

In pursuit of its primary goal of guiding the development of effective and pragmatic policies on regional and global energy issues, CCEE's Biweekly Energy Review brings readers the latest developments in the field of energy and environment. The Biweekly Energy Review compiles and assesses news on Caspian energy and environment issues. It aims to provide a comprehensive review of regional energy and environmental developments. The Review offers a valuable resource for researchers and practitioners by bringing together related news and features from the leading global news sources. This compact biweekly digest offers brief evaluations and commentaries of breaking and ongoing news stories from CCEE experts, helping to shed light on key developments.



Brief outline of global energy developments

The key topic for European states during the last two weeks has been the future of European energy security, and in particular how EU states can better position themselves to deal with disruptions to the gas supply via a new solidarity mechanism. Back in February 2016, the European Commission adopted a proposal to revise the 2010 regulation on security of gas supply. Trilogue negotiations in early 2017 produced an agreed text that was endorsed by the Industry, Research and Energy (ITRE) committee in May 2017. The European Parliament voted to pass this regulation during its September plenary. The new regulation is designed to achieve a high enough level of preparedness before a crisis occurs and to mitigate the impact on customers of an unexpected event causing an interruption of the gas supply. It introduces a new solidarity mechanism whereby Member States that declare an emergency level can receive gas from neighboring countries, even if this temporarily lowers the latter's supply standard.

One of the ways to improve the energy security of EU countries is support for further pipeline construction, including the Interconnector Greece-Bulgaria (IGB) project. After a pause in developments, the ICGB AD, the company engaged in the implementation of the project, finally announced that it will launch several tender procedures by the end of the year. The decision by the Regulatory Authorities on the exemption procedure is expected by the end of October 2017, and the final opinion of the EU is expected by January 2018. IGB is an important link in the gas pipeline, as it will allow Bulgaria to receive Azerbaijani gas, in particular, the gas produced from Azerbaijan's Shah Deniz 2 gas and condensate field.

The other important development, which was reported and analyzed in CCEE's Policy Brief no. 32, is the signing of Azerbaijan's new contract with partners on September 14. The contract – valid until 2050 - envisages the development of the Azeri-Chirag-Gunashli (ACG) block of oil and gas fields in the Azerbaijani sector of the Caspian Sea.

Energy developments in the Caspian region

Azerbaijan

In Azerbaijan's energy market, the main developments were related to the extension of the oil contract to 2050 (see CCEE Policy Brief no. 32). In addition, developments in the gas sector over recent weeks have given greater clarity to ongoing projects.

As known, beyond the giant Shah Deniz field, as Azerbaijan is also focused on developments in other prospective gas fields - especially the Absheron gas and condensate field. It was announced that Azerbaijan and French oil company Total expect the investment decision on the development of Absheron field to be made in December 2017. Total signed an agreement with Azerbaijan's state oil company SOCAR to develop Absheron, which it discovered in 2011. Then in late 2016, SOCAR and Total signed a framework agreement establishing contractual and commercial terms for a first phase of production for the field. If the final investment decision is reached by December, then according to Farid Ahundov the head of the Caspian Drilling company, they will start drilling by the January 2018. Ahmedov also noted that, "The first gas from the first stage of the Absheron development is expected to be produced in 2019-2020 [and] The project's second stage is expected to be implemented in 2022-2023 to produce an additional 5 bcm of gas per year."

The final investment decision on Absheron field will accelerate the work of the drilling companies and bring clarity to the scope of their activity. Norway's IKM Cleandrill company is interested in working in Azerbaijan, which it sees as a strong market with ongoing offshore drilling activities. IKM Cleandrill has been awarded a contract for riserless mud circulating system services by Total E&P ABSHERON BV on behalf of JOCAP, Jointed Operating Company for



Azerbaijan's Absheron project. According to the company's Managing Director, Tom Hasler, "The duration of this project is not yet finalized. We hope for a long relationship with Absheron project." He added, "It is also an area where our services (top-hole mud recovery) are in demand due to the typical methods of drilling." This comment reveals that IKM Cleandrill targeted the Absheron project as the start of an expanding business in the area for its services.

In other important developments, the first is that last week, Azerbaijani government officials presented their data on daily oil output for August to the OPEC Joint Technical Commission under the Monitoring Committee (required since Azerbaijan committed to OPEC's joint oil

production cuts at 35,000 barrels per day).

Also, the Azerbaijan's Energy Ministry and the European Bank for Reconstruction and Development (EBRD) signed a memorandum of intent on a Strategic Road Map for the development of utilities in Azerbaijan with particular focus on EBRD assistance in the creation of the regulatory body for energy efficiency in Azerbaijan.

Meanwhile, SOCAR has launched a new environmental project at the Heydar Aliyev Baku Oil Refinery. After the commissioning of a new water cooling unit at the refinery, the amount of polluted industrial water going to the mechanical purification site of Ekol Engineering Services CJSC dramatically decreased.

Developments on the Southern Gas Corridor (SGC)

The development of the SGC- particularly regarding the scheduled construction of pipeline networks - is intensifying due the need for timely delivery of Azerbaijani gas to the European market. A much-awaited update on issue came by the TAP Managing Director Luca Schieppati, who in an interview to local newspaper, stated that between Greece and Albania, TAP has now cleared and graded over 71 percent of its corridor (approximately 550km out of 765km). Schieppati also said that "90 percent of the 32,000 line pipes needed to build the 550km Greek section have been delivered." For the Albania section, 143 km has been cleared and graded along our route, 136 km line pipes strung, 129 km welded and approximately 107 km back-filled and around 70 km are being reinstated.

However, Schieppati did not provide an update on the Italian section of pipeline, which is the most problematic area, due to protests against the pipeline by the local population which have already delayed construction work.

Developments in the Caspian littoral states

Russia

Russia has strengthened its energy ties in the Central Asia region: Russia's Enter Engineering Pte Ltd, controlled by Gazprombank Group (GPB), signed a contract with Jizzakh Petroleum joint venture to build an oil refinery in the Jizzakh region of Uzbekistan. Back in April 2017, Uzbekistan started to build an oil refinery in Zafarabad district of the Jizzakh region. The design capacity of the refinery is five million tons of oil per year, 3.7 million tons of motor fuel, more than 700,000 tons of aviation fuel, and 300,000 tons of associated petroleum products. The Jizzakh region is located in the central part of Uzbekistan and borders Kazakhstan in the north, and this will facilitate the construction of the oil pipeline.

Iran

The essential development was the public announcement by Oil Minister Bijan Namdar Zanganeh on oil sales to Russia. The Minister said that Iran is now ready to sell oil to Russia: "We have no problems [about exporting oil to Russia], [the Russians] should take the required measures." He also shed light the delays to oil exports, stating that the Russian side has

experienced bank-related issues, but these problems have been partially resolved. A leading Russian bank is expected to open letter of credit (LC) for oil purchases from Iran.

Kazakhstan

Kazakhstan is working to increase the efficiency of its oil production; Energy Minister Kanat Bozumbayev revealed that three Kazakh oil refineries will be able to process 16.5 million tons of oil per year after modernization.

Kazakhstan has already completed the modernization of “Atyrau” refinery and Pavlodar petrochemical plant, and the modernization of “Shymkent” refinery will be completed next year. Overall, the refining capacity of all the three plants will increase from 13.8 to 16.5 million tons, increasing the production of all types of light oil products, gasoline, diesel fuel and aviation kerosene. After the completion of the modernization of “Shymkent” refinery, Kazakhstan expects that the three modernized plants will produce an additional 2,353,000 thousand tons of gasoline. Also, the production of diesel fuel will increase to 917,000 tons and aviation kerosene to 539,000 tons.



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