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Russia's Energy Strategy Will Be Rewritten at the G8 Summit

By Inna Gaiduk and Andrei Shlyapnikov

Sharp criticism of Russian policy in the post-Soviet space by US Vice President Dick Cheney at the summit of Baltic and Black Sea states in Vilnius on May 4 may seriously complicate the Russian-American energy dialogue. Although ConocoPhillips and Chevron were short-listed as contenders to develop the Shtokmanovskoye field on the Russian Arctic shelf, Cheney's speech may provoke Russia to re-orient towards new markets and new partners. Western commentators predict that these comments may spur Gazprom to shy away from cooperation with American companies at Shtokman.

Read More: Gas Pipeline Bypassing Russia

- more -

Russian Subsoil Policy Discussion

By Vladimir Baidashin

A roundtable that included leading Russian policy experts on the theme, "Efficient Use of the Subsoil – the Foundation of Economic Stability and Energy Security of Russia," took place in the Russian Federation Ministry of Natural Resources (MNR) on April 7. It was held on the sidelines of the 4th All-Russian Energy Forum, "Russia's Fuel and Energy Sector in the 21st Century," in the Kremlin from April 3-7.

Eastern Pipeline Will Provide New Options

By Sergei Glazkov

The plan to build the Eastern Siberia-Pacific Ocean (ESPO) oil pipeline has entered the execution phase. Russia plans to use it not only to bolster its economic and political position in Asia, but also to exert pressure on the European oil market. Russian plans to switch from primarily export of crude oil to export of oil products will continue to keep Japan and China in competition with each other. Meanwhile the Russian government will find ways to promote production from East Siberian fields.

Read More: Preferences for Eastern Siberia

Trans Baltic Pipeline Underway

By Vladimir Baidashin

The international project to build the North European Gas Pipeline (NEGP) – Gazprom's new direct export route to Western Europe that will pass along the Baltic seabed skirting transit countries in Eastern Europe – was given a start in Moscow on March 30 of this year. The first official meeting of the Shareholders' Committee of the North European Gas Pipeline Company (NEGP), which represents the interests of the company shareholders – Gazprom and its German partners BASF and E.ON - took place at the Gazprom headquarters. On Gazprom's proposal, the committee elected Gerhard Schroder, former Chancellor of the Federal Republic of Germany, as its chairman.

Read More: There Are No Simple Solutions with the Germans As Well

CPC Expansion and Prospects for Burgas-Alexandroupolis Project

By Irina Denisova

As part of the process of coming to agreement on expansion of the throughput capacity of the Caspian Pipeline Consortium (CPC) from 28.2 million tons annually to its design capacity of 67 million tons of oil, prospects improved for another pipeline project, Burgas-Alexandroupolis. This pipeline, which aims to circumvent the congested Bosphorus Strait, has long been supported by Russia. The project has gained fresh impetus thanks to Moscow's policy which tied implementation of this project directly to approval of expansion of the CPC.

“Foreign Investment Is As Necessary for Our Economy as Air”

By Elena Kirillova

Monitoring and attracting foreign investment is one of the responsibilities of the Ministry of Economic Development and Trade (MEDT). RPI recently interviewed Kirill Androsov, the deputy minister of MEDT on how foreign investors currently assess the investment climate in Russia and about new tools of investment policy suggested by the MEDT for improvement of the investment climate.

Planned Pipeline Sparks Interest in Eastern Siberian Fields

By Vladimir Baidashin

Urals Energy continues buying up assets in Russia. In addition to its oil and gas assets on the Sakhalin shelf, in Timan-Pechora, and in the Udmurt Republic, the company announced on April 18 the acquisition of the Russian oil company Dulisma, holder of a production license for the Dulisminskoye oil-and-gas condensate field in the Irkutsk Region, and the Lenskaya Transportnaya Kompaniya, an oil transportation company. These acquisitions show that oil and gas fields lalong the route of the future oil pipeline, East Siberia – Pacific Ocean, are attracting increased attention

Russneft on Track for IPO

By Elena Kirillova

Russneft continues to aggressively acquire new assets as it marches towards an apparent IPO some time in the foreseeable future. Meanwhile, the company is expanding in the Perm Region, Udmurtia and possibly Israel.

News Briefs

Oil product export duties rise.
According to a government decree, export duties on oil products increased on May 6. The new duty on light oil products, such as propane, butane, ethylene and propylene, is set at $137.90 a ton, while the duty heavy products - lubricants, fuel oil, coke and so-called “processed oil products” - is now $74.30 a ton. The duties are up from $120.70 and $65, respectively. .

Proposals for extraction work in Russia.
According to a May 6 statement from Prime Minister Syarhey Sidorski, work will begin on proposals for Belarusian companies to extract natural gas in Russia. He also said that Belarus has lined up a number of crude oil extraction initiatives. “We should come up with investment projects which will be of interest to both Belarus and Russia, in addition to those which have already been put forward,” Sidorski said. As for the price of gas, the prime minister said that the issue should be

resolved in line with the union state treaty, which anticipates equal operating conditions for economic entities from both countries. Gazprom has announced that prices for natural gas sold to Belarus would be increased to international market prices. Belarus currently pays $47 per 1,000 cubic meters, compared to the European price of $230, under a subsidized contract that runs to the end of 2006

Eesti Energia renews sales of shale oil.
Eesti Energia (Estonian Energy) announced on May 8 that the power generating subsidiary Narva Elektrijaamad (NE, Narva Power Plants) would have a new auction to sell shale oil. Under the terms made public by NE, a northeastern Estonian electricity producer, about 46,000 tons of different shale-based fuel oils will be put up for sale. The starting price is 3,260 kroons ($264.83) per ton exclusive of VAT and excise duty. The amount to be auctioned off in Tallinn on May 19 makes up about 40 percent of the annual output of NE. Auctions of shale oil in 2005 raised the price of the commodity several hundred percent over previous years, requiring shale oil-burning providers of thermal energy to increase prices charged to consumers.

Trade deficit with Russia expands.
The National Statistics Bureau (NSB) reported on May 6 that the trade deficit between Moldova and Russia amounted to $36.3 million in the first quarter of 2006 against a trade surplus of $33 million in the same period of 2005. According to NSB data, in January-March 2006 Moldovan exports to Russia shrank 5.8 percent year-on-year, from $87.2 million to $82.1 million, while Russian imports to Moldova more than doubled, from $54.1 million to $118.4 million. Moldovan trade with Russia declined after Moscow imposed bans on Moldova's animal and crop products in 2005, and on wines, champagne, and similar products from March 27, 2006. Furthermore, the price of Russian natural gas supplied to Moldova rose from $80 to $110 per 1,000 cubic meters from January 1, 2006

Government to negotiate over YUKOS Mazeikiu Nafta stake with receiver and creditors.
On May 6, Prime Minister Algirdas Brazauskas said that the Lithuanian government plans to negotiate the sale of the 53.7 percent stake in Lithuanian oil company Mazeikiu Nafta (MN) held by YUKOS with the receiver and creditors of YUKOS. MN includes the 12 million ton capacity Mazeikiu refinery, the only crude oil processing facility in the Baltic republics, the Butinge sea terminal, and the Burs pipeline system. The Lithuanian government has changed its tactics in the talks because in April a New York court extended the freeze on the sale of YUKOS foreign assets until May 19, Brazauskas said. Previously the Lithuanian government only held negotiations with the management of the Russian company. The government wants to buy out and resell the YUKOS stake in MN. YUKOS has not been able to provide stable crude oil supplies to the MN refinery. The Lithuanian government also wants to sell a 20 percent stake of its own. The state currently holds a 40.66 percent stake in MN. Potential bidders for MN include the Kazakh state crude oil and natural gas company KazMunaiGaz (KMG), the Polish oil company PKN Orlen, TNK-BP and a consortium of LUKOIL and ConocoPhillips. Lithuanian Economy Minister Kestutis Dauksys has said that KMG is the leading contender for the MN stake. YUKOS holds its stake in MN through YUKOS International UK (Netherlands), which is controlled by Dutch-registered YUKOS Finance, a YUKOS subsidiary

Ukraine Prime Minister open on contracting for natural gas.
Prime Minister open on contracting for natural gas. On May 6, Prime Minister Yuriy Yekhanurov said that Ukraine is prepared to buy natural gas at an "acceptable" price from any company. The comment was in response to a reporter's question about the future of Ukrainian cooperation with Swiss-registered gas trader RosUkrEnergo (RUE). "If there is another company that will supply the same amount of gas, then we will gladly cooperate with this company. If there is no such company, we will work with [RUE]," Yekhanurov said. The prime minister did not specify what price is considered acceptable. RUE is contracted to sell natural gas supplied by Gazprom and from Central Asian countries to Ukrgaz-Energo, the RUE joint venture with Ukrainian state crude oil and natural gas company Naftogaz Ukrainy (NU), under a preliminary January agreement between Gazprom and NU. Gazprom indirectly holds 50 percent in RUE, while the other 50 percent is held by Raiffeisen Investment (Austria) for two Ukrainian businessmen Dmitry Firtash and Ivan Fursin, who control their stake through the wholly owned Centragas Holding. The Ukrainian owners were disclosed after a leak of an auditor report in late April.

Corporate Briefs

Rosneft to invest about $1 billion at Vankor in 2006

Rosneft confirmed on May 8 plans to invest just under $1 billion in 2006 for the development of the Vankor field in the far north of Eastern Siberia's Krasnoyarsk Region. An estimated 260 million tons of crude oil and 90 billion cubic meters of natural gas have been discovered at Vankor. Start-up is scheduled for 2008. Initial production of 2.4 million tons per year of crude oil will rise to 14 million tons annually by 2010.

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Norsk Hydro and Statoil reported to be selected for Shtokman

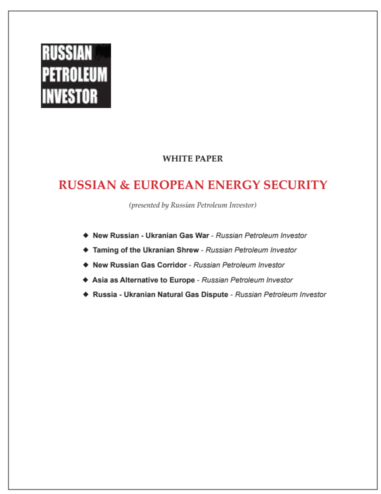
On May 8 Oslo business daily Dagens Naeringsliv, quoting "a source close to Gazprom," reported that Norsk Hydro and Statoil will be selected as partners for the Shtokman field development. The two Norwegian firms will be expected to work together, the newspaper said. Gazprom is also said to want US companies Chevron and ConocoPhillips on the project, also expecting the American companies to work as a combined participant. The four foreign companies, comprising two groups, would have a combined holding of 49 percent in the project.

Baltic LNG to invest in Leningrad region plant.

According to a May 5 press release by the Leningrad regional economic development committee, Baltic LNG, a joint venture between Gazprom and state-owned shipping company Sovkomflot, is expected to invest between $3.3 billion and $3.9 billion in building a liquefied natural gas (LNG) plant in the Leningrad Region for LNG export to Canada. Under proposals discussed, the release said, the plant is expected to be located either at the Ermilovsky port on the Baltic Sea coast or at the Vysokinsky port. Earlier Gazprom said that it was also considering building the LNG plant at the Ust-Luga port. The plant is expected to have an annual processing capacity of 7.5 billion cubic meters of natural gas. Gazprom said in 2005 that the plant would be launched in 2010. The plant is expected to produce between 3 million tons and 5 million tons of LNG annually at the first stage, Graham Lion, vice president of Petro-Canada, said earlier. In March Gazprom and Petro-Canada signed a deal on cooperation in the project. In 2005, Gazprom also announced plans to build another LNG plant at Vidyayevo in the Murmansk Region to process natural gas produced at the Shtokman field in the Barents Sea.

Feasibility study completed for Russian–Chinese natural gas pipeline.

Alexander Ananenkov, deputy CEO of Gazprom, announced on May 6 that a feasibility study has been completed for a planned pipeline to ship Russian natural gas to China, adding that talks on its construction will start within days. "Work on the feasibility study is over. Gazprom has carried out its feasibility study on the territory of the Russian Federation, and our strategic partner, the China National Petroleum Corporation [CNPC], has carried out such a study on Chinese territory," Ananenkov said. In an interview with Russia's Rossiya TV, Ananenkov said the pipeline will be called Altai and be about 3,000 kilometers long. He further noted that Altai might go into operation in 2011 with construction starting in 2008.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Russian and European Energy Security

This RPI white paper provides practical insight that goes beyond all of the headlines and general buzz surrounding security. With insider views on issues from the ongoing Ukrainian gas disputes to Russia's Southwest gas corridor and the China energy alliance, you'll gain a deeper understanding of this critical topic.

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Gazprom subsidiary contracts for ice-class tankers.

Sevmorneftegaz (SNG), a subsidiary of Gazprom, reported on May 8 that it has signed an agreement with Sovkomflot, the state-owned shipping company, to build two ice-class tankers to carry oil from fields on the Arctic Shelf. Delivery of the 70,000 deadweight ton vessels is scheduled for 2008. SNG develops Prirazlomnoye in the Pechora Sea and Shtokman in the Barents Sea.

Gazprom to pay off Sibneft acquisition loan.

A source at Gazprom reported on May 4 that the company plans to make the last payment of about $500 million on a bridge loan received to buy controlling shares in oil company Sibneft by the end of May. Gazprom's debt to the banks that financed the purchase will then fall to $2.5 billion, which was provided to the company as a term-loan, consisting of two tranches to be repaid in three and five years. On October 10, 2005, Gazprom and a group of Western banks signed an agreement providing financing of up to $13.1 billion for Gazprom to buy a controlling stake in Sibneft. A $2.5 billion loan was provided in two equal tranches of $1.25 billion, one repayable in three years and one in five years. Interest on the three-year tranche amounts to London Interbank Offered Rate (LIBOR) plus 0.7 percent, while interest on the five- year tranche is LIBOR plus 0.9 percent. Gazprom should pay $5 billion of the $13.1 billion by the end of 2006, using revenue from the sale of 10.74 percent of its own shares to Rosneftegaz. The company should pay off another $5.6 billion over an 18 month period, starting in 2006.

Trading in Transneft preferred shares suspended

The office of the Russian General Prosecutor confirmed late on May 5 that the preferred shares of Transneft have been suspended. No other details were provided. Transneft Vice President Sergei Grigoryev said during a radio interview after the suspension that the action would not affect operations. The government holds 75 percent of Transneft common shares, which represent 100 percent of its voting stock, Grigoryev said, adding that only shares held privately and traded on stock exchanges have been suspended. Transneft's management does not hold shares in the company, Grigoryev also said. Reportedly, the shares were suspended due to the resumption of an investigation into abuse of authority by former Transneft executives.

Conference Calendar

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