

## The Cabinet takes away bargaining chips of the opposition

Vladimir Putin threatened Gazprom with deprivation of its gas pipelines monopoly

Tags: [third-party access](#), [gas transportation system](#), [Igor Sechin](#)



V.Putin threatened Gazprom with relevant amendments to the legislation and deprivation of its gas pipelines monopoly. Now, the gas corporation owns and manages the unified gas supply system, in

accordance with the law "On Gas Supply". Complaints of Deputy Chairman of the Gazprom's Board Valery Golubev caused this "explosion". Reporting at the Petersburg meeting on the work results of the fuel and energy complex in 2010, he had the imprudence to mention the deficit of gas transportation capacities and the money for construction of new pipes. Prime Minister blamed Gazprom of not considering the interests of the industry.

This was not the first time when V.Putin criticized the Gazprom's management during the last two years. Now, the government gives preferences mostly to NOVATEK, whose major shareholder is "the Prime Minister's buddy" Gennady Timchenko.

It should be noted that, by order of the working team headed by the First Deputy Prime Minister Igor Shuvalov (who is in charge for macroeconomics, structural reforms and privatization), one of investment banks has prepared the proposals on the gas market restructuring. They include division of Gazprom into several companies. As for now, one cannot say that the political will on this matter has been finally shaped. It is likely the renewal of discussions. It seems, though, that the situation has just occurred that

the "Gazprom-division" project found several influential interested parties at once. One of them is Deputy Prime Minister and Rosneft's supervisor Igor Sechin, who has been struggling with the Gazprom's management for long. Though, he did not take any active measures in this area in the past year.

Quite the opposite, G.Timchenko has been actively strengthening his participation in the gas business. Seemingly, the Gazprom's management is creating the maximally comfort conditions for NOVATEK, providing the full-scale long-term access to the pipe, back its prospective assets, providing the guarantees of the liquefied gas export within the Yamal LNG project, and even sharing its export profits. But the very existence of Gazprom as a dominant player owning huge reserves and production facilities limits the long-term growth potential of NOVATEK's business.

Finally, the new state electric power giant – Inter RAO UES demonstrates gas ambitions. Its CEO is Boris Kovalchuk, son of an influential banker close to V.Putin. And its Board is headed by Igor Sechin. Early in this year, Inter RAO agreed on purchasing of 49% of Nortgaz' shares from the businessman Farkhad Akhmedov. If this deal is successful, Inter RAO will become a partner to Gazprom in this project. The corporation owns the control package, and now it buys the gas from Nortgaz at a low transfer price. Inter RAO explains this deal by its wish to build a chain from fuel production to power sales. It seems like Inter RAO will claim its share of gas and, possibly, the purchase of the whole Nortgaz business.

As for Gazprom, it now faces problems with gas sales in Europe and Russia. V. Golubev said ➤ Page 3

## Gazprom took dividends in advance

Tags: [Ukraine](#), [Naftogaz](#), [RosUkrEnerg](#)

### TOP NEWS

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Gazprom has taken in advance from RosUkrEnerg the money (\$550 mn) payable to it as dividends for the year of 2011 after realization of 12.1 bcm of gas. The deal was made as a loan for 3.5% payable in 2012.

Last November, Gazprom, Naftogaz and RUE signed a set of agreements regulating mutual obligations between the companies. The Russian

corporation paid to Naftogaz \$1.5 bn in advance for the transit, and the latter increased the Russian gas purchases, in order to return 12.1 bcm to RUE. According to that scheme, the mediator would sell the full gas volume to Gazprom's structures during the heating season at the western borders of the Ukraine at European prices (\$340-350/mcm). Based on this sum, the supposed earnings of RUE should be \$4.1-4.2 bn. Simultaneously, Gazprom made an advance payment to the trader in the sum of \$3 bn, which allowed to pay momentarily its debt to Naftogaz (\$1.7 bn) and Gazprom itself, and to pay also \$450 mn for storage and transportation services. Physical handover of the gas to the trader started in December, with a slight delay from the planned schedule.



At the meeting on the work results of the fuel and energy complex in 2010, Vladimir Putin blamed Gazprom of not considering the interests of the industry. Many experts believe that this indicates renewal of the discussion on the necessity to restructure the gas market and, possibly, **to divide Gazprom** into several companies. For now, this idea has a lot of lobbyists: Deputy Prime Minister, Rosneft's supervisor Igor Sechin, CEO of Inter RAO UES Boris Kovalchuk, and the major NOVATEK's shareholder G. Timchenko. Meanwhile, Gazprom faces many problems with sales as well as with the money. ➤ Page 1

Vladimir Putin started **regulating fuel prices** in Russia in a manual mode. He noted at the meeting on work results of the fuel and energy complex, that Gazprom neft and TNK-BP had not yet reduced the diesel prices. The companies responded immediately. FAS announced the initiation of the third oil companies' case on market abuses. In case the violations are proved, the return fine for the "habitual" violator s will double – up to 9% of the earnings for the year preceding the violation. This might be the case of Rosneft, LUKoil, Gazprom neft and TNK-BP. ➤ Page 4

**Statoil**, the **Shtokman Development**' s shareholder, has admitted for the first time that the project cannot be realized without substantial tax exemptions. Unlike Yamal LNG Project, Shtokman was given no preferences at the engineering stage. Currently, SDAG is preparing documents for the final investment decision assuming the existing tax regime. ➤ Page 5

The cost of the deal on selling **NOVATEK's** shares by **Gazprom** to Gazprombank has become known. The sum received by the corporation for the package of 9.4% of shares was one-third as lower as the market price for the day of transaction. According to estimates, Gazprom received approximately \$1.3 bn less than it could. It is no need to look for firm reasons for such an unprofitable deal. ➤ Page 5

**Rosneft** registered in Geneva an oil trading company **Rosneft Trading SA**, which will operate within the framework of foreign projects of Rosneft. The thing is not likely sharp increase of export, but rather redirection of a certain part of volumes from other areas to the German refinery Ruhr Oel (Rosneft purchased 50% of this enterprise last October). In this case, this may touch the interests of Gunvor – Rosneft used this trader to provide oil to the refineries of the Ruhr Oel group. ➤ Page 6

**Inter RAO** and **TNK-BP** signed a 18-year contract for gas supplies to the **Nizhnevartovskaya HPS (NVHPS)** and selling of some part of the produced electric power to the oil company. Annual supply volume will be 3.5 bcm. The contract was signed under the "take or reserve" scheme, which is new to Russia and more favorable for buyers than the take or pay contracts used by Gazprom. According to this new scheme, in case gas consumption decreases, the volume not taken will be reserved for the time period up to three years. Also, Inter RAO and TNK-BP will consider possible signing of other long-term contracts for supply of gas and power, as well as cooperation in construction of new power stations. ➤ Page 8

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*Highlight*

## The Cabinet takes away bargaining chips of the opposition

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that gas deliveries to non-CIS states decreased in 2010, even compared to the crisis year of 2009 – to 138 bcm (for 2.1 bcm). This fact had no negative impact on finance indicators. Earnings from European sales increased in \$1 bn – to \$43.5 bn. Regulated prices on the domestic market are steadily growing, having increased practically in twice in the last five years, even in dollar terms.

But Gazprom has certain problems with the money, partially because of the situation when the “national endowment” was overburdened with a lot of expensive socio-political obligations, beginning with the Olympic facilities in Sochi and ending with the extremely burdensome gasification of the Far East. One should not forget about the Russian-specific assimilation of capital investments.

In his presidential times (especially during his first term), Prime Minister Vladimir Putin had the only business to protect Gazprom from those interested in its restructuring.

And he had to protect the Chairman of the Board Alexei Miller, whom he had appointed by himself, from attacks of opponents. Now he has changed his rhetoric. Many people explained the change in Prime Minister's attitude in 2008 by active anti-Gazprom position of Deputy Prime Minister for the Fuel and Energy Complex, who had been struggling (and rather successfully) with the gas monopoly's management for independency of Rosneft only three years before. After his coming to the government, I. Sechin gave his closest attention to liberalization of access to the gas transportation infrastructure. V. Putin, however, has not signed the rules of access to gas pipelines, developed by the Federal Antimonopoly Service and strongly supported by I. Sechin. The management of the corporation overplayed

Deputy Prime Minister and a highly experienced machine politician on his own field. The First Deputy Prime Minister Viktor Zubkov, who headed the Gazprom's Board of the Directors, made sure that the Gazprom's version was put on Vladimir Putin's table in the right moment together with the access draft resolution prepared by FAS. And approval of the document was postponed for an uncertain term.

It should be noted that now, due to the crisis, the gas producers are facing less problems with the access to the gas transportation system (GTS). There are more problems with sales, as, due to demand drop, the clients refuse to pay the premium to the FTS price and, receiving no discounts, just choose the limit Gazprom's gas. Last year, due to the market environment, Gazprom failed to achieve the production targets (508 bcm instead of the planned 519 bcm). The forecast volume included into the budget for this year is the same as the last-year level. In case of the demand growth, however, production may increase to 515 bcm. At the same time, this situation is time-limited, and the GTS-access problems may return, as the demand will grow. Gazprom expects total restoration of the market to 2013, and this year may be considered a certain milestone. Alexei Miller has likely foreseen the coming rebuke, or has even known about it. That's why he sent V. Golubev to the meeting and went to Munich to meet with the RWE Head Yurgen Grossman. The content of their discussions was not disclosed, but in 2020 the market was filled by rumors on the RWE interest to the gas transportation project «South Stream». For now, the German corporation is one of key shareholders of the competing project for gas supplies to Europe – Nabucco.

### ERTA view

The Prime Minister's sharp rebuke at the meeting cannot be considered a sufficient reason to make conclusions about serious changes in the position of the Russian government concerning Gazprom's future.

Indeed, one can construct the trend based on the events having occurred within two last years. Let us remember the increased taxes imposed on Gazprom after many years of unsuccessful struggle of Minfin. Let us pay attention to the fact that the crazy price growth rates have been stopped to achieve equal profitability to January 1 of 2011; now, prices may be increased for not more than 15% annually. Let us be surprised by Vladimir Putin, who has not made loud declarations in protection of Gazprom for the past couple of years (in past times he publicly didn't allow even thinking about its division).

Likely, the Russian government has accumulated certain complaints against Gazprom. And the essence of it may be formulated as such: “We have given them so much (money, authorities, support – underline as appropriate), and they so poorly use the resources allocated”. In fact, the existing Russian government is functional enough. The system was created to achieve specific goals, and the people were selected to fulfill specific tasks. Evidently, this system has failed. People fail to manage the situation.

The upcoming elections sharpen the decision-making: either a new round of staff turnover, or systematic work over the structural reform of the industry. Division of Gazprom as it is does not solve any problems; moreover, it represents itself an extremely complex task. There are other possible strategies of the new gas market organization. But to provide their generation, taboo on this topic should be broken. It seems like it has happened, and one can “speak again”. But this fact does not cancel the good-sense requirements: only things which are really possible are worth being discussed.

So, reasonable discussions should include the set of measures on industry transformation only. The program of activities must answer all key questions: mechanisms of organization of the domestic market; gas export agreements; assurance of investments; social support; balancing of the gas transportation system during peaks of consumption; etc. Even if, at first glance, a single driving idea would be enough to initiate revolution, all reformer classic, however, had on their table the list of immediate goals together with the full version of a manifesto.

## The offer they cannot reject

Vladimir Putin started regulating fuel prices in Russia manually, as it has been with supermarket prices and cell communications

Tags: [TNK-BP](#), [Lukoil](#) [Лукойл](#), [Rosneft](#), [Gazprom нефт](#), [FAS](#)

Vladimir Putin started regulating fuel prices in Russia manually, as it has been with supermarket prices and cell communications. At the meeting on the work results of the fuel and energy complex in 2010, Vladimir Putin sharply criticized high fuel prices in Russia. The Prime Minister said that the government had already demanded from the oil companies to reduce diesel prices, having reached a certain success. Surgutneftegaz knocked off RUR2,000 per ton, Rosneft and Lukoil – RUR1,500 per ton. However, Prime Minister said, there was no response from Gazprom нефт and TNK-BP. Heads of these companies, Alexander Dukov of Gazprom нефт and Vice-President of TNK-BP German Khan, promised to respond momentarily. At about 16:00 that day, TNK-BP announced the reduction of the wholesale diesel price reduction for RUR1,000 per ton, and since 21:00 its price at the company's filling stations in Russia was reduced in RUR1.2 per liter. Gazprom нефт's CEO Alexander Dukov tried to convince Prime Minister that the company had already reduced winter fuel prices in RUR1,000-1,500 per ton, but he promised additional reduction in RUR1,500. Gazprom нефт as well set a moratorium for jet kerosene price growth.

Sharp rebuke from Vladimir Putin gave a reason for a new hard interference of FAS, which had only talking about violations of the oil companies before, but had initiated no cases against them. First of all, FAS announced the initiation of the third oil companies' case on market abuses (they may face maximal return penalties). Second, it took occasion to sell to Prime Minister an idea of legal entrenchment of the market pricing formula for oil products. V. Putin publicly supported the Service's Head Igor Artemiev

FAS offers to introduce an indicator to regulate oil products prices. If the prices stated by oil companies exceed this indicator too much, warnings will be sent. The indicator will change depending on the crude price and other market indicators. The bill has been already prepared,

and it will be submitted to the government in one or two months.

Along with that, oil companies could face new FAS claims in the nearest future. In December 2010, cases on increased prices were initiated against Gazprom нефт, Lukoil and Rosneft. Also, the Service "has some questions" to TNK-BP, Surgutneftegaz and Bashneft (the latter two of them have faced such claims for the first time), which, according to the Service's assessment, "entered the list of companies collectively dominating on the oil products market in 2010".

In 2008, Rosneft, Lukoil, Gazprom нефт and TNK-BP were fined for RUR1-1.5 bn each for excessive oil products prices (1% of annual turnover from 1-15% possible). In 2009, fines amounted to approximately RUR4-6 bn. (4.5% of annual turnover). All those fines, however, were further reduced for everyone, except Gazprom нефт, to the minimal level (RUR1-1.5 bn, like in the first case wave). FAS signed amiable agreements with the companies. Gazprom нефт was at litigation to the uttermost, but finally gave up, and now it is completing negotiations on amiable settlement of the Service's claims.

Now, if violations are confirmed, all four players will be considered «habituals», and the return fine for them will be increased in twice - up to 9% of the profit for the year preceding the violation, which means like RUR10 bn per each company. Those with first-time violations (these may be Surgut and Bashneft) will be imposed minimal fines, 1% of the return (\$10-20 mn).

Energy companies may become the next ones in the antimonopoly service's list. FAS suspects them of using fraud fuel-purchasing schemes, which lead to power tariffs growth. These companies buy fuel not from the producers, but through mediators. They include, in particular, Kamchatenergo, the Kirishskaya HPS (WGC-6), the Kashirskaya HPS (WGC-1), TGC-11 Omsk branch, Mosenergo, Far East generating company.

### ERTA view

All of a sudden, organization of "real" stock exchanges started (and this, of course, assumes that the previous ones created with active participation of the state have not been "real"). There are discussions on giving a legal status to the oil and products price formula or, in fact, introduction of the price regulation mechanism. In the areas where prices and tariffs have been regulated for long (for example, in gas or housing and public utilities), the accepted principles and methods are ignored. The Ministry for Economic Development, designed to provide systemic approach to the state regulation, is reduced to the status of "advisor without vote". As a result, the country is switched to the operational regime based on the "law unto oneself" principles – "48 is too high, 0 is too low, so, let's set 18".

Analysis of consequences is considered unreasonable. The full administrative weight of the government is directed to contain ambitions of strong producers. "Putin's request" is considered as a last resort, stronger than a billionth penalty.

Consumers keep silence. Evidently, no one is ready to sour relations with a state-supported supplier: who will produce oil and gas if we bring producers to ruin... But if the government is not able to save the day, then, probably, it is time to form the consumer's voice, as the country means, first and foremost, consumers.



## Shtokman lost investment attractiveness

The Shtokman Development's shareholder has admitted for the first time that the project cannot be realized without state support

Tags: [Shtokman Development](#), [Statoil](#), [Shtokman](#), [shelf](#), [tax preferences](#)

The Shtokman Development's shareholder has admitted for the first time that the project cannot be realized without state support. The President of the Statoil Russian division (24% in the Jan Helge Skogen Nevertheless, SDAG are preparing documents for the final investment decision (scheduled on March), with regard to the existing tax regime. Unlike Yamal LNG Project, Shtokman was given no preferences at the engineering stage.

Development of the Shtokman project has been postponed for several times. The final investment decision on the pipeline gas should be made in March, on LNG – in December. “The Shtokman Project requires green field creation of the whole infrastructure in the Barents Sea. To build it, huge investments are needed. With regard to the existing tax policy in Russia, such investments make the project cost-ineffective”, according to the words of the President of the Statoil Russian division Jan Helge Skogen published by Oil & Gas Eurasia.

Gazprom must lobby tax and other preferences, since it owns 51%, with 25% owned by Total. Moreover, according to the business model, it is Gazprom who will decide if it is ready to buy gas from SDAG at a price which ensures return

of investments and the necessary rate of profitability.

According to expert assessments, capital investments, exclusive of the LNG plant (subsoil production facility, special platform for primary gas dehydration, pipes to the shore and onshore facility) will amount to \$23-25 bn.

Along with that, Gazprom and SDAG are still discussing the key issue: to use the two-phase production flow on shore (gas together with condensate through the pipe) or the single-phase flow (complete gas processing for vessel transportation and export condensate loading from it directly). SDAG performs all tender procedures within the framework of the two-phase flow, while Gazprom dobycha shelf (license owner and operator of the 2&3 field development stages) insists that the single-phase flow is more cost-effective and safe. Change of the concept will lead to automatic postponing of the project for two years. Currently, gas supply is scheduled on 2016. Much will depend on forecasted development of the European gas market and the LNG market in the Atlantic basin (whether Gazprom will require additional gas volumes to fulfill its obligations).

### ERTA view

It is not completely true that this is the first appeal for preferences for the Shtokman Project. The LNG duty was zeroed several years ago. As the PSA projects are subject to the special tax regime, and the Yamal LNG project got the federal status only in 2010, this tax preference was introduced exclusively for Shtokman.

Now, however, not Gazprom but foreign shareholders have started talking about preferences. So, one may conclude that this project is “of necessity and priority” for Gazprom. If the situation with tax preferences were unequivocal and stalemate, Gazprom would have been blowing the trumpets all over the world on the necessity of state support. There is probably another alternative – Gazprom is going slowly with this project, so, it makes no sense to “blow” its problems beforehand.

## Interesting assets and interesting prices

Gazprom sold 9.4% of NOVATEK's shares to Gazprombank at a price of RUR201/share, with its market price RUR336/share

Tags: [NOVATEK](#), [Gazprombank](#)

The cost of the deal on selling NOVATEK's shares by Gazprom to Gazprombank has become known. It only confirmed the tendency, according to which, the assets interesting to Gennady Timchenko and other important personalities close to the prime Minister are sold at down-market prices. According to the international reports of the gas monopoly, for 8 months of the past year it sold 9.4% of NOVATEK's shares to Gazprombank for RUR57.46 bn, or RUR2010 per share. The sum received by the corporation for the package was one-third as lower as the market price for the day of transaction. May 2010 was the last time when NOVATEK's shares were sold at a price of about RUR200, they finished December at a level of RUR336 per share. Based on that, one can see that Gazprom received about \$1.3 bn less than it could. Until

now, it has been supposed that the deal was made under the market conditions, and Gazprom got a lot of money.

The sum of this deal looks especially weak in the light of the fact, that as early as December 21 Gazprombank wrote a two-year call for purchase of these shares to the Cyprus Hibridge Ventures Ltd, owned in parity basis by NOVATEK's President Leonid Mikhelson and G. Timchenko. Currently, according to the data contained in the investment memorandum, they control more than 50% shares of the second Russian gas producer.

In September 2006, Gazprom bought 19.39% of NOVATEK's shares from the Cyprus foundation SWGI, whose list of beneficiaries includes L. Mikhelson, for RUR63.4 bn. The approximate price of one share was RUR107. The corporate

M&amp;A

## Interesting assets and interesting prices

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representatives said that it was a strategic investment. After that, NOVATEK was the first to get long-term access to the gas transportation system, but it had to sell the significant part of gas to Gazprom at the entrance to the system. However, two years later NOVATEK changed its existence vector: Gennady Timchenko, founding father of Gunvor oil trader and “buddy to Prime Minister Vladimir Putin” entered the company’s equity capital. To last autumn, his share in the gas producing company exceeded that of Gazprom. NOVATEK itself started increasing its assets, including those being included in the state corporation’s zone of interests. De-jure change of a strategist took place when Gazprom sold a half of its NOVATEK’s package. Nevertheless, the gas corporation’s management publicly declared that it was not going to get rid of the rest part of the package (10%).

Gazprom’s representatives had to offer excuses to

investors, who bombed them with questions at the Investor’s Day held the next day after publication of the reporting documents. NOVATEK’s share market liquidity was very low, they said, and it had been impossible to sell such a big package without a material discount. Indeed, auction volumes of NOVATEK’s shares in Russia are low (while it is connected first of all with low offer of shares), and Gazprom could not place the shares on the London stock exchange, as the limit allowed by the Russian authorities had been reached long before. Why then couldn’t they sell the shares in small packages and in several attempts or offer the share to foreign energy corporations, which are very much interested in the Russian reserves? Gazprom gives no explanations.

Actually, it is clear without any explanations, since the call for the shares sold at down-market prices was obtained by G. Timchenko and his partner L. Mikhelson.

### ERTA view

We have certain difficulties with inventing a correct term. “Non-transparent deal” does not correspond with the situation. Everything is quite transparent, disclosure of information is the best! The market knows how much the buyer once paid, now it knows for how much it has sold.

However, the whole Russian experience shows that such big deals represent a link in the chain of agreements, which typically go beyond the framework of a particular deal. This is a large system of tradeoffs, balances, compensations for losses in other deals, etc. If these were only deals between commercial structures, one could make a lot of assumptions. But the Russian fuel and energy complex cannot exist at all without the state. It is barely possible to imagine. As such, participation of the state in particular agreements is only more evident.

So, this is it, a relevant term – “deal with the state interest”...

## Swiss everyday “purse”

**Rosneft registered in Geneva an oil trading company Rosneft Trading SA. It will start operations in the second quarter of 2011**

The supposed volumes of crude oil to be sold through this new structure are not disclosed, but, according to the official version, a new affiliate will operate within the framework of Rosneft’s foreign projects. As for the existing export structure of the state holding company, mainly controlled by Gunvor of Gennady Timchenko, it will not be touched.

Rosneft has never disclosed the data on the crude exported by itself and sold through traders. Neither it has named the traders whose services it used. Rosneft only mentions in its reports a certain “large buyer”, who accounts for more than 10% of earnings (in 2009, the company’s amounts traded with him reached \$5.3 bn). It is highly probable that this trader is Gunvor. Rosneft needs a trader primarily to provide feedstock to the German refineries of Ruhr Oel group. In October, Rosneft agreed to purchase 50% of Ruhr Oel for \$1.6 bn. It is expected that the deal will be paid in April. Ruhr Oel’s refineries process about 23 mnt of crude annually. Currently, Rosneft does not deliver feedstock to them. So, the company will export additional 11.5 mnt of crude annually (the current export to Europe is approximately 40 mnt). This will be the very volume to be operated by Rosneft Trading SA.

Most likely this is not about sharp increase of export is the thing. It is likely the redirection of a certain part of volumes from other areas to its own plant. And here Gunvor’s interest can well be touched. Moreover, according to rumors, relations between Rosneft’s supervisor, Deputy Prime Minister Igor Sechin and G. Timchenko have worsened during the past year, and ➤

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### Our overview

The list of our expectations for 2011 is expanding. Now, we are waiting for changes in approaches to determination of the export gas transportation tariffs. The thing is that, in the conditions of the necessary regulatory base, calculation methods etc. available, one could observe the practical rejection of these approaches and principles during approval of the tariffs for 2011. The tariff was approved under the formula “inflation+». However, in 2006-2007, for the purpose of changing the gas pricing regulation mechanism (from cost+ to “moving to net-back”), the protocol decision of the Government and the further governmental resolution were required.

It is quite logical that this question is being discussed by the Government again.

## Swiss everyday “purse”

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reasons for that include the struggle for the opportunity to assign a new Rosneft's CEO in replacement of Sergei Bogdanchikov. Assignment of Eduard Khudainatov is typically connected with the fact that I. Sechin managed to strengthen his positions in Rosneft. That is why it is possible that, in the medium-term outlook, Rosneft Trading will expand its business of oil deliveries to Europe and to claim for Gunvor's share.

Bashneft and TNK-BP have recently announced its plans for creation of their own traders. But by that, unlike Rosneft, they try to diversify their business: the products of third-party companies will account for a half of sales of TNK-BP's trader (approximately 100 mnt annually to 2013-2014). Bashneft has similar plans: at first, it will sell its own oil and products, planning further to trade the production of other companies.

### ERTA view

The “wild” stage of privatization of the Russian oil industry gave birth to a pool of “European” traders who provided supplies of the Russian oil to European refineries. They considered peculiarities of operation of the Russian oil industry, smoothing away the Russian-specific impact on European consumers.

They were rewarded with the margin. The Europeans were so used to deal with those “traders”, that even after the beginning of stabilization period in the Russian oil industry (the year of 2000) they have showed no haste in rejecting their services. The issue of the necessity to exclude these mediators, who had no more direct connection to the Russian oil sector, from the pricing chain has been risen for several times at the meetings between V. Putin and Russian oil companies. That is, if the margin of a foreign mediator is large, the beautiful story on smart sellers turns to be a trivial avoidance of Russian taxes.

One of the reasons for centralization of the Russian oil trading was the struggle with wrong mediators (similar to wrong bees of Winnie-the-Pooh, they produce wrong margin). Seemingly, this struggle has been successful, if new moves in this direction started. Now it is possible to wipe the slate clean – Go new traders!

## Independent opinion does not vote

TNK-BP's Board of Directors is preparing to consider in essence its possible participation in the deal between Rosneft and BP

Tags: [TNK-BP](#), [BP](#), [Rosneft](#)

Managing to suspend the deal and to start arbitrary examination concerning violation of the shareholders' agreement by the British, the Russian shareholders of TNK-BP (AAR) must now offer their own vision of the development of this situation. The meeting of the company's Board, which will examine this issue, is scheduled on February 18. It was suggested that independent directors - Gerhard Schroeder, James Leng and Alexander Shokhin (who will primarily determine the outcome of the discussion) – would determine their positions. To do this, they will hire legal and investment and banking advisors not connected with any of the parties, and their services will be paid by TNK-BP.

The Board of Directors of TNK-BP Int. includes 11

persons: four representatives of BP and AAP each, as well as three independent directors.

The Stockholm arbitration extended the moratorium for completion of the Rosneft-BP deal until March 7 (before that, the London Court had blocked it until February 23 or for the time period required for essential examination).

The coming decision of the TNK-BP's Board will have no impact on the court proceedings of AAP and BP, and the opinion of independent directors plays no defining role. However, it may add to argumentation of the sides. According to the shareholders' agreement, independent directors do not vote in such cases, only representatives of shareholders can vote.

## The Russian longest

Inter RAO and TNK-BP signed a 18-year contract for gas supplies to the Nizhnevartovskaya HPS (NVHPS) and selling of some part of the produced electric power to the oil company

Tags: [TNK-BP](#), [gas supply contract](#), [Inter RAO](#)

Inter RAO and TNK-BP signed a 18-year contract for gas supplies to the Nizhnevartovskaya HPS (NVHPS) and selling of some part of the produced electric power to the oil company. When the third block is brought to operation (now it is being constructed by WGC-1 and TNK-BP), gas supplies to the HPS will amount to 3.5 bcm annually (growth will be approximately 600 mmcm). The company's price is currently determined as "FTS tariff plus transportation costs and VAT", but this formula can be corrected in future. The contract was signed under the "take or reserve" scheme protecting the buyer's interests, which is new to Russia. It means that, in case gas consumption decreases, the volume not taken will be reserved for the time period up to three years. Fines are imposed if the volumes will not be taken on expiration of this period. Standard Gazprom's contracts anticipate the "take or pay" scheme, which allows to reduce consumption for 5-10% only, or the gas not taken should be paid.

At the same time, the parties signed a memorandum which anticipates signing other long-term contracts for supply of gas and power, as well as cooperation in construction of new power stations. The companies are going to create a working team which will determine the list of joint projects

during the first quarter of 2011. Along with that, the topic of Inter RAO's participation in development of TNK-BP's gas projects, Rospan in particular, is not urgent for now. However, it would be logical in terms of development of the fuel component of the production chain, and this was announced by the energy company's management early in this year in the framework of publishing its strategy until 2015 (the Norgaz share claimed for purchase by Inter RAO does not correlate enough with the scope of the company's ambitions). Last year, along with that, TNK-BP settled with Gazprom the matter of access of Rospan gas for the long-term period. That is why there is no urgent need to engage a strategic partner at this stage.

NVHPS belongs to joint venture of WGC-1 (75% minus one share) and TNK-BP (25% plus one share). WGC-1 is controlled by Inter RAO.

NOVATEK will remain the main gas supplier of Inter RAO. Late 2009, they signed a 5-year contract for the volumes up to 15 bcm annually (actual volumes taken are not more than 14 bcm for now). Gazprom, who had supplied the energy holding company with gas before, remained a supplier of fuel to the Sochinskaya CHP and the Kaliningradskaya HES-2, located in the isolated region.

### ERTA view

This is really important: the first real long-term contract (for the term longer than five years) for gas supply to the Russian power station. A new scheme for Russia.

But this is not just the first contract. This is the first step to the direction promising a huge scope of work. We are sure that Russia will see mutual deepening of interests between the gas and electric power industries; actually, creation of the joint business. And it will form the structural basis of the new Russian gas market.

Of course, the first step was made long ago, when negotiations between RAO UES of Russia and Gazprom led to development of a format of «long-term» gas supply contract. Then the agreements appeared which were sealed by the federal government. However, the visual results of that round are not very successful. The time has come for new negotiations.

## Special relations-testing ground

Gas relations between Russia and Lithuania have sharpened to the uttermost

Tags: [Lithuania](#), [Lietuvos dujos](#)

In its public statement, the Ministry of Energy of the Republic demanded to fire the head of the national company Lietuvos dujos and to withdraw Gazprom's top managers Valery Golubev and Kirill Seleznev from its management, as the company does not consider the interests of the state as a shareholder.

The company Lietuvos Dujos owns the gas infrastructure and supplies gas to the majority of Lithuanian consumers. The shares in the Lithuanian national gas company Lietuvos dujos are divided as follows: Gazprom - 37.06%, the German E.ON Ruhrgas International — 38.9%, Lithuania — 17.7%. The company's Board includes two representatives of Gazprom, two of E.ON Ruhrgas and one of the state

(Deputy Minister of Energy Romas Shvedas). In fact, the company is managed by two majority shareholders, while the only supplier of gas to the country is Gazprom (supply volumes - 2.5-3 bcm annually).

Late January, Minister Arvidas Sekmokas informed that he reported the monopolistic behavior of Gazprom to the European Committee, asking Brussels to investigate the activities of the Russian corporation concerning gas supplies to Lithuania and to assure transparent pricing. The EC has not responded yet.

The reason for conflict escalation was provided when Gazprom demonstratively gave the gas price discount (15) to Latvia and Estonia, while giving



## Спецполигон для проверки отношений

Continued from page 8

no exemptions to Lithuania. According to the Russian corporation, Vilnius behavior on the issue of the gas market restructuring is inadequate – it threatens to deprive Lietuvos Dujos of gas transportation assets. Last year, the Lithuanian government prepared two bills which anticipated introduction of the rules of the EU Third Energy Package in the country, including the prohibition for the gas suppliers to participate in the gas transportation infrastructure's management. In practice, it means that the Russian and German corporations will not be able to own the Lithuanian company. Gazprom and E.ON Ruhrgas called Vilnius for a constructive dialogue, recalling the existing bilateral contracts between Lithuania and Russia and Germany on protection of investments. The bills have not been submitted to the Sejm in the past year, but early in February the government announced that it had

approved them and would submit for consideration to the Parliament.

Attempts of Vilnius to bring in force the provision of the Third Package in advance (though there is still no clear understanding about how it can and must work) seem especially strange, taking in view the absence of a slightest prospect of alternative supplies. The country totally depends on the Russian gas. Possible construction of a shunt pipe to Poland is only being discussed, having not reached even the engineering stage. In such situation, the conflict has an exclusively political character, being connected with pressure of Brussels, which needs special testing areas to run in the ideas of energy solidarity, non-market infrastructural development and introduction of new rules of regulation.

## Too much of "Belene"

Rosatom decided to press on the Bulgarian government, which is still delaying implementation of the nuclear power station Belene construction project



The Western mass media got a memo addressed to the head of the state corporation Sergei Kirienko and prepared by the Chief of Department for Marketing and Business Development Alexei Kalinin. In case this project is stopped, Rosatom can demand through court action that the Bulgarian state National Electric Company (NEC) would pay the forfeit in the sum of more than EUR200 mn. The equipment intended for Belene can be moved to the Akkuyu NPS, which is to be built by Rosatom in Turkey. Also, it is suggested to stop payment of works performed by the Carsib consortium (the French AREVA with the German Siemens), which had to supply the part of equipment for Belene.

As for Atomstroyexport (ASE) building the station, it is more favorable to get the forfeit than to continue the works, because, according to the plan, the company's profit will amount to EUR150 mn only. At the suit of the Bulgarian government, Rosatom refused from the previous price formula regarding the real inflation corrections and, in the autumn 2010, called the fixed price of the HPS construction – EUR6.4 bn. Sophia said that the station couldn't cost more than EUR5 bn. Along with that, Bulgaria has no financial resources to continue construction in principle, and the government of Boyko Borisov cannot agree to be

credited by Moscow by political reasons.

The HPS "Belene" contract anticipating construction of two power blocks designed by Russia with reactors VVER-1000 was signed in 2008 by the former Bulgarian government. When the cabinet of ministers was replaced in 2009, construction of the station almost stopped, and the strategic investor – the German RWE – left the project. Sophia failed to find another investor, but in November 2010 Rosatom engaged the Finnish Fortum, which promised to buy up to 25% shares of the HPS, and the French engineering company Altran to the project. After that, Bulgaria and Rosatom signed the memorandums which anticipated the beginning of real works on site to September 2011. However, the Bulgarian side does not sign the practical documents.

On the other hand, strategic importance of Belene for Russia is beyond any doubt. For now, this is the only contract for construction of a HPS (under Russian technologies) on the EU territory. Regarding the European return to the idea of nuclear generation development (backed by the fear to depend of French gas and to be lobbied by it), this is a very promising market. Besides, a new NPS creates a chain of services on its maintenance for 60 years in advance, including, for instance, supplies of new nuclear fuel and reprocessing of the waste fuel, servicing, personnel training, de-commissioning, etc.

## Not in the same boat

Italian mass media published the rumors saying that the Italian Prime Minister stands against extension of the contract for the Chief Managing Director of Eni Paolo Scaroni

Italian mass media published the rumors saying that the Italian Prime Minister stands against extension of the contract for the Chief Managing Director of Eni Paolo Scaroni. His labor contract is to expire in spring 2011. Non-constructive position of P.Scaroni on cooperation with Gazprom is called one of the reasons for complains of the Head of the Cabinet of Ministers. Along with that, the government's package (30%) is not enough to make unilateral decisions on the company's management. Only four of nine members of the Board of the Directors were elected from the Ministry of Finance and Economy of Italy; four seats, including the head of the council Robert Poli, are taken by institutional representatives. One more seat is taken by P.Scaroni himself, who is elected at the account of treasury stock (9.56%). Along with that, Eni's results in gas business are not impressive. The company is rapidly losing its positions on the Italian market, suffering losses from penalties for failure to meet the take or pay provisions. It means that the investment funds have a

reason for complaints.

Relations between Gazprom and P.Scaroni were difficult from the very beginning, when he, just taking his seat in June 2005, declared immediately the review of the agreement of cooperation with the Russian corporation signed by his predecessor. After that, the parties extended the long-term contracts for gas supply, and Eni gave a part of the Italian sales market to Gazprom. However, in spite of the strategic agreement on cooperation and a set of big joint projects (promoted by good connections between Russia and Italy on the highest political level), interrelations between the companies are developing with difficulties. P.Scaroni has practically blocked collaboration on the South Stream. Handover of the assets in the third countries to Gazprom in exchange of the share given to Eni in the Yukos gas assets is proceeding with delays. Along with that, Eni fulfils its contractual gas supply obligations worse than other partners, though it has received the most favorable conditions within the framework of negotiations with Gazprom.

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