

## Clinical implementation

### The deadly energy embrace between Russia and EU has slackened

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



The deadly energy embrace between Russia and EU has slackened. After intense intergovernmental negotiations in Brussels, Prime

Minister Vladimir Putin and the Head of European Commission Jose Manuel Barroso declared their readiness to cooperate and to overcome the existing controversies. I.e. those relating to the mechanisms of use of the Third Energy Package, which is to be brought into force on March 3. Until now, Brussels has demonstrated only occasional willingness to understand and to consider the position of Moscow, which could in no way be compared with its wish to reduce its dependency from the Russian gas. It is quite possible that this willingness was caused by recent events in the North Africa, together with the risks of export of the

tension to the Middle East. This might have forced the Europeans to decide whether they chose the right way of behavior. Anyway, this was the first time when the Russian negotiators and the public could hear such a declaration made by Barroso. "What is the most important thing: We want Russia to remain our chief partner, especially in gas. Our industry runs on Russian natural gas. It heats our homes".

Both sides have been preparing this meeting for a long time. Last October, the EU energy commissioner Guenther Oettinger promised to Deputy Prime Minister for the Fuel and Energy Complex Igor Sechin and Gazprom's CEO Alexei Miller that Russia and EU would talk on the Third Energy Package. After that, however, no signs of softening of the position of the European Committee on this matter was observed. Quite the opposite, Brussels presented the new draft energy strategy until 2020, which anticipated no European commitment to Russian gas. Moreover, immediately after the New Year, Jose ➤ Page 3

## Rosneft forces out production

### The state-owned Rosneft has remained the only bidder claiming the Naulskoye field in the Nenets autonomous district

Tags: [LUKoil](#), [Naulskoye field](#), [Rosneft](#)

The state-owned Rosneft has remained the only bidder claiming the Naulskoye field in the Nenets autonomous district. LUKoil abandoned its application to participate in the bid without any explanations. The company was made to understand that the political decision on the license owner had been made.

According to the data of Rosnedra, its recoverable reserves amount to more than 50 mnt by category  $C_1 + C_2$ . The

Naulskoye crude oil can be transported through the pipeline located at a distance of 33 km. Until now, 16 wells have been drilled on the site, five of them abandoned, and the rest suspended. The bid is scheduled on April 5, and the advance payment should be made until March 4. The single initial payment for the Naulskoye field amounts to RUR3.6 bn. Rosneft's production

in the Timano-Pechorskaya province is decreasing rapidly, therefore, the company needs new assets in the region.

The other company has already managed to use the results of a similar political decision. Last week, Bashneft obtained the license on the Trebs and Titova fields in the Nenets autonomous district. After that, its reserves have increased for more than 30%. The bid was not held, since Rosnedra rejected the most part of applications from other companies, and the only Bashneft's competitor staying in the game – Surgutneftegaz – abandoned its application. The license payment amounts to RUR18.476 bn (which corresponds to the initial price of the section).

Capital investments to the fields obtained are valued in the sum of RUR232-239 bn (about \$8 bn in the current prices), total operational expenditures are RUR918-924 bn (about \$32 bn). The fields are expected to be brought to production in 2014. The production level of 8 mnt of crude annually is expected to be achieved in six years (to be maintained during seven years). The ROI period (given the existing tax system, discount rate of 10% and the crude price about \$76/bbl) will be 26 to 28 years.

It is expected that Bashneft will establish a joint venture with Rosneft for implementation of such an expensive and complex project.

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*News brief*

BIIn Brussels, Prime Minister Vladimir Putin RF and the Head of the European Commission Jose Manual Barroso declared their readiness to cooperate and to overcome the existing controversies which were related to the mechanisms of use of the Third Energy Package. This was the first time when the Russian negotiators and the public could hear such a declaration made by Barroso. "What is the most important thing: we want Russia to remain our chief partner, especially in gas. Our industry runs on Russian natural gas. It heats our homes". ➤ Page 1

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On February 22 of 2011, the governmental resolution N1205 "On Improvement of the State **Regulation of Gas Prices**", dated December 31, 2010, was published. This is a document which fixes the new long-term decision on terms and principles of liberalization of prices on the Russian gas market. ➤ Page 4

The Federal Antimonopoly Service (**FAS**) has made a decision on **RUSAL's** affiliates abusing their dominant position on the electric power and capacity wholesale market. The aluminum giant was returned guilty, the penalty for violations can amount to RUR 10 mn. ➤ Page 5

Last week, it was a deadline for submittal of applications for participation in the auction on sales of the **RUSIA Petroleum's** property. Its main asset is the **Kovykta field** development infrastructure. The state-owned Rosneftegaz' structure and Gazprom have made advance payments for participation in the auction. The auction is scheduled on March 1. ➤ Page 6

The government has published its orders on organization of the **bids for the license blocks within the Yamal LNG Project**. The bids for the right to use the Severo-Obisk and Vostochno-Tambeisk hydrocarbon subsoil blocks and to develop the Salmanovskoye and Geophysicheskoye (Utrenneye) oil and gas condensate onshore fields are to be held in 2011. ➤ Page 6

The corporation's CEO Alexei Miller promised that, after the **Gazprom-Naftogaz merger** and creation of a joint venture, where Russia would invest its fields and Ukraine – the GTS, the prices for all Ukrainian consumers would be lowered to the Russian level. ➤ Page 9

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*Highlight*

## Clinical implementations

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Manuel Barroso visited Baku and Ashkhabad, searching for guarantees on gas supplies for the South Corridor beyond Russia (not successfully, it should be noted). Moscow discussed the consolidated position with its partners on the Gas Exporting Countries Forum, bombarding the Europeans with requests to discuss the Third Energy Package. Finally, the EU Council did not even consider the energy strategy in general in early February (asking for more specific proposals on this matter) and postponed the completion of the gas and power market liberalization until 2015. In addition, heads of state and government charged the committee with more active interaction with Russia on energy issues. But the decisive contribution to the thaw in the Russian-European energy dialogue was made by Libya and fears about Algeria.

Of course, Brussels does not wish and cannot refuse from the Third Package which threatens the Gazprom's positions in Europe, causing potential problems with long-term contracts for gas transportation and loss of property (V. Putin mentioned this again). But the European Committee demonstrates no old rigidity in the matters concerning the use of the legal provisions.

For this purpose, the Minister for Energy Sergei Shmatko and EU energy commissioner Guenther Oettinger signed four documents at once which describe further interaction within the framework of the Energy Dialogue. Mutual statements "On creation of the mechanisms for assessment of future environment of the gas markets within the Russia-EU Energy Dialogue", "On Information Exchange within the Russia-EU Energy Dialogue" (including working teams

on the Third Package), the memorandum "On Mechanism of Prevention and Elimination of Emergencies in the Energy Area within the Russia-EU Energy Dialogue (Early Prevention Mechanism)", and the document "General Approaches to Elaboration of the "Road Map" of the Russia-EU Cooperation in the Energy Area until 2050".

In particular, the Russian side offered to the European Committee an alternative option concerning regulation of branches of the import trunk pipelines (such as Nord Stream and South Stream) within the framework of the Third Energy Package.

The thing is that the German regulator made an exclusion from the third-party free access rules for one of the Nord Stream gas pipeline branches – OPAL – for 30 bcm (75% of its capacity). This relates to the gas to be transited to the Czech border and to be handed there to the buyers. The rest part of it (intended to be handed over on intermediate points on the German territory) cannot be reserved on a long-term basis and will be regulated on the common basis.

For the second gas pipeline – NEL (from the Baltic to the E.ON Ruhrgas system on the northwest of the country), no exclusions were made at all. And the project operator had to announce the beginning of the pipe's construction without loading guarantees. All capacity volume will be auctioned.

The situation with the South Stream is even more complex. Agreements on its construction on the territories of the EU states will contradict to the Third Package provisions, requiring a special permit from the European Committee, which is not available for now.

### ERTA view

The summit meetings, like the Brussels one, are always prepared beforehand. It is known that the expert groups from both sides started active work early last autumn. Though, permanent contacts between them have never been interrupted, even in the "freezing period" of the Russia-EU energy dialogue.

This was determined, to a significant extent, by the fact that the Third Energy Package has proceeded from the stage of political decisions to that of practical application. National regulation bodies of the European countries, as well as their national companies, started actively handling the Third Energy Package implementation issues. In this situation, certain Russian proposals started being considered with lower political heat.

That is why the references to the important role played in the arrangement of this summit by the North African events seem a bit overestimated. The African fire burst later. Now, of course, these events will have greater effect on the further process.

It is interesting, that some Russian as well as EU experts, actively participating in the current work, have a very negative attitude towards the highlight political declarations which are made from time to time by both sides. According to the experts, such declarations result in waste of time and energy, which are needed to compare notes again with the direct participants of the discussions and to make certain that the unanimity of views concerning particular matters still remains.

## The hat for a price

A new long-term decision on the terms and principles of liberalization of prices on the Russian gas market

Tags: [gas prices](#), [regulation](#)

On February 22 of 2011, the governmental resolution N1205 "On Improvement of the State Regulation of Gas Prices", dated December 31, 2010, was published. This is a document which fixes the new long-term decision on terms and principles of liberalization of prices on the Russian gas market. Seemingly, this document was approved post factum, the delay was caused by discussions on the full set of inflation issues in the RF Government Office. While the oilers and energy men were demonstratively rebuked on the pricing issues, the government decided not to touch gas producers for some time, limiting its actions by a one-year delay. Earlier, they had discussed the transition to equally profitable prices after January 1 of 2014, while the resolution stated the date of January 1, 2015 (it is planned to cancel the state regulation for industrial consumers, beginning with this date).

Though, it still contains many uncertainties. For instance, the pricing system is not determined, and the resolution includes an attempt to step aside from the net back principle (equal profitability with the export). The document states that the price will be determined under the formula regarding equal profitability and prices for alternative power sources.

The concept anticipating the transition to gas payments based on net back to the price under the long-term Gazprom's European contracts after January 1 of 2011 was not realized. During the crisis, the government included the gas prices growth plan for 2011-2012 on the level of 15% into the three-year budget. Last autumn, it had to confirm it by a relevant formal resolution, to determine new dates and to cancel the resolution 333.

The transitional period (2011-2014) was broken down into two time sections. In 2011-2012, the state price regulation will not practically differ from the existing principles. For this period, however, the Russian Government took the responsibility to determine gas prices not at its will, but to calculate them by the price formula regarding the cost of alternative fuel and to form a unified gas tariff for the industry (excluding new consumers having been connected to the unified gas supply system (UGSS) since 2008, which work de facto under the free long-term contracts with Gazprom, as well as with independent suppliers), based on certain decreasing coefficients. They will be calculated by FTS.

In 2013-2014, FTS will determine not the tariffs based on the unified price determined by the formula, but the minimal and maximal level of Gazprom's prices for a particular consumer (deviation is 6% - from -3% to +3%). FTS, like before, will state the average price (growth level - 15% to the previous year), and Gazprom will owe to supply gas to the market under the conditions when the average weighted annual wholesale price does not exceed the stated average price.

In 2014, according to this document, the Ministries for Energy and Economics will have to prepare their suggestions on cancellation of state regulation of gas prices and transition to the state regulation of tariffs on gas transportation through the UGSS controlled by Gazprom.

This delay means that three years should pass until the government will again consider the issue of price formation on the gas market. Of course, if no decision will be made on more serious reforming of the industry.

### ERTA view

One of our expectations which we have formulated in our previous reviews has been confirmed. The resolution was signed. Please note that it was signed on December 31 and published late February. On one hand, this can be considered as an unprecedented bureaucratic move. On the other hand, the attitude may be more practical. If this resolution was signed on the other date, they had to issue additional documents covering the legal collision created by paragraph 2 of Resolution 333, dated May 28, 2007. According to it, "since January 1, 2011, the supply of gas produced by the Open Joint Stock Company "Gazprom" and its affiliates under the contracts (including long-term ones) to all consumers (except for the population) is provided at wholesale prices determined under the gas price formula". So, the officials solved this problem at a lowest price.

Now, when this document is published, we can try to foresee how this situation will go further. In fact, the said resolution highlights new key points. Until 2006, the Russian prices had been determined under the "cost +" formula. In the end of 2006, it was announced that Russia would proceed to the "net back" formula. Therefore, the key essence of the current declaration is as follows:

1. Within the next three years, the prices will not increase for more than 15%, and then we'll see. So, this is a mere indexation principle.

2. There is a clear redistribution between the «net back» idea and the idea of creation of the Russian market with regulated transportation tariffs. Whether the prices to be formed on this market will be unconditionally net back-oriented, is not still clear.

As a result, we have formulated our next expectation, which has a more long-term character. The matter of the Russian market organization principles comes up again, but the question is: will this discussion take place in this pre-election year, or will it be postponed? We find it quite possible that everybody will be presented with the serious discussion of the matter. But, on our opinion, the decision will not be quick.



## The first one drives on

The Federal Antimonopoly Service (FAS) has made a decision on RUSAL's affiliates abusing their dominant position on the electric power and capacity wholesale market

Tags: [FAS](#)

After one and a half year of investigations, the Federal Antimonopoly Service (FAS) has made a decision on RUSAL's affiliates abusing their dominant position on the electric power and capacity wholesale market. The aluminum giant was returned guilty, the penalty for violations can amount to RUR 10 mn (this is the exact sum of suppliers' losses). By now, the form and extent of punishment have not been officially announced, the prescription will be issued in early March.

FAS became interested in this situation, when the managers of WGC-4, WGC-6, TGC-11, Novosibirskenergo, and the Siberian generating company sent a letter to Oleg Deripaska in the beginning of this year. The hearings have been rescheduled many times, but now FAS has significantly increased its political weight.

The Krasnoyarsky and Sayanogorsky plants of the holding company were named as violators. On August 10 and September 13 of 2009, they did not submit the day-ahead market requests (up to 97% of power is traded on the day-ahead market). As a result, the power price on this market was reduced. Being the largest power consumer in

Siberia (its share is 33%), RUSAL can influence the trading results, and its affiliates used this situation. Not submitting a day-ahead market request, the holding company's plants underestimate the purchased power volume, automatically making it cheaper, because its price on the day-ahead market depends not only on the cost of requests, but on their volume as well. Meanwhile, other RUSAL plants continued buying power on the day-ahead market.

FAS separated an episode, when, from October 2009 to December 2010, the Siberian plants of the holding company (Rusal Krasnoyarsk, Rusal Sayanogorsk, Rusal Bratsk, Rusal Novokuznetsk, and Sual) submitted underestimated price requests to the day-ahead market (within the range from RUR350 to RUR500/MWh). As a result, the price decreased for approximately RUR100-150/MWh, and the energy men had in most cases to sell the power below its cost.

RUSAL does not agree with the FAS decision, planning to avoid it in the court. Though, the court practice on the antimonopoly policy has been gradually changing, and the companies are increasingly failing in suits with the regulator.

### ERTA view

Traditionally, they talk about the short term of existence of the new Russian business, so, it is difficult to make any definite conclusions about this story. Though, some of them come to mind.

The recent history of the Russian fuel and energy complex definitely proves the fact that the market cannot be created by mere declarations and one-move combinations. The example can be represented by an attempt to create the fuel market by "simple methods". "Let us create exchange floors, and all will be well". But it was not! Creation of the market requires a long and careful work.

And, as it turns out, even that does not guarantee the result. Market organization and startup is accompanied by strongest structural changes of the industry, along with appearance of new major players. And such players of "purely Russian ripening and bottling" (and this should be accepted as a proven fact) will try to break or interpret in their favor completely all rules of the new market, if they find this advantageous.

This is why not only careful work on creation of a market, but initial highly resistant design of its foundation is required. All of us know that the work on creation of a full-fledged Russian energy market has not been completed.

So, RUSAL's actions go in accordance with the laws of nature and could well be foreseen. If not RUSAL, some other player would have done the same thing.

## The state and the private capital come to the agreement

Rosneft refused to avoid the penalty imposed by FAS

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

«Rosneft» and the Federal Antimonopoly Service (FAS) executed an amiable agreement in the court: the company withdrew its avoidance of the penalty imposed by the Service, and now it must pay RUR1.5 bn for the exceedingly high oil products prices. Last Friday, the Moscow Court of Arbitration accepted the abandonment of Rosneft from its claim to avoid the FAS decision on imposition of the penalty in the sum of RUR1.5 bn. The company and the Service managed to settle this controversy in the amicable way. Therefore, according to the previous decision of FAS, Rosneft must pay to the budget a penalty for abusing its dominant position on the oil products market.

In exchange, the penalty under the second antimonopoly case of the oilers for Rosneft was reduced to RUR2 bn (from RUR5.28 bn).

The only company the Service refused to come to the amicable agreement with was Gazprom neft. Its claim of avoidance of the FAS decision was approved by the Federal Arbitration Court of the North-West district. After that, however, the Presidium of the Supreme Arbitration Court took the side of the Service. And now, Gazprom neft will have to pay the full sum of the penalty – RUR4.7 bn – for the exceedingly high gasoline prices in 2009.

M&amp;A

## Dog-in-the-manger

The auction on purchasing of the RUSIA Petroleum's property has been completed

Tag: [RUSIA Petroleum](#), [Kovykta field](#)

Last week, it was a deadline for submittal of applications for participation in the auction on sales of the RUSIA Petroleum's property. Its main asset is the Kovykta field development infrastructure. The state-owned Rosneftgaz' structure and Gazprom have made advance payments for participation in the auction. The auction itself is scheduled on March 1, and it seems like it is prepared for the sake of a particular winner. This was the purpose of the auction's rescheduling. It was planned to be held in mid-February, but Rosneftgaz was late to submit a duly prepared application. The structures of Gennady Timchenko (who controls NOVATEK) or NOVATEK itself will be the end license owner.

In 2009, Gazprom refused to buy 62% of RUSIA Petroleum's shares from TNK-BP. After that, the state-owned Rosneftgaz (supervised by Deputy Prime Minister Igor Sechin) entered into the negotiations. However, the structure of RUSIA's shareholders and creditors happened to be too burdensome. Then, TNK-BP initiated its affiliate's bankruptcy procedure, presenting the debts for the sum

of RUR12 bn to be paid. According to the controlled bankruptcy results, the property of RUSIA had to be bought by Rosneftgaz, which then should have obtained the license for Kovykta (as a new good owner of the created infrastructure).

If all goes like this, when the auction is over and the license is issued, this asset will be given to NOVATEK or Gennady Timchenko's structures. On January 20, Rosneftgaz established a company named Vostokgazinvest LLC. Alexander Popov was appointed its General Director. Two days before that, he had left the post of general Director of the Gazprom's affiliate Severneftegazprom for the post of Deputy Head of a NOVATEK's department.

The starting auction price is RUR15.1 bn, the advance payment is 20% of this sum. Along with that, the historical project expenditures of TNK-BP are valued in the sum of \$650 mn (about RUR20 bn).

So, after G. Timchenko's coming to NOVATEK, collection of assets separated from Gazprom in the 1990s continues.

### ERTA view

No analytical review of the Russian gas industry can go without mentioning of Gennady Timchenko and NOVATEK. It seems like this approach is becoming a standard. We'd like to offer an alternative.

The history of the Kovykta project knows the only example when its development was considered without the export component. This is its connection to the existing gas transportation system near Proskokovo, i.e. turn of the gas to the West. All other cases have anticipated export of the gas to the Asia Pacific states. The Kovykta project, as it was, merely did not exist without that. In the conditions of current demand for gas and development of new fields on Yamal, the Proskokovo option is not considered. Or rather, it can be considered as a project for export to China, given that the Altai project will be launched.

As for gas export to the Asia Pacific states in general, we can hardly believe that the state will agree to lose direct control over such projects. So, participation of Rosneftgaz does not seem completely formal.

As for A. Popov, it is true that he has come to NOVATEK not long ago. One should not forget, however, that, due to the Russian specifics, the gas industry, unlike the oil industry, has a very short sub's bench. First of all, this is true about the project managers, who are able to launch a project and to maintain it workable status.

## Liquefaction consortium

The government has published its orders on organization of the bids for the license blocks within the Yamal LNG Project



Last week, the government published two orders on arrangement of the bids for the sections within the Yamal LNG production project (realized by Yamal LNG controlled by NOVATEK and Gennady Timchenko). The bids for the right to use the Severo-Obisk and Vostochno-Tambeisk hydrocarbon subsoil blocks located offshore the Gulf of Ob of the Kara Sea and to develop the Salmanovskoye (Utrenneye) and Geophysicheskoye oil and gas condensate onshore fields are to be held in 2011.

Total resources of four sections amount to approximately 2.4 tcm of gas (only onshore sections contain the reserves of approximately 800 bcm). They are listed in the state-

approved Integrated plan for development of the Liquefied natural gas production on the Yamal Peninsula. Also, this document covers construction of the NOVATEK's LNG plant with capacity 1.5 mnt annually and with possibility of its expansion.

Before that, the government had included the Utrenneye and Geophysicheskoye fields into the list of strategic fields, and Gazprom, as owner of the gas transportation system (GTS) could get them out of competition. Announcement of the bid may mean that they will be given to another subsoil user. It can be NOVATEK, Yamal LNG, or any other company controlled in a certain way by Gennady Timchenko.

The situation with offshore blocks is more complex. By law, only a state company with offshore experience not

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less than 5 years can apply for them. Neither NOVATEK, nor other companies owned by G.Timchenko meet this requirement. In this case, Gazprom becomes the main bidder (then again, it could obtain these sections out the competition). So, it is likely that some exclusive decisions,

like the Zarubeshneft-NOVATEK consortium, will be made. Or it will be participation of the NOVATEK-Gazprom oil joint venture – Yamal razvitiye – in the bid (last autumn, it bought 51% of the former Yukos' shares from Gazprom).

### ERTA view

The essence of the matter lies not only in the fact that two fields are offshore ones, and the other two are strategic. It is known that, according to the existing subsoil legislation, the blocks containing gas reserves more than 50 bcm are classified as blocks of federal importance. All blocks of internal sea waters, territorial sea of continental shelf are assigned to this category, with all consequences maximally limiting the pool of possible operators of such blocks.

We dare recommend the state authorities to correct the laws, since they were elaborated before the crisis. Our legislative and executive power authorities can think only about the nearest future, and this is an objective reality. But now even the state authorities begin to understand that Gazprom itself is not able to develop all gas fields.

## Scandalous recommendations

### The meeting of the TNK-BP's Board was not held

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

The meeting of the TNK-BP's Board of the Directors, scheduled for February 25 (which should have been held in Berlin and to discuss the proposal of company's management on TNK-BP's participation in the deal between BP and Rosneft), was not held. Representatives of four Russian shareholders – AAR consortium (Alpha – Access – Renova) and three independent directors (Gerhard Schroeder, James Leng and Alexander Shokhin) were going to take part in the meeting. However, four BP directors had not come, and the quorum was not reached. On the evening of February 24, the British company sent a letter with a request to postpone the meeting until March 4. After that, AAR blamed its partner for the intent to make the arbitration process, which was to be started this week in Stockholm, be delayed or even sabotaged.

The essence of recommendations given by the TNK-BP's management caused the derangement of the Board's meeting. According to mass media, the managers found the deal on exchange of shares with Rosneft and creation of a joint venture for operations on the Arctic shelf interesting for the company. The Board was suggested to approve the purchase by TNK-BP of 5% BP's shares for \$7.6 bn, with their further exchange for 9.5% of Rosneft's shares.

The BP's representative, who was not the Board's member, sent a letter reporting that «they could not approve the TNK-BP management's recommendations».

According to the TNK-BP shareholders' agreement, the key decisions are made only unanimously and only by representatives of the company's co-owners (the position of independent directors on this matter has no principal meaning). Without the BP's approval, the Russian joint venture will not be able to participate in the deal with Rosneft. If, however, the BP directors at the Board's meeting vote against the TNK-BP management's recommendations, it may become a matter of aggravation at the arbitration proceedings. The arbitration can admit that BP has violated the shareholders' agreement with AAR, and negative voting at the Board's meeting will be a double violation. And BP's directors will not be able to re-vote "positive".

Rosneft has already made a warning that it wanted no one except the British holding company for this deal. Moreover, according to Deputy Prime Minister and the Chairman of the Board of the oil state company Igor Sechin, BP had been reported to say before the deal that there would be no problems with the Russian shareholders of TNK-BP.

No one would envy BP and its situation. Again, the company has faced serious pressure in Russia and will likely have to share its assets with either Russian shareholders of TNK-BP, or Rosneft, or with them both.

The decision will evidently be made on the highest political level.

## Moscow is not Russia, Libya is not Europe

Overthrow of the ruling regimes in Tunisia and Egypt brought a bad quarter of an hour, first of all, to Europe (about 20 bcm of gas is transported to Italy through Tunisia, and the Suez Canal controlled by Cairo is a thin window for delivery of hydrocarbons from the Persian Gulf to the Atlantic basin). For the time being, though, the revolutions have not yet led to catastrophic irregularities in oil and gas supplies.

The civil war and chaos in Libya led to shutdown of the Greenstream gas pipeline to Italy and nearly paralyzed the export of crude. Due to collapse of the banking system and serious communication problems, loading of hydrocarbons is stopped (deliveries on weekends are officially cut off). How long this situation will endure, nobody knows. And Colonel Gaddafi promised to fight for power "to the bitter end", provoking a new price-rallying round on the oil market. Experts have started predicting the price growth to \$200/bbl and more.

Libya is the largest African exporter by reserves and the second largest exported by volumes of supplies to foreign markets, which amount to 1.5 mnbl/day (approximately 2% of the world consumption). The Saudi officials promised that OPEC would easily replace the missing market volumes of Libyan oil, if necessary. They make a reservation, though, that they are ready to do it "within a month" and under the condition "if the situation will require this".

No one has got any reliable data on the production situation in the country with the largest reserve volumes in Africa. Foreign companies, including the Russian Gazprom, declare stoppage of operations and evacuate their employees. The rumors appear here and there about the particular fields captured by rebelling tribes. Experts agree that the industry itself will suffer great damage, and it will not be able to recover soon.

So, generally, the North Africa, flaring with the green flame of revolutions, is promising a rough time to Europe, which has been worried about dangers to energy security posed by Russia in the last years. The panic fear of dependency from the Russian gas deliveries, along with attempts to diversify at any price and at the account of the regions

with doubtful reputations, is now represented by a fresh example of the following outcome.

Tunisia and Algeria were only a bit scary, and the Libyan events will impose the strongest impact on the closest economic partner – Italy, which depends on the Libyan oil supplies for 20% and on the Libyan gas – for 10%. Algeria can be the next. And this may end with an energy collapse on the European level, which will be more vigorous than that of in the beginning of 2009, when the transit of Russian gas to EU through the Ukraine was stopped due to the political and economic conflict between Moscow and Kiev. That situation has touched mainly the new members of the European Community. But now, the gas crisis may cover the whole Western Mediterranean at a time.

Libya and Algeria provide approximately 40% of the Italian, Spanish and Portugal gas markets, together with almost 20% of the French gas market. The Russian gas does not reach the Iberian Peninsula at all, forming less than one-fourth of the Italian and French gas balances.

Greenstream problems have already led to the situation where the Italians had to increase their daily Russian gas import requests for one and a half time. With regard to the fact that, in the past year, Eni was buying the feedstock from Gazprom in the volumes significantly less than those specified in the contract, it is technically possible and profitable. But possible irregularities with the Algerian deliveries will not be so easy to outweigh.

The situation with the oil is not so sad. The North Africa accounts for not more than one-tenth in the balances of the abovementioned countries (except for Italy, which dependency on the Libyan and Algerian supplies comes to one-third). In addition, the oil market infrastructure is developed better (due to numerous unstable periods in the key oil-producing world regions) than that of gas, and this allows to replace missing supply volumes relatively quickly and effectively.

On the other hand, certain tension is observed in the Middle East as well. The situation in Yemen and Bahrain is not quiet. Apprehensions are imparted that the political crisis may break out in wealthier hydrocarbon states of the Gulf, including Saudi Arabia and Qatar.

### ERTA view

It is not a surprise that the Western mass media compares the current problems and potential risks to the supply of gas to Europe from the North African countries to the latest events concerning the Russian gas transit through Ukraine and Belarus. What is more surprising is such a comparison made by the Russian mass media. We cannot but exclaim: "No, we are not like them, we know it for sure!"

On the other hand, this situation initiates serious thoughts. What is the extent of our dissimilitude from the point of view of bare figures and the dry language of risk management?



## Load and reload

### Gazprom decided to press the Ukrainian management on the issue of the future gas transportation system

Gazprom decided to press the Ukrainian management on the issue of the future gas transportation system. The corporation's CEO Alexei Miller promised that after the Gazprom-Naftogaz merger and creation of a joint venture, where Russia would invest its fields, and Ukraine – the GTS, the prices for all Ukrainian consumers would be lowered to the Russian level. In addition, he promised to increase the loading of the Ukrainian gas pipelines to 120 bcm annually (now it is 95 bcm, and when the NordStream is brought into operation, the pumping volumes may decrease to more 20-30 bcm).

In 2011, Ukraine will have to pay about \$280/mcm of imported gas. As a result, the wholesale internal market price for the industry will be approximately \$300. The average Russian price is approximately \$90/mcm for the industry and \$70 for the population.

Kiev is maneuvering between Russia and Europe, which,

supported by the International Monetary Fund (IMF), demands that the Ukrainian gas market will be liberalized according to the European model. In particular, this is a necessity to separate the Ukrtransgaz company, which manages the gas transportation system of the country (and is owned by the state) from the Naftogaz system.

It is not a mere occasion that, immediately after the proposals made by A. Miller, the Ukrainian negotiator, the Minister for Energy and Coal Industry Yury Boyko announced the intent to "reform Naftogaz and to privatize the part of its shares through the stock exchange". Also, the discussions included the changes in the pipeline transportation law, which prohibits any forms of alienation of the gas transportation system from the state property or its encumbrance. On one hand, it may be aimed to come to agreements with Gazprom, on the other hand – to form the full-fledged gas transport operator, separated from gas production and sales.

#### ERTA view

The situation is very impressive! A week ago, we noted in our comments that, after all gas and oil wars, accusations, and primitive blackmail on the heads-of-state level, the relations between Russia and Belarus have ended with the following simple thing: "Let you give us gas with the discount at the Russian price. We are together now/again!"

And it happens so, that the situation with Ukraine is quite similar. Only, at first glance, it seems the opposite: they do not ask, but we offer. We will give you a discount, if you come to our terms.

Whatever one may say, this world is a very hard place. If you want to be completely independent, go get hydrocarbons at world prices. If you do not like world prices, forget about full independency.

Big brother, little brother... But the same mentality. And the situations we observe now are mere reflections in the mirrors, and their sizes or frames have no significance any more.

## In a separate line

### Last week, the mass media published the export Gazprom's prices for the year of 2010 by European countries

Last week, the mass media published the European export Gazprom's prices for the year of 2010. The lowest price among five largest Gazprom's purchasers was that of Germany - \$271/mcm. This was partially due to the fact that the Russian corporation in Germany owns the shares in gas distribution companies - WINGAS (50% minus 1 share) and VNG (10.5%). In average in 2010, the gas price was \$308/mcm. The second largest client – Turkey – bought gas for \$328, Italy - for \$331. In Western Europe,

Finland only paid the same low Gazprom's price. First, it borders directly upon Russia, and second, it can easily replace the Russian gas by other fuel types. Poland got gas by \$336, Hungary - by \$348. Austria, France and Romania got gas by \$305-310/mcm. And the highest price was that of Slovakia and Greece: \$360-370/mcm.

Great Britain is a separate entry, since it is not subject to long-term contracts. And physical supply volumes of Russian gas are very low.

## The Russians are drilling into the Romanian shelf

LUKoil and Vanco International were given the right to explore and develop two blocks on the Romanian shelf

LUKoil and Vanco International were given the right to explore and develop two blocks on the Romanian shelf. This is the first LUKoil's production asset in Europe, and the first operation on the Black Sea shelf.

The company owned by Vagit Alekperov, which has made a good start in the Caspian, practically lost the possibility to expand its resource base at the account of offshore fields within the Russian jurisdiction, when the law «On the Continental Shelf» was passed. The joint LUKoil-Gazprom venture for development of the Central oil and gas structure in the Caspian Sea has been "on tenterhooks" for the last two years. Deep exploration license expired, and issuance of the new one was delayed due to political reasons. Because of that, LUKOIL is searching for prospective projects in other countries. In addition to the Romanian shelf, the Ukrainian and African projects are being discussed.

The consortium of LUKoil Overseas and the American Vanco International has signed the agreement with the national agency for mineral resources of Romania on

exploration and development of two blocks - Est Rapsodia and Trident – on the Black Sea shelf. In this consortium, LUKoil owns 80%, and Vanco owns 20%. The blocks are located at the underwater depth 90-1000 m and at a distance 80-100 km from the shore, close to Sulina. The total square of the blocks comes to 2000 square meters. Their resources have not yet been disclosed. At the first stage of exploration, the consortium plans to carry out 3D seismic, in order to update the geological structure of the blocks. However, the partners do not plan to begin geological exploration before the next year.

Distribution of the Romanian shelf started only after settlement of the relations between Ukraine and Romania concerning the division of the shelf areas in February of 2009. At that time, the UN International Court of the Hague decided that Romania would have 9.8 thousand km<sup>2</sup> of 12.4 thousand km<sup>2</sup> of the disputed shelf territory. Resources of the Romanian sections (11 of them) are valued from 100 bcm to 1 tcm of gas and 5-10 mnt of oil.

## Administrative pledge

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Severneftegazprom LLC is a holder of the license for geological exploration and production of hydrocarbon stock within the Yuzhno-Russky subsoil block. The Yuzhno-Russkoye oil and gas field is located in the Krasnoselkupsk district of the Yamal Nenets autonomous district. The startup field complex was put to operation in October 2007. Its project capacity is 25 bcm of gas annually. Gazprom, which owns 50% plus 6 shares of Severneftegazprom, is its controlling shareholder. The German corporations BASF SE and E.ON AG own each 25% of minus three registered ordinary shares and plus three privileged ex-rights shares.

The company lost its General Director in mid-January, when Alexander Popov left the company for NOVATEK. It should be noted that, in 2009-2010, Sergei Tsygankov double-jobbed as Gazprom's official and General Director of the joint venture. When 51% of Severenergiya (former gas assets of Yukos) was bought from Eni and Enel, he became the top manager of this company. However, Gazprom sold the share in Gazprom Neft to NOVATEK also, and S. Tsygankov left Severenergiya because of that. His appointment to Severneftegazprom is likely connected with the fact that the production facility has reached the design capacity level, and the only thing now required is effective interaction with the German partners.

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