in the sum of \$300 mn. Deputy Prime Minister for the Fuel and Energy Complex Igor Sechin reported on the scale of losses of the gas corporation to the mass media only in last October, saying that the corporation would intend to stop the works on that section.

Officially, Gazprom EP International was not connected with that project, since it was founded on the base of Gazprom Netherlands BV in July 2009, or after the failure

in Venezuela. According to informal data, however, it was Boris Ivanov who was responsible for drilling organization, among the other duties.

Six years ago it was Zarubezhneftegaz which, being at that time a joint venture of Gazprom, Zarubezhneft and Stroytransgaz, won the bid for two offshore sections of the Rafael Urdaneta project, namely Urumako I & II. Further, it performed their seismic exploration and prepared geological justifications for exploration wells construction. However, in early 2007, immediately after Gazprom had become the only owner of Zarubezhneftegaz (purchasing the shares from Zarubezhneft and Stroytransgaz), they decided unexpectedly to give the Venezuela project to the other 100% affiliate, Gazprom (UK) Ltd. This London-registered company served to optimize a part of foreign cash flows of the corporation; though, naturally, it couldn't provide the sufficient management of a highly complex exploration project. It was not seemingly its purpose, since it had been decided that Zarubezhneftegaz would have been working on the Gazprom's projects in the Eastern part of the globe (Vietnam, India, and Central Asia). For operations in Latin America and Africa, the corporation created in May 2007 a special company - Gazprom Netherlands BV, headed by Boris Ivanov from its very beginning. Before that, he had worked during three years as an assistant on international projects for Gazprombank's Chairman of the Board Andrei Akimov and Deputy Chairman of the Board and CEO of Gazprom export Alexander Medvedev. By the way, both of them are still members of the Supervisory Board of Gazprom EP International, together with the chief financial officer of the gas corporation Andrei Kruglov and the Head of Production Department Vsevolod Cherepanov.

Quite the opposite, Valery Gulev, career was always connected with offshore projects. He came to Zarubezhneftegaz from Chernomorneftegaz.

Until recently, Gazprom EP International's projects have been concentrated in the West hemisphere (North Africa, Nigeria, Latin America), while Zarubezhneftegaz has been operating in the Central Asia, India and Vietnam. But B.Ivanov was actively searching for new business areas in the Middle East and Southeastern Asia. Interests were crossing more often, and consolidation was at hand.

ERTA view

For two years there have been rumors on possible changes in the Gazprom's export block in general, including the Department for Foreign Economic Activities (according to rumors, S.Tsygankov, who made A.Miller personally unhappy with his work, has been fired for several times). Even extra-successful A.Medvedev, head of Gazprom export, has recently become a target for rumors.

Of course, upstream projects and sales of hydrocarbons are different areas. Especially in the version of Gazprom. Besides, Gazprom had no actual foreign production projects before. But now, the life brings changes... Still, it is possible that the existing structural stage forms a beginning for a further administrative decision-making chain.

M&A

Wheat and chaff

Strategists continue consolidating the Russian generation

Tags: [Inter_RAO](#)



Last week, it became known that Renaissance Capital purchased 5.27% of Enel WGC-5 shares from Gazprom energoholding in late December of 2010. And now it has started accepting the bids from investors for RUR2.82 per share. The total sum of the deal may amount to approximately \$154 mn. In total, offers to investors amount to 4.5% of shares, since another 0.8% has already been sold directly to investment foundations.

The sum got by Gazprom is not known. But it has left this campaign with peak prices within the last two years. Last year, quotations of the energy companies' shares reached the pre-crisis level for the first time. Minimal capitalization of WGC-5 was registered in February 2008 (RUR156 bn). In December, the company cost RUR100 bn.

Inter RAO is also not going to participate in purchasing of shares from Renaissance, since it will get the blocking share of WGC-5 after the additional offering.

Along with that, Inter RAO cannot agree on the terms of TGC-14 purchase with the ESN group owned by Grigory Beryozkin and the Russian Railroads (their joint venture, Energopromsbyt owns 83.62% of the company's shares). Likely, the investors would like to return their expenditures on asset purchasing. Energopromsbyt consolidated 83.6% of TGC-14 in 2008-2009, spending more than RUR5.8 bn. Now this package is RUR1 bn as cheaper. Besides, Inter RAO doesn't want to pay in cash, offering the owners to participate in placing of its own shares (under the condition which prohibits selling the share obtained within several years). Energopromsbyt's package was valued at RUR5.1 bn.

Inter RAO has the chance to bargain. TGC-14 stations are among the oldest and least effective. Two of seven power stations were brought to operation in the year of 1936, the youngest of them is 20 years old. In addition, the investors bear serious obligations on capacity modernization and expansion.

Buy a goat – sell a goat

Deripaska may buy 1% of Glencore, using Chinese investors' money



Oleg Deripaska announced that he would like to participate in IPO of the largest world trader – Glencore. The offering is scheduled on April, the shares planned to be sold are valued at \$7-10 bn (value of capitalization - \$60-70 bn). The trader plans to hold the double IPO - in Hong Kong and London - in April.

However, the declaration of the Russian businessman can be connected by the play around the postponed offering of the energy company Evrosibenergo, owned by O. Deripaska, on the Hong Kong stock exchange.

The first IPO attempt – in December 2010 – failed due to the fact, that the intended strategic investor of the company, the Chinese Yangtze Power, had not managed to get the permission of Beijing for participation in that deal and for creation of a joint venture for construction of the generation in Siberia. Since that time, however, the situation has worsened. Evrosibenergo even lowered the planned sum of investments to be raised, from \$1.5 bn to \$1 bn.

Our overview

On expected changes in the regulatory base of the Russian gas industry

A trend to raise transparency of the Russian natural monopolies was supported on the highest level. In 2009, FTS declared it a key direction of its activities, but the process was hardly moving. This was especially clear in the oil and gas industries. In October 2010, resolutions "On Information Disclosure Standards for Natural Monopoly Holders Rendering Services on Gas Pipeline Transportation" and "On Information Disclosure Standards for Natural Monopolies Providing Transportation Services on Oil and Oil Products Through Export Pipelines" were signed.

In the course of their elaboration, the most hardly discussed question was that of particular forms of information disclosure. Finally, that very key part was set aside; the signed resolutions have a frame character, anticipating the development of formats, time periods and frequency of information disclosure.

The work is in full swing again, formats are being developed, and in January FTS published the draft information disclosure forms. All official terms had expired, though... but is not the key (untimely fulfillment of orders is quite typical in Russia). What is really important, is the final results, since they are to determine whether declarations on the necessity of disclosures will stay declarations only, or disclosures will become real.

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War ending

Minsk accepted the terms posed by Moscow and started pre-sales preparation of its refineries

Tags: [Belarus](#), [export](#)



As it was expected, in the middle of the week the oil conflict between Russia and Belarus was settled, and deliveries of the duty-free oil to Belarusian refineries renewed. Minsk accepted the terms of

Russia and agreed on the oil price growth for \$46/ton in January (the further premium will depend on exchange quotations of hydrocarbons). This will allow the Russian companies getting a half of Belneftekhim's profit from selling oil products manufactured from the duty-free export crude oil.

In accordance with the package of agreements on creation of the Common Free Market Zone (CFMZ), Russia, since January 1 of 2011, has zeroed the oil export duty for Belarus under the condition that Minsk would pay 100% of the export duty on the manufactured oil products, exported beyond the Customs Union's territory, to the Russian budget. Zeroing of the Belarusian oil export duty, which is twice as high as the oil products duty, led to reduction of the Russian budget earnings in the sum of more than \$4 bn. For the budget, such payment for the CFMZ was acceptable. But the Russian oil companies suggested to raise the price of the crude delivered to Belarus for \$45-46\ton.

From 2007 and until late 2010, the Russian oil prices for Belarus were formed on the base of the marine export price to non-CIS (Rotterdam net back price) and included the export duty preference. On zeroing export duties for Minsk, the Belarusian oil refining companies could count on the differential between the oil and oil product export duties (approximately \$126/ton). The Russian oil companies demanded to go halves in additional profits. This was fixed

in new contracts.

At the same time with the oil settlement, Moscow and Minsk renewed full-scale cooperation in the energy field. Rosatom and the Belarusian government agreed on the construction schedule and the price formula for the Belarusian nuclear power station (NPS) and on joint operation of this station and the Baltic NPS on regional energy markets. In addition, the Russian power deliveries to Belarus and its further transition to the Baltic states, frozen in early 2010, may be renewed in February. Evidently, all those matters were agreed in principle in the course of the meeting of Prime Ministers on January 20.

According to Rosatom head Sergei Kirienko, the two-block NPS with total capacity 2.4 GW should cost \$6-7 bn. It means, that 1 KW of installed capacity will cost \$2.5-2.9 thousand (in intra-Russian prices).

A wish to force Minsk towards privatization of the refineries in favor of the Russian companies was considered to be one of the reasons causing exacerbation of relations concerning oil prices. The Belarusian party, on agreeing on the Russian price conditions, saved some space for maneuvering and even started the pre-sales preparation, declaring that the negotiations with Venezuela on participating in the refineries' capital had been held. The Ambassador of Belarus in Caracas Valentine Gurinovich made this declaration on the Belarusian TV. He presented it as a response on introduction of two new oil fields into the Belarusian-Venezuelan joint venture Petrolera BeloVenesolana.

Currently, Petrolera BeloVenesolana owns Guara Este field (Anzoategui State), bloc #10 of Lago Medio section (Zulia State), and three more states in the states of Anzoategui and Monagas (both of them are adjacent to the oil belt of the Orinoco River: Oritupano Norte, Ostra, and block R of the Lagunilas field. Total production amounts to 1 mnt of crude annually. This is a clear bargaining invitation.

Conflict stake

Lithuania decided to hold a demonstrational dispute with Gazprom on the European level

Tags: [Lithuania](#), [Lietuvos dujos](#), [E.ON Ruhrgas](#), [EC](#)

Lithuania, having driven itself into the corner by conflicting with Gazprom (unlike other Baltic states, which took more balanced position on the Third Package and offered the enhanced takeoff to the Russian corporation in exchange of the discount), decided to bring the controversy on the European level. The Lithuanian Ministry of Energy declared that it had sent the request to the European Committee to investigate Gazprom's activities. According to Vilnius, the Russian holding company takes advantage on its monopoly position on the gas market of the country, practicing the non-transparent, unfair and discriminating policy towards Lithuania in the gas supply area.

Relations between Lithuania and Gazprom spoiled in the beginning of the last year, when Vilnius refused to extend energy collaboration with Moscow (concerning the Baltic NPS, refineries, and ports); in turn, the Russian state corporation took a hard position on prices, refusing to soften the contractual terms. In retaliation, the Lithuanian government started actively announcing its intent to build a shunt gas pipe with Poland and its own LNG import terminal in Klaipeda, in order to reduce its dependency on the Russian gas (approximately 3 bcm annually). In addition, the country notably started to prepare implementation of the Third Package under the hardest scenario (with the requirement to the gas lines' owners to sell

Conflict stake

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them).

The gas distribution company Lietuvos dujos is controlled by Gazprom (37.1%) and E.ON Ruhrgas (38.9%). These packages were purchased in the course of privatization tenders held by the Lithuanian government.

The law "On Gas" was not passed before the New Year, because last autumn Vilnius made an attempt to renew negotiations with Gazprom. But the European Committee interfered in the process at that stage, declaring that Lithuania would not be able to apply the softer Third Package implementation scenario, since, unlike Germany, it had insisted on that in the process of preparation of the

legislative initiative.

The EU Third Gas Directive will be brought to force as soon as on March 3, 2011, and national legislations of the EU states should be brought in line with it in a year.

Lithuania, of course, has no special hopes that Brussels will help it reducing gas prices. And indeed, the actions of its government are most likely aimed to reach the domestic political objectives (to get indulgence from the public discontent) and to increase its own weight in the European hierarchy (to show its loyalty to the ideals of the European Committee).

ERTA view

In the course of routine life, we often hear the following characteristics given to a person (and often the same one). First: he adheres to the principles, so, his position is clear and predictable, and this is very suitable for business. Second: his principles are so hard that he is used to making a scandal from any trinket, and it is impossible to do business with him.

It may not be quite correct to transfer the routine psychology on the area of gas supply of the whole country (and Lithuania consumes slightly less than 3 bcm of gas annually, and it is 100% Russian gas). But it seems that Lithuania has not managed to configure and maintain a tradeoff position, so, the country turned to be that very man of principles. The life is hard for those whose principles are extremely hard.

Plans trading

Azerbaijan is becoming a key market player without having transport infrastructure

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

Ex-Minister of Foreign Affairs of Germany, adviser to the gas pipeline consortium Nabucco Gas Pipeline International Joschka Fischer suggested that the European Union would integrate all projects included into the Southern Gas Corridor in a single project. He started the lobbying campaign for EU refusal from support of other bidders to the deficit gas resources in favor of Nabucco. On his opinion, the Nabucco gas pipeline should become the main component of this integrated project due to its scale and strategic significance. Gas pipelines Trans Adriatic Pipeline and Poseidon are too small to form the beginning of the Southern Corridor, through which the EU plans to receive gas from the Caspian region and Iraq.

In general, the mission taken by the Head of European Committee Jose Manuel Barroso to Baku in January failed, when the President of Azerbaijan Ilkham Aliev refused to sign a declaration on intentions to supply gas to Nabucco, signing the declaration on the Southern Corridor only. The initiative of J. Fischer (likely supported by official Brussels, which calls Nabucco one of the priorities of its external energy policy) is aimed to limit Azerbaijan, the most real new gas supplier to Europe by its geographic position and infrastructural development, with the choice between potential transiter and purchaser countries (except for smaller projects). Serious difficulties for realization of this idea are represented by the fact that each project has its own shareholders with different interests. And

Azerbaijan actual capacity

Azerbaijan can annually produce 10-12 bcm of gas within the framework of the second stage of the Shakh-Deniz project. The European projects of the Southern Corridor need nearly 50 bcm annually, even at the initial stage. Nabucco (which is to be laid from Turkey to Austria via Bulgaria, Romania and Hungary) is designed for 31 bcm, Trans Adriatic Pipeline (TAP) (via Greece and Albania) – for 10 bcm, and Poseidon (via Greece and Italy beyond Albania) – for 8 bcm.

Baku is ready to bargain. In particular, it pretends that it is actively working out its own project of gas supply to the EU via Georgia to the Black Sea shore and further by gas trucks to Romania (AGRI). Also, it has an extra favorable proposal from Gazprom, which anticipates that the Russian corporation will buy all contract-free Azeri gas at the prices ties with the European oil products quotations (significantly higher than those planned to be paid by Europeans). Baku's choice becomes a matter of life or death for these projects. Summarizing the results of negotiations, the Minister of Energy of Turkey Taner Yildiz, who visited the capital of Azerbaijan following the European guests, said to the local mass media that Baku was still considering its participation in Nabucco. It means that Baku is considering other opportunities as well.

Plans trading

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Smaller projects have a competitive advantage concerning Nabucco – their scale. Agreements with Azerbaijan will be sufficient to load TAP (the Swiss EGL and Norwegian Statoil own 42.5% each, the German E.ON Ruhrgas owns 15%) or Poseidon (the project of the Italian Edison and

Greek DEPA). As for Nabucco, it requires rigid safeguards from other suppliers as well, generating additional risks for Baku. Transportation tariffs and general project feasibility depend of pipe loading. So, in light of that, arguments of J. Fischer in favor of Nabucco are vulnerable.

ERTA view

It is very interesting to watch Europe balancing between the continuing economical liberalization trends and strengthening interference of the states into global business processes.

This struggle is unavoidable, according to dialectics. The problem, however, lies in the fact that, on creating new structures and systems of business-state interrelations, “old Europe” and new participants of business-processes become absolutely equal. “Old Europe” has no more possibility to refer to its historical experience and to declare, what is correct and how to proceed. Everybody is going to the unknown.

One should not forget that, in this case, all are equal. This relates to Russia, to Azerbaijan (which becomes a new process participant), and to Turkey. Like any creation of new systems, the search of balance will be torturing. But one can build a new system and to bring it into operational state only under the condition of maintaining reasonable relations between the process participants

Phantom IPO

The Chairman of the Board and co-owner of Itera Igor Makarov gave a large interview

The Chairman of the Board and co-owner of Itera Igor Makarov gave a large interview (seemingly in written), where he made hay of the possibility to sell its share in Sibneftegaz to NOVATEK within the framework of the announced offer. He talked again on the possible IPO of IGC Itera, which, according to him, was now dealing with gas business only (i.e. cleared from non-core assets). It is not reasonable, though, to take these talks seriously, as Itera has no assets to offer the investors their shares. At the same time, its shares in Sibneftegaz and Purgaz may be the next assets to be consumed by Inter RAO (under Nortgaz scheme). Energy men are known to show their interest to development of the fuel sector within a vertically integrated holding company.

ERTA view

I. Makarov is widely considered to be a taciturn person. Many heard of him and his company, but he is not generous a lot for public statements. For many years, he has not given detailed interviews to mass media. And this is the most surprising circumstance – what has forced him to speak after so many years of silence?

The last bright interviews were made in 2010. Earlier, in the period when Gazprom was changing its leaders (and in the critical period of Itera's existence), I. Makarov made statements more often. Likely, the next moment of truth is near.

Port of discord

Vice-President for Finance Vladimir Kushnarev leaves Transneft

The Vice-President of Transneft for Finance – and one of two top managers brought by Nicolay Tokarev from Zarubezhneft in 2007 – Vladimir Kushnarev leaves the company. This decision was mutual and, correspondingly, it could be caused by personal reasons. As for N. Tokarev, this is an evident loss in his team, as he has been working with V. Kushnarev for nearly ten years. At the same time, certain

controversies between the leader and his finance man are possible; according to mass media, the Vice President for Finance has opposed the deal on purchasing the shares of the Novorossiysk sea transport port in its accepted version.

Mass media calls M. Grishanin (former Senior Vice President for Economics and Finance in Sukhoi Company JSC) as a possible candidate on this post.

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