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More on the Azerbaijan, Belarus, Russia oil and gas confrontations

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Well the situation East of Georgia continues to evolve. I thought to begin there since, as mentioned in an earlier post, there are a number of small countries in the strip that runs south of Russia and over into China where oil and gas issues will make the nations a bit more internationally prominent. Consider, for example, Azerbaijan. It was only a couple of days ago that, in the face of Russia doubling the gas price that Azerbaijan cut off its oil flow to Russia. It shut down its oil exports in order to fuel some of the power stations that would no longer be supplied with the Russian gas. The original plan was to do this until the gas from the Shakh Deniz field becomes available in April (though that may now have slipped to June).

Interestingly gas from Shakh Deniz was also scheduled to be supplied to Georgia at a price of $120 per thousand cubic meters (tcm). This is just over half the price that the Russians have been asking. However, since Georgia needs about 2 billion cu m per year it will still need to buy 1.1 bcm from Russia at the higher price. Azerbaijan has been supplying around 80,000 bd of oil to Russia through the Baku-Novorossiysk oil pipeline which belongs to the Russian pipeline company Transneft. Part of the intent of the increase in price to Azerbaijan was, apparently, to reduce their ability to supply Georgia. Azerbaijan bought 4.5 bcm of natural gas from Russia last year at a cost of $500 million. Apparently the thought was that, at the higher price, Azerbaijan would have to cut back on imports, and thus have less to make available to Georgia. However, by switching their power stations to oil-burning, they appear to have thwarted this idea.

Natural gas from Shakh Deniz will be fed into the Baku-Tbilisi-Erzerum pipeline, which is almost ready to receive and deliver the gas. Note that this is a different pipeline to the recently completed Baku-Tbilisi-Ceyhan pipeline, which carries oil and which, between January and October carried some 4.8 million (though it does not say if this is tonnes or barrels).

Shakh Deniz has had a bit of a troubled start. Back in 2002, for example Rigzone noted that BP was delaying the start of the project, because of concerns with Turkey's commitment to buying the gas that would become available.

By December of last year test flows of gas had begun but there was still debate on the agreement between
Turkey and Azerbaijan, let alone letting some of the gas be sold to Georgia. Unfortunately also immediately after the field came on production there was a leak in the one well in production.

> Azerbaijan's Shakh Deniz gas field has halted production due to a leak, just after its launch by operators BP and Norway's Statoil this month, Azeri state energy firm Socar said on Tuesday.

The news is second major setback for BP in less than a month as the oil major was forced to cut oil production at the neighbouring Caspian Sea oilfield due to technical problems and reduce exports via a giant pipeline to Turkey. . . . . A gas leak was discovered on the first well ... Works have been halted and the problem is not expected to be resolved before January," Socar's first deputy head Khoshbakht Yusifzade told reporters.

Yusifzade said the leak had been discovered last week some 800-900 metres deep in the well, which was expected to pump 5.6 million cubic metres of gas and 2,500 tonnes of gas condensate a day.

It was the only well pumping gas from the field while more wells should be drilled next year. Socar's President Rovnag Abdullayev said the first well should resume production within 20 days or around mid-January.

Industry sources have said BP cut oil output by around 40 percent to 400,000 barrels a day at the giant Caspian Sea oil deposit called Azeri-Chirag-Guneshli or ACG, from early December. BP said production was back to normal on Dec. 13.In the meanwhile Georgia will still purchase some gas from Azerbaijan, though from other fields And it appears that the agreement with Turkey has finally been agreed

> As well as the 90-day Azeri contract, Georgia will see additional volumes arrive from Azerbaijan when gas starts to flow from Azerbaijan's Shah-Deniz field along a pipeline to Turkey from February.

Georgia will receive its own quota of 250 million cubic meters of gas per year at a price of $64 per 1,000 cubic meters, while Turkey has agreed to cede 800 million cubic meters of its 3 billion annual quota to Tbilisi at an undisclosed price.

And while some of the press is reporting that the dispute between Belarus and Russia is over, there are also reports that an agreement is not yet in place.

> Russian government spokespeople declined to confirm Wednesday reports that President Vladimir Putin and his Belarus counterpart Alexander Lukashenko had reached a compromise over their two countries' trade dispute.
> . . . . .
> However, representatives of the Kremlin press service, and the Ministry of Economic Development and Trade said they were unaware of any new developments. The news agency ITAR-Tass subsequently cited the Kremlin as confirming the two presidents had at least spoken to each other. Meanwhile Belarus has told Poland to be ready to start receiving oil again. Incidentally, should the problem continue for some time, there is a potential for some relief for the west, via the pipelines of Ukraine.
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> > Unsurprisingly, in reaction to the Belarusian-Russian conflict, Ukrainian officials of various levels made several statements, in particularly, that Ukraine was ready to replace Belarus and increase transit of both Russian oil and gas to Europe.

About 37,600 km of gas transporting pipelines with diameters of from 500 to 1400 mm and working pressure from 5.4 MPa to 7.5 MPa. The Russian gas is delivered to the country from several terminals located along the Russian border and from Belarus. Most of exported gas transits via Slovakia and then goes to other European countries. Apart from it, part of the gas is transported to Romania, Hungary and Poland (via Drohobych, Ukraine). Total amount of gas transit via Ukraine, most of which is sent to Western Europe, from the time of independence in 1991 increased from 118 billion cubic meters in 1991 to 140 billion cubic meters in 2002, after that it decreased up to 136 billion cubic meters in 2005. Under reports by Ukrainian Fuel and Energy Ministry, the figure is 78% from the Ukrainian system capacity. However the situation is not as useful in regard to shipping oil.

> The oil transporting network in Ukraine contains 19 main pipelines and has a capacity of 114 million tons per year at entrance and 56.3 million ton at exit. The oil transporting system consists of three main pipelines: Druzhba, Pridneprovsky and Odessa-Brody. The Druzhba pipeline, which became notorious in recent days, divides into two branches in Mozyr (Belarus) and its southern branch comes across nine Ukrainian provinces and reaches borders of Hungary and Slovakia. The rest pipelines have no exit to the western border. The Odessa-Brody pipeline has exit to Polish Plock on paper only and, in reality, runs into Druzhba.

As Russia paid much more attention to diversification of its oil export to Europe in comparison to gas export, amounts of oil transported via the Ukrainian territory have been decreasing starting from 92 million tons in 1991 to 46.7 million tons in 2005. So, for the Ukrainian oil pipelines, which are almost idle now, extra amount of procurement could have been a good Christmas gift, however, it is not clear, how such plan can be implemented in a technical way. In the meantime Hungary has started releasing oil from its strategic reserve, to cover the loss.