



# NEFTE COMPASS

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## Turkmenistan Mulls CNG Option For Trans-Caspian Exports

A new scheme is emerging to transport natural gas from Turkmenistan across the Caspian Sea to Azerbaijan and potentially onward to European markets.

*Nefte Compass* understands that a proposal to send between 6 billion and 7 billion cubic meters of compressed natural gas (CNG) per year to Baku will be discussed at a meeting in Ashkhabad on Apr. 6 between the Turkmen authorities and the project's backers, Italian major Eni and Belgium's Enex Process Engineering.

The project, which will cost a relatively modest \$500 million, is a new rival for grander schemes such as the Nabucco pipeline, which would cost over 20 times as much. The Nabucco pipeline to Europe would start in Turkey, but would rely on larger volumes from Turkmenistan to help fill its 31 Bcm/yr capacity.

The scheme's backers believe one attraction of the CNG project lies in its simplicity: It will utilize gas resources readily at hand in the Turkmen zone in the Caspian Sea, and will aim to feed into existing Azeri export routes, including the South Caucasus pipeline from Baku via Georgia to Turkey.

Conceived as a medium-term project taking around three years to bring to fruition, new compression facilities will have to be built on the Turkmen and Azeri sides and special CNG tankers will need to be brought in to ferry the fuel across the Caspian.

The project's backers believe that, unlike Nabucco, it will not be perceived as so much of a threat by Moscow, especially with Eni on board, which is a long-standing partner of Gazprom and a participant in Russia's planned rival 63 Bcm/yr South Stream pipeline to southern Europe.

Nor will the CNG scheme rely on contentious plans for a trans-Caspian gas pipeline from Turkmenistan to Azerbaijan that is certain to be strongly opposed by fellow Caspian littoral states Russia and Iran.

The CNG project would chiefly depend on supplies from Malaysia's Petronas, which from November is expected to be in a position to produce up to 10 Bcm/yr of gas from its Turkmen offshore Block 1 (NC May28,p6). Ashkhabad, which is committed to a "multi-vector" policy of diversifying markets and has so far concentrated

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## Gunvor Targets Export Infrastructure Expansion

Gunvor International, which has grown rapidly into the world's third-largest oil trader on the back of its Russian business, has identified "export infrastructure" as a key area for expansion. But the Dutch-registered trader will avoid competition with Russia's national pipeline operator Transneft, particularly at the new port of Kozmino on the Pacific coast, Gunvor co-owner Torbjorn Tornqvist tells *Nefte Compass*.

Among Gunvor's first major infrastructure projects is a new fuel oil terminal at the Russian Baltic Sea port of Ust-Luga to be launched in April. "It will be the biggest fuel oil terminal in the world," Tornqvist said during last week's IP Week gathering in London. "Russia doesn't have a fuel oil port for northern Europe. It needs one."

The Ust-Luga terminal is expected to reach its full capacity of 25 million metric tons a year in 2011 and eventually to increase operations to 40 million tons/yr (NC Dec.10,p4). Traders say the first fuel oil cargo, from Surgutneftegas' Kirishi refinery, will load in mid-April.

Some industry experts note that the terminal has been expensive to build. The cost of Ust-Luga was earlier estimated at more than \$800 million. Russian state-owned Vnesheconombank (VEB) approved last year a loan of \$545 million to Gunvor-owned Rosneftbunker, which is in charge of building the facility.

Whatever the actual cost is, the construction of Ust-Luga was also politically motivated as the terminal is to divert Russian oil products exports away from the Estonian port of Tallinn and other Baltic states.

Although Gunvor has established a strong presence at the port of Kozmino in Russia's Far East, it will not be looking to build any storage or transportation facilities

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## Turkmenistan

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on supplying China, Russia and Iran, has long said that 10 Bcm/yr is available for a western route if Europe wants it.

Diplomatic sources say the Turkmen agreed last year that the producers of offshore gas could take responsibility for marketing it as they see fit.

Germany's RWE, a member of the Nabucco consortium and licenseholder of Turkmenistan's Caspian exploration Block 23, looked at a CNG option two years ago, as did Chevron (NC Feb.28'08,p8).

But the CNG initiative has now shifted to the new partnership of Eni and Enx.

Industry sources say Enx used its good relations with the Turkmen leadership to help Eni mend its ties with Ashkhabad. Eni got off to a terrible start in Turkmenistan when it bought UK independent and Turkmen oil producer Burren Energy in 2007 but neglected to pay the Turkmen authorities the courtesy of informing them of the takeover. Turkmen President Gurbanguly Berdimuhammedov signed a decree in January 2008 instructing his foreign ministry to impose a visa ban on all Eni employees. That ban has only recently been lifted (NC Dec.3,p10).

Since it started operating in Turkmenistan in 2002, Enx has built a strong relationship with the Turkmen leadership. The company's general director, Koen Minne, was in 2008 appointed Turkmenistan's honorary consul in Belgium. At Minne's last meeting with Berdimuhammedov, in January, the all-powerful Turkmen president praised Enx's "good reputation" in Turkmenistan. Official Turkmen news reports added that Minne briefed Berdimuhammedov on Enx's "new proposals to expand cooperation in the energy and petrochemicals spheres as well as in the sphere of energy-efficient technologies."

Enx has built a number of gas compressor stations at Turkmen

fields, including the giant Dauletabad deposit, and recently won a €2.2 billion (\$3 billion) contract in partnership with France's Schneider Electric to modernize the electricity supply in Ashkhabad, where power cuts have been a problem.

Enx is also interested in the contract for the proposed East-West gas pipeline, which at a cost of nearly \$3 billion would transport gas from the large fields in the east of Turkmenistan across to the Caspian coast. While the project

would help to create a cross-country backbone for a domestic supply network and potentially deliver gas for a future, large-scale trans-Caspian pipeline, the main reason behind the East-West line, namely to boost supplies to Russia via a proposed pipeline north along the Caspian coast, has lost its urgency as Russian demand for Turkmen gas has declined. However, the project is said to be on the agenda for discussion again in Ashkhabad in June.

**Michael Ritchie, London**

## Gunvor

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there. "That is the exclusive preserve of Transneft," Tornqvist said.

Transneft also has ambitions of owning export infrastructure. Following Russia's strategy of returning control over the country's ports to the state, the pipeline operator acquired 50% in the Baltic Sea port of Primorsk and aims to become a 100% owner of the crude oil terminal in Ust-Luga, the end-point of the Baltic Pipeline System-2 to be completed in 2011 (NC Jun.25,p5).

Transneft head Nikolai Tokarev still complains about the loss of control over the Black Sea port of Novorossiysk, which was allowed to fall into private hands in 2006 during the reign of the previous management at the pipeline monopoly. In its opposition to the port's owners, Transneft has even considered diverting flows from Novorossiysk to the nearby Caspian Pipeline Consortium (CPC) terminal, which would then have to be expanded to 100 million tons/yr (2 million b/d).

Gunvor also has plans at Novorossiysk, where it wants to build another fuel oil export terminal.

At Kozmino, Gunvor and companies associated with it have bought 18 of the 24 cargoes of the new Espo crude oil export blend that have been sold since the Pacific port started operations at the end of last year. Demand for Espo is starting to spread, with Unipek becoming the

first Chinese refiner to buy a cargo in a Rosneft's tender that closed last week (NC Feb.18,p1).

Gunvor's success tends to stir up strong feelings among other traders handling Russian crude, with some complaining that they cannot even get an invitation to participate in tenders to lift crude from Kozmino.

Some trading sources claim that complaints about Gunvor's "monopoly" have been voiced in the presence of Prime Minister Vladimir Putin and his deputy overseeing the energy sector, Igor Sechin. Whether those expressions of dissatisfaction will yield results remains to be seen. Gunvor co-owner Gennady Timchenko is believed to be an acquaintance of both men.

Gunvor and its affiliates — Waterway Petroleum and International Petroleum Products (IPP) — directly lifted 13% of Russian seaborne exports in January (see page 12). The actual volumes handled by the trader could be much bigger as it also buys crude from oil producers' first offtakers, including TNK Trade and Gazprom Neft Trading.

So far, Gunvor has not touched sales along the Druzhba pipeline, where a lot of traders continue to keep their niche, including Mercuria, Sunimex, Glencore, Vitol, Litasco, BMP Trading, Baltic Oil Invest, Altex and others.

**Michael Ritchie, London  
and Nelli Sharushkina, Moscow**