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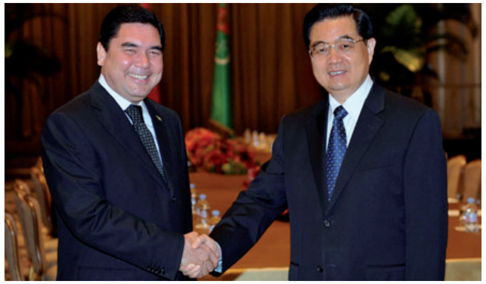

BERDYMUHAMEDOV AND HU: TRIUMPH FOR CHINESE PLANNING

Stung by China pipeline, Russia to resume imports of Turkmen gas

In what must rank as one of the greatest days in Turkmenistan's post-Soviet history, the heads of state of China, Uzbekistan and Kazakhstan joined hands with President **Gurbanguly Berdymuhamedov** to celebrate the start-up of the 7,000km Central Asia-China gas pipeline that will pump up to 40 billion cubic metres a year of Turkmen gas across Uzbek and Kazakh territory all the way to eastern China.

A triumph of Chinese strategic planning, the entire pipeline took just two years to build and with the minimum of fuss. To give a (perhaps unfair) comparison, over the same period the Nabucco project to pump Turkmen and Azeri gas across Turkey to Europe failed even to progress beyond the planning phase.

Just days after the China pipeline was opened, Turkmenistan agreed to resume gas exports to Russia after an eight-month stoppage. A deal was reached during a hastily-arranged visit to Ashgabat on 22 December by Russian President **Dmitry Medvedev**, who was accompanied by the powerful deputy prime minister **Igor Sechin** and senior **Gazprom** officials. Gazprom's deputy chairman **Alexander Medvedev** (no relation) said supplies would be resumed at the beginning of next year, no later than 10 January.

According to Gazprom's Medvedev, for the first time gas prices would be calculated using a formula based on average European prices, though Sechin said the actual price was a "commercial secret". Medvedev said Gazprom would buy up to 30 billion cubic metres of gas a year. Last year, Gazprom bought around 40 bcm of Turkmen gas at a price of $150 per 1,000 cm during the second half and $120 per 1,000 cm during the first half. But Turkmenistan more than doubled its prices at the beginning of the year, which made it almost impossible for Gazprom to make a profit on the sales.

Relations between Ashgabat and Moscow have soured since April, when a mysterious blast along the Turkmen stretch of the Central Asia-Centre pipeline caused supplies to be halted. The Turkmen government blamed the explosion fairly and squarely on Moscow and threatened to take the matter to the arbitration courts to compensate it for lost revenues.

Russia and Turkmenistan also discussed the opportunity for joint investment in energy projects, such as the construction of a new gas pipeline that would link Turkmenistan to Europe and joint exploration of offshore oil and gas deposits.

The inauguration of the Central Asia-China pipeline was held in mid-December at the remote settlement of Samandepe in eastern Turkmenistan, where the four leaders joined hands to turn the valve that powered the line into action and got the first gas moving towards China. China's President **Hu Jintao** called the pipeline's opening a "momentous event" and said it would help China strengthen its political and economic bonds with Central Asia. >>>

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Berdymuhamedov was just as effusive. He said that China, "through its wise and long-sighted policy, has become one of the key guarantors of global security". Uzbek strongman **Islam Karimov**, who also has a strong relationship with China, said the "geopolitical map is changing" and stressed that the pipeline would help Central Asia diversify its energy exports (away from Russia).

Samandepe, on the right bank of the Amu Darya river near the Uzbek border, will contribute 5 bcm a year of the pipeline's throughput from a gas treatment plant that was recently put into operation. The field is part of the Bagtiyarlyk contract area that was awarded to **China National Petroleum Corporation** under a 30-year production-sharing agreement signed in 2006 and is due to yield 13 bcm a year of gas in total. A second gas plant with an 8 bcm annual capacity is due to come on line at the Altyn Asyr field by the end of next year. The rest of the pipeline's throughput will come from fields operated by state **Turkmengas**, including Malai, and possibly from larger undeveloped structures such as Osman/South Yolotan and Yashlar.

The plan is for the pipeline to achieve full capacity by end-2013, though the exact timing will depend on how much Turkmen gas is made available. What is clear is that China needs as much gas as it can get its hands on to loosen the high proportion of oil in its energy mix. If there is a significant shortfall of Turkmen gas, it is always possible that Kazakhstan and Uzbekistan will move some of their own gas through the line.

There were other dignitaries present at the ceremony, including **Paolo Scaroni**, the head of Italy's **Eni**. His presence at such a high-profile event would have been unthinkable even a few months ago, when the Italian company was still subject to a watertight visa ban (see last issue). But since Berdymuhamedov got the red carpet treatment on a recent visit to Rome and met premier **Silvio Berlusconi**, Eni is suddenly flavour of the month in Turkmenistan.

Looking further east

Soon after joining hands with his Chinese counterpart, Berdymuhamedov paid his first official visit to Japan, where he met prime minister **Yukio Hatoyama**, Emperor **Akihito** and several business leaders including the heads of industrial giants **Mitsubishi** and **Kawaski**.

Since Turkmenistan gained independence in 1991, Japanese companies have been involved in some 23 investment projects in the country with a total value of some $780 million. So far, Japan's involvement in the Turkmen oil and gas sector has been minimal, though Japanese engineering firms such as **Chiyoda** and **JGC** were involved in the upgrade of the Turkmenbashi refinery in the late 1990s.

Kazakhstan

Kazakhs join the celebrations

A ceremony was also held in Kazakhstan to mark the completion of the Central Asia-China pipeline. In mid-December, Presidents **Hu Jintao** and **Nursultan Nazarbaev**, together with the top management of **Kazmunaigas** and **China National Petroleum Corporation** attended a ceremony to inaugurate the Kazakh section of the pipeline at the town of Otar, 128km from Almaty, The 1,300km Kazakh section was built jointly by **Asian Gas Pipeline Company**, a 50-50 joint venture between CNPC subsidiary **Trans-Asia Gas Pipeline Company** and KMG gas transportation arm **Kaztransgas**. Construction began in June last year, with more than 4,000 workers involved.

The pipeline will not just transit Turkmen gas to China; it will also allow some gas to be diverted to Kazakhstan's energy-hungry regions of Zhambyl, South Kazakhstan and Almaty. Under stage 2 of the project, which CNPC has >>>

agreed to carry out, the Beinei-Bozoi-Akbulak line will be built that will allow for a threefold increase in supplies to these three regions. The line, which will also be financed by the Chinese, is due for completion by the end of next year.

There is no question that China is now the dominant foreign power in Kazakhstan's oil and gas sector – its state companies now account for around 30% of overall Kazakh oil output of 1.5 million b/d. Last month, after months of delays, a 50-50 joint venture between CNPC and KMG called **Mangistau Investments** completed a $2.6 billion takeover of 110.000 b/d onshore producer **Mangistaumunaigas** when it bought out the 100% share owned by **Central Asia Petroleum** (CAP), a murky outfit registered in the British Virgin Islands which, according to several Kazakh industry sources, is owned by members of the First Family. CNPC already has full ownership of 120,000 b/d producer **Aktobemunaigas**, which it initially acquired in the mass privatisation of the late 1990s; a 67% interest in 150,000 b/d producer **Petrokazakhstan** which it bought from the Canadian company of the same name; CNPC also owns equity in smaller producers in the Turgai basin including **Aidan Munai** and **Kuatamlonmunai**.

Most of the oil from the CNPC-controlled producers is pumped east to China via the 200,000 b/d West-East pipeline that now runs all the way from the Caspian port of Atyrau, which is connected by pipeline to the Zhanazhol field in Aktobe. Work is now under way to double the capacity of the pipeline, which should be completed by 2013. The China-Kazakhstan pipeline, which is jointly owned by CNPC and KMG, also carries West Siberian crude which is pumped south via Omsk to the main junction of Atasu in the Karaganada region.

The 960km Kazakhstan-China pipeline, which started operations in July 2006, is connected to the Dushanzi refinery owned by CNPC's subsidiary **Petrochina** and recently upgraded to enable it to handle the waxy, low-sulphur Kazakh crude.

CNPC is not the only Chinese state oil company active in Kazakhstan. In the Mangistau *oblast*, the **Citic** group is joint owner with **KMG EP** of 40,000 b/d onshore operator **Karazhanbasmunai** which it acquired from Canada's **Nations Energy** in 2006 for over $2 billion. **Sinopec** has a very small presence in Kazakhstan, having several years ago taken over the upstream assets of Houston-based minnow **First International Oil Corporation**. More recently, the company closed a $320 million deal to acquire the production assets of privately-owned Kazakh operator **JSC Sunbe**. Sinopec has also signed a $1 billion contract with the Kazakhs to build a new processing unit at the Atyrau refinery, which would allow the plant to produce better quality gasoline as well as benzenes and other petrochemical products.

Another small upstream operator in Kazakhstan is **Zhenhua Oil**, the subsidiary of giant industrial group **Norinco,** which owns half of 10,000 b/d producer Kuatamlonmunai alongside CNPC in a joint venture called **Kunlun Investments**.

Banks get in on the act

Chinese state banks and sovereign wealth funds are also getting in on the act. This autumn, **China Investment Corporation** paid $939 million for an 11% interest in KMG E&P, having bought a block of the company's GDRs listed on the London Stock Exchange over a period of several years. And **China Development Bank** and **Export-Import Bank** provided half of the $10 billion loan that Beijing pledged to China at the beginning of the year to help it out of its financial crisis.

A momentous year beckons but problems persist

Next year will be one to celebrate for Kazakhstan as it prepares to become the first former Soviet republic to assume the chairmanship of the Organisation for Security and Co-operation in Europe (OSCE), the world's largest security body with 56 countries as members.

Kazakh President **Nursultan Nazarbaev**, who lobbied long and hard for Kazakhstan to get the job and obtained the crucial vote of Russia, has hailed the move as a sign of the republic's political maturity. But western analysts say Kazakhstan's failure to embrace democratic reforms, including free and fair elections, and its tendency to stifle free speech do not make it a worthy candidate.

The US, which remains a strong ally of Kazakhstan, is not entirely convinced: "We need to have conversations with the Kazakh government on the importance and the opportunity for them to use their chairmanship to address some of these concerns", US deputy secretary of state **James Steinberg** said recently.

While the OSCE chairmanship, which rotates each year, will give Kazakhstan some extra kudos it will not help resolve the economic problems that stem from the financial crisis of August 2007 and worsened following the collapse of oil and other commodity prices the following year. Kazakhstan's banks, which had billions of dollars in non-performing loans, were particularly badly hit and some of them – such as **BankTuranAlem** and **Alliance Bank** – have been effectively nationalised. Nazarbaev earned plaudits when he introduced a series of anti-crisis measures – including the creation of a new holding company, **Samruk-Kazyna** – that were designed to rein in excesses and inject more liquidity into the system. But the fact remains that, without the help of a $10 billion soft loan from China, Kazakhstan would be in a much worse state than it is now.

Kazakhstan, which produces around 1.5 million b/d of crude oil and is also rich in chrome, copper and various metals, remains as dependent as ever on commodities for its revenues, despite pledges by Nazarbaev to diversify the economy. The **European Bank for Reconstruction and Development**, which is a major investor in Kazakhstan, is one of the main international bodies urging the country to wean itself off commodities and has warned of the risks of another financial crash.

In terms of Kazakhstan's oil production, there is unlikely to be any significant change in output levels over the next two to three years. >>>

Production may actually start to drop off, as onshore fields such as Uzen and Emba continue to decline. The key date in Kazakhstan's calendar is late 2012, when the super-giant Kashagan field is due to come on stream after years of delays. Whether it does so is another matter entirely, with mid-2013 seen as a more likely start-up date. There is also the potential for additional production from the **Chevron**-operated Tengiz field, which has the capacity to produce more than 500,000 b/d and with further expansion could push output up to 800,000 b/d.

Another giant field yet to reach its peak is the **BG**/**Eni**-operated Karachaganak reservoir, which since April last year has been yielding healthy profits both for the partners and the host government. But there is still no firm decision on Phase 3, which would lead to a near-doubling of gas and condensate production. The partners would like the project to be carried out in stages, while the Kazakhs – hungry for long-term revenues – would prefer it to be done in one go. It now appears that the deadlock will be resolved, especially after BG/Eni withdrew a suit it had filed at the arbitration court in Geneva demanding the Kazakh government repay more than $1 billion levied from the imposition of an export tax last year.

If commodity prices start to bounce back, the Kazakh government has not ruled out the possibility of re-imposing export duties on oil and mining companies. But if prices fall the government will have to look at alternative means to raise revenues. One option, which is sure to encounter plenty of resistance, is for Kazakhstan to offer more flexible terms to international oil companies eyeing offshore acreage. Over the past few years, **Kazmunaigas** has signed plenty of upstream MOUs with the likes of **Statoil** but few deals have been finalised. One notable exception is the production-sharing contract that KMG signed with **ConocoPhillips** and Abu Dhabi's **Mubadala** to tap the Nursultan or N block in the North Caspian, a deal which has already yielded a $100 million signature bonus for the government. A contract for the block was finalised this summer, with appraisal work due to kick off next year.

KMG goes into the construction business to fulfil Italian accord

President **Nursultan Nazarbaev** has ordered **Kazmunaigas** to set up a new construction subsidiary to be headed by former prime minister and oil supremo **Nurlan Balgimbaev**.

One of the main jobs of the new unit, the **Directorate of Construction Enterprises**, will be to implement an agreement that was signed last month between KMG and Italy's **Eni** during Nazarbaev's official visit to Rome. The deal provides for the two companies to execute several projects, including the construction of a gas processing plant and gas turbine station; the upgrade of the Pavlodar refinery; working out a gas utilisation programme and carrying out joint exploration of two blocks in the Caspian.

This marks a comeback of sorts for Balgimbaev, who was appointed Nazarbaev's energy adviser over two years ago, after a long spell in the wilderness, but has done precious little since. Balgimbaev, a former boxer who comes from the Atyrau region, built up a close relationship with Eni during his time as oil minister and then prime minister and tried unsuccessfully to bring the Italians into the **Chevron**-led Tengiz project. He is perhaps best known for his long association with **James Giffen**, the former US oil consultant to Nazarbaev who for the past six years has been holed up in New York awaiting trial on corruption charges. Balgimbaev, who is believed to be 'KO-1' in the indictment, has been unable to visit the US because he would almost certainly be arrested on arrival.

Kulibaev ally to head Trade House

Daniyar Berlibayev, a close ally of **Kazmunaigas** chairman **Timur Kulibaev**, has been appointed the new chief of KMG oil marketing arm **Trade House** in place of **Daniyar Amangildin**. Berlibayev, who was most recently in charge of gas projects at KMG, has held several top positions including head of finance at KMG and head of shipping company **Kazmorntransflot**. He is also on the board of KMG's **Rompetrol** refining and distribution group in Romania.

Trade House, which has offices in London, Zug and Dubai, has expanded its portfolio in recent years by taking full control of the Atyrau refinery, acquiring KMG's 49.7% interest in the Shymkent plant and a 58% interest in Rompetrol. The company's main business remains selling Kazakh crude and products; it enjoys close ties with several western traders including Swiss traders **Vitol** and **Euro Asian**.

KMG EP hit by falling oil prices

The fall in world oil prices has eaten into the profits of **KMG EP**, which saw its net income during the first nine months of the year fall 17% year on year to $1.2 billion. The company, which is 38% owned by institutional investors and 62% by **Kazmunaigas**, saw a much sharper drop in its operating profit, which fell 67% to 107 billion tenge ($730 million).

Over the three quarters, KMG EP saw its oil production drop some 4.5% to 182,000 b/d, which it attributed to a reduction in drilling activity. Most of the company's output comes from the onshore Emba and Uzen fields, which are both in decline, but its acquisition of a 33% interest in 150,000 b/d producer **Petrokazakhstan** – which is due to be finalised at the end of the year – will provide a big boost to production levels.

KMG EP, which raised some $2 billion when it held its London IPO in September 2006, has its sights set on new acquisitions, such as its parent's 50% stake in onshore producer **Mangistaumunaigas**, as well as its 50% interest in the **KazTurkmunai** joint venture The company also has a strategic alliance with **BG** to look at joint opportunities outside of »»

Kazakhstan, but so far no specific projects have been publicly identified.

Case filed against uranium king

A grim year beckons for **Mukhtar Djakishev**, Kazakhstan's former uranium king, who has been languishing in prison since May after being arrested on corruption charges. In a sign that he is likely to be sentenced next year, Kazakhstan's state prosecutor filed a criminal court case against him alleging that he had embezzled state property during his several years in charge of state uranium firm **Kazatomprom**. According to the prosecutor's spokesman, Djakishev had stolen the tenge equivalent of $600,000 and also pocketed bribes from suppliers to secure procurement tenders.

The Djakishev case is part of a larger battle between Kazakhstan's leadership and the fugitive ex-banker and oligarch **Mukhtar Ablyazov**, who went into exile in the UK last year having been accused of siphoning off large sums of money during his time as head of one of Kazakhstan's largest banks, **TuranAlem**. Ablyazov, a controversial figure who became a leader of the opposition in the late 1990s and was later put behind bars, was a very close ally and former college roommate of Djakishev and had helped him broker some uranium deals with foreign operators such as Canada's **UrAsia**, now part of **Uranium One**.

When Ablyazov decided to launch an attack against President **Nursultan Nazarbaev** from the safety of exile, he left Djakishev and other members of his network seriously exposed. So it came as no great surprise when Djakishev and other key members of Kazatomprom were sacked and later arrested. Djakishev was replaced by the genial ex-energy minister **Vladimir Shkolnik**, regarded as a safe pair of hands and a loyal servant to Nazarbaev.

Since the financial crisis that hit its peak at the end of last year, Nazarbaev has announced a clampdown on corruption and has threatened harsh reprisals against those who abuse their positions for personal gain. But his detractors say this cleaning-up campaign will never apply to members of Nazarbaev's family, who continue to build up vast business fortunes. These include his eldest daughter and potential successor, **Dariga**, and his son-in-law **Timur Kulibaev**.

Copper producer sells power plant stake

In a further move to reduce its debts, UK-listed Kazakh copper firm **Kazakhmys** will sell another 25% stake in the **Ekibastuz** power plant – Kazakstan's largest – to state holding firm **Samruk-Kazyna**. Kazakhmys will sell the equity for $342 million, roughly the same price that it paid Samruk for the 25% stake in the plant it sold in October.

Kazakhmys chief executive **Oleg Novachuk** says the deal is in line with an agreement reached last year under which the two companies agreed jointly to operate the plant, which lies close to the Russian border. Novachuk said the partners would share the seats on a new supervisory board, with management positions to rotate every five years.

For Samruk-Kazyna, which is headed by President **Nursultan Nazarbaev**'s former chief of staff **Kairat Kelimbetov**, owning half of Ekibastuz will increase synergies with the nearby Bogatyr coal mine, which it owns in partnership with Russian metals giant **Rusal**. Bogatyr supplies Ekibastuz with 80% of its coal requirements.

Kazakhmys, which in 2005 became the first Kazakh-owned company to obtain a full listing on the London Stock Exchange, plans to concentrate on its core copper business, which after a very rocky 2008 is starting to pick up. Over the next five to six years, the company plans to invest some $4 billion in its copper deposits in Kazakhstan and an additional $1 billion on expanding its processing facilities. Kazakhmys sells a large portion of its copper production to China, which receives the product delivered by rail at the border.

Regional focus

Afghanistan surge a boon for Central Asia

The decision of US President **Barack Obama** to send 30,000 more US troops to Afghanistan looks certain to increase Central Asia's importance as a transit hub for supplies for American and Nato forces. Violence in the Afghan-Pakistan border areas, including the targeting of truck convoys by the Taliban, has forced the US to re-route supplies – including jet fuel – via the Central Asian republics. With Iran out of bounds, the only question is whether there is the logistical capacity for Central Asia to handle all the extra traffic.

The country likely to benefit most from the beefed-up US military presence in Afghanistan is Uzbekistan, which is already the main overland route for goods crossing the border. Increasing volumes of jet fuel – which is used for tanks and other military vehicles – are passing through the border town of Hairaton on their way to the Bagram airbase north of Kabul. Fuel, which is mostly of Soviet-era TS-1 quality, is sourced primarily from Kazakhstan's Shymkent refinery, Turkmenbashi in Turkmenistan and Baku in Azerbaijan.

Russia has imposed a ban on all TS-1 being sold for military purposes, but some refineries are known to flout it. Among the companies supplying the US military are a little-known outfit called **Red Star Enterprises**, which has good connections with the US military, and Dubai-based **Supreme Fuels**.

Another key supply point for the US military effort in Afghanistan is the Manas airbase in Kyrgyzstan, which has facilities – including a long runway – that are invaluable to the Pentagon. The main contract to refuel planes flying in and out of Afghanistan is held by Red Star. >>>

Dragon takeover bid nixed by minority shareholders

The planned takeover of UK-listed **Dragon Oil** by its main shareholder, Dubai-owned **Emirates National Oil Company** (Enoc), has been torpedoed by the company's minority shareholders. Enoc's planned acquisition of a 48.5% stake in Dragon, which valued the company at $2.4 billion, was blocked by more than half of the minority stockholders, including investment funds **Baillie Gifford**, **Carmignac Gestion** and **Noster Capital**. For the deal to get the all-clear, 75% of minority shareholders needed to give their approval.

Since Enoc submitted its offer this summer, minority shareholders had launched a concerted PR campaign to put the kybosh on the deal. Their main argument was that the takeover bid significantly undervalued Dragon and did not take full account of proven oil and gas reserves. After the takeover plan was defeated, Dragon Oil – which was advised by **HSBC** – defended it by stressing that it offered a "fair and reasonable price" for the minority stake. When the rejection was made public, Dragon's share price on the London Stock Exchange fell from 388p to 360p in short order before staging a slight recovery.

So what happens next? Enoc, which is 100% owned by the cash-strapped Dubai government and could conceivably be sold along the road to help clear Dubai's debts, has made it very clear that it will not accept any offer for Dragon, including a partial one, until the end of 2011. This means that it will have to continue pumping money into building up production at the offshore Cheleken area in Turkmenistan, which is producing around 50,000 b/d (gross output) and has proven and probable oil reserves of over 600 million barrels. New wells are now being drilled, with the Iranian Khazar rig recently drilling a new well at the Dzheitune field, which is now producing over 2,000 b/d of oil. Dragon also recently spudded a well using the Astra jack-up rig.

The takeover snub marks the end of a difficult year for Dragon, which with the help of **KPMG** has carried out an in-house investigation into allegations of corruption in its marketing and procurement departments. At least one former employee has been arrested as a result of the probe, while the company's management has undergone a shake-up. Dragon's management, led by ex-**Aramco** man **Jamal Al-Khalifa**, will be hoping for a much smoother ride in 2010.

CPC shareholders celebrate expansion agreement

After years of delays and frustration, the private shareholders in the **Caspian Pipeline Consortium** (CPC) have been given an early Christmas present: unanimous approval of the long-mooted plan to double the capacity of the 1,580km, 650,000 b/d oil pipeline that runs from Kazakhstan's super-giant Tengiz field to a terminal outside the Russian Black Sea port of Novorossiysk.

A decision on expansion was finalised at a CPC shareholders' meeting in Moscow in mid-December and was announced by Russian state pipeline operator **Transneft**, which manages the 31% stake in the group held by the Russian government. The last remaining obstacle towards approval was cleared when **BP**, which had held up the deal on commercial grounds, sealed an agreement with Russian giant **Lukoil** to sell its 46% stake in the **LukArco** joint venture for $1.6 billion.

LukArco, which was established in 1997 by **Arco** before it was acquired by BP, holds a 6.6% stake in CPC as well as a 5% interest in the **Chevron**-led **Tengizchevroil** joint venture in Kazakhstan. Lukoil, which already holds a 54% in LukArco, will pay the cash in three instalments in the course of the next two years and will repay a $43 million loan owed by LukArco to BP.

The expansion of CPC to a capacity of 67 million tons a year or 1.35 million b/d will be carried out in three phases with a planned completion date of 2014. The entire project will involve building 10 extra pump stations, of which eight will be in Russia; construction of six crude oil storage tanks near Novorossiysk and a third single point mooring at the marine terminal. Phase 1, due to be implemented in 2011, will enable 500,000 b/d of Kazakh crude to flow through the pipeline; Phase 2, for completion in spring 2012, will raise Kazakh throughput to 700,000 b/d, while the third and final phase would enable Kazakhstan to pump up to 1 million b/d of crude. Russian producers would continue to inject crude into the pipeline at a 130,000 b/d rail loading facility at Tikhoretsk, which is operated by Dublin-registered **Trumpet**. >>>

CPC shareholders

Russian Federation - 24%
Kazmunaigas - 19%
CPC Co (Russia) - 7%

Chevron Caspian Pipeline Consortium Company - 15%
LukArco - 12.5%
Mobil Caspian Pipeline Company - 7.5%
Rosneft-Shell Caspian Ventures - 7.5%
BG - 2%
Eni - 2%
Kazakhstan Pipeline Ventures - 1.75%
Oryx Caspian Pipeline - 1.75%

CPC exports, January-November 2009

MONTH	TONS	BARRELS
November	2,836,594	22,271,990
October	2,940,853	23,071,494
September	2,847,271	22,379,768
August	2,830,654	22,200,030
July	2,948,994	23,145,022
June	2,847,825	22,312,744
May	2,706,727	21,202,613
April	2,852,699	22,351,674
March	3,043,979	23,798,332
February	2,711,765	21,240,746
January	3,009,648	23,601,537

Next year will see the start of front-end engineering and design work, plus the receipt of all necessary permits. Trumpet, a subsidiary of Russian state giant **Rosneft**, markets the oil, equivalent to around five cargoes a month, via Swiss-based trading firm **Gunvor**.

Expansion will cost around $4.5 billion, with most of the financing to be raised by CPC's private investors, which own 50% of the consortium's shares. Under an agreement that was reached last year, CPC's tariff was raised to $38 a ton from $30.24 and this will remain unchanged throughout the period of expansion. An interest rate of 6% a year on CPC loans to its private shareholder will also remain the same.

The agreement on expansion is a major milestone and it would never have happened had Russia, which now effectively controls the consortium, not dropped its long-standing opposition to the project. For several years, Russia and especially Transneft viewed CPC as a competitor and was determined to block expansion. Now Russia is in the driving seat - it occupies the post of general director (held by ex-diplomat **Vladimir Razdukhov**) and last year acquired the 7% stake held by **Oman Oil Company** - its reservations about expansion have evaporated.

Shipments of CPC Blend crude oil out of Novorossiysk have been averaging more than 700,000 b/d this year due to the debottlenecking of the pipeline. Most of the blend, which consists chiefly of 47° API Tengiz crude, is sold to refiners in Europe including **ExxonMobil**, BP and **OMV**. CPC Blend usually sells at a premium to Benchmark Dated Brent.

BTC ships 1,000th cargo but still below capacity

Three and a half years after it came into operation, the **BP**-operated Baku-Tbilisi-Ceyhan oil pipeline is still operating below its 1 million b/d capacity, due to lingering problems at the offshore Central Azeri field that date back to autumn last year. According to a BTC loading schedule for January 2010, just 22.6 million barrels or 730,000 b/d are due to be loaded at the Turkish Mediterranean port of Ceyhan, almost 100,000 b/d down from projected December volumes.

As usual, the dominant exporter out of Ceyhan next month will be **Socar**, which under the terms of the Azeri-Chirag-Guneshli (ACG) production-sharing agreement is entitled to sell up to 80% of the 'profit oil' on behalf of the government of Azerbaijan. Socar also markets most of the barrels lifted out of the Georgian Black Sea port of Supsa pumped via the 100,000 b/d Baku-Supsa pipeline, also operated by BP. There will be one VLCC loading at Ceyhan next month which has been chartered by BP, plus a handful of 1 million barrel shipments.

In mid-December, the BTC terminal passed a milestone when it loaded its 1,000th cargo - on board the British Kestrel – since coming into operation in the summer of 2006.

One notable change in the January programme is that there will be no oil from Kazakhstan going into the pipeline. Since the autumn of 2008, the **Chevron**-led **Tengizchevroil** (TCO) joint venture has been shipping its oil across the Caspian to the BTC entry point of Sangachal outside Baku and, in exchange, lifting one or two cargoes of Azeri Blend at Ceyhan. But TCO may have decided that it can make more money selling its oil in its pure, unadulterated form by sending it by rail to the Black Sea ports of Batumi, Odessa and Feodosiya. »»

Ceyhan loadings, January 2010

DATE	LIFTER	'000 BARRELS
2–4	Socar	1,000
3–5	Socar	800
4–6	Statoil	600
5–7	Socar	800
6–8	Socar	800
7–9	Socar	800
8–10	Inpex	1,000
10–12	Socar	1,000
11–13	Socar	800
12–14	Socar	800
13–15	Socar	800
14–16	Chevron/Devon	600
15–17	Socar	800
16–18	Socar	1,000
18–20	Socar	800
20–22	Socar	800
21–23	Socar	800
22–24	BP	2,000
23–25	Socar	800
23–25	TPAO	600
25–27	Socar	1,000
26–28	Socar	800
27–29	Socar	800
28–30	Socar	800
29–31	Statoil	1,000
30–1	Socar	800
Grand total		**22,600**

Socar Trading expands its role

This year has witnessed the expansion of Geneva-based **Socar Trading**, which was established in early 2008 to handle the bulk of Azerbaijan's ACG profit oil as well as some of Socar's product exports. Under the leadership of ex-**Lukoil** man **Valery Golovushkin** and with a helping hand from Turkish shipping firm **Palmali**, Socar Trading has embarked on a mission to become a global trading firm with diversified sources of supply.

This year, the company won tenders to market crude oil from Turkmenistan, including **Petronas**'s share of production from offshore Block 1 for the whole of next year. It is also being tipped to win a tender for Cheleken crude oil. Socar Trading is expected to deliver the crude west to the Black Sea ports of Batumi or Kulevi, the latter of which is majority-owned by Socar. Socar Trading has also got its hands on the occasional cargo of North African crude oil, but only by paying very high numbers, market sources say.

There is a division of labour of sorts between Socar Trading and the company's marketing division in Baku which is overseen by **Elshad Nassirov**, a close friend of President **Ilham Aliev**. Socar Baku still awards regular Azeri Light cargoes each month, which are sold to a select group of traders including **Arcadia** and **Mercuria**. The company's preferred client is **Sumato Energy**, an obscure outfit based in New Zealand which has no other business apart from buying Socar cargoes. Sumato recently set up a subsidiary in Geneva, possibly to improve co-ordination with Socar Trading.

Batumi ends challenging year on a high note

It has been a good end of the year for Georgia's Black Sea port of Batumi, which in November saw oil throughput increase 11% compared to October to 637,000 tons and a year-on-year rise of 14%. Batumi, which is 100% owned by **Kazmunaigas**, still relies heavily on shipments of Azeri Light provide by **ExxonMobil** under a long-term supply deal. The terminal also handles one or two 80,000-ton cargoes of Tengiz crude supplied by TCO and Kumkoil crude contributed by Swiss trader **Euro Asian**.

Next year is set to be another challenging one for Batumi, which has seen its dominant position steadily eroded by the new terminal at Kulevi, which has been cranking up throughput since coming into operation last year. Majority-owned by Socar, Kulevi handled around 1.4 million tons of oil products last year, a large chunk of which was supplied by **Middle East**, the Dubai-based firm which has a minority shareholding in the facility.

This year, exports are likely to be more than double that amount though the terminal's ability to attract crude oil shippers from Azerbaijan and Kazakhstan is constrained by draft restrictions; at present, Kulevi cannot handle vessels of 80,000 dwt, which Batumi does on a regular basis, though dredging work to widen the port's channel is due to be completed next year.

Kulevi has a total capacity of 10 million tons a year, split between 3 million tons for crude, 3 million tons for gas oil and 4 million tons for fuel oil and naphtha.

Socar, which wants to establish itself as a major downstream player in the Black Sea, financed the purchase of the Kulevi terminals with the help of bank loans from **ABN Amro** (now part of **RBS**) and **Société Générale**. Both credit lines will be repaid from the proceeds of the sale of ACG profit oil by Socar.

The sole shipping agent at Kulevi is Palmali, the Turkish-based shipping firm headed by Azeri tycoon **Mubariz Mansimov** which owes much of its success to its close relationship with Russia's Lukoil and its Azeri-born founder **Vagit Alekperov**.

Iran

Tougher sanctions loom

It seems almost certain that Iran will be clobbered with tougher sanctions at the beginning of next year over its continued refusal to make concessions on its nuclear programme. But, with Iran able to generate over $60 billion a year from its crude oil exports, it's difficult to see what effect – if any – the tighter sanctions will have on its behaviour. If anything, a tightening of the screws could make Iran more uncompromising and increase the possibility of a serious confrontation with the western powers.

What form will these extra sanctions take? One option under discussion in Washington and European capitals is a ban on shipments of gasoline, which currently make up over one-third of Iran's overall consumption. In January, the US Congress is likely to take matters into its own hands by passing a new bill called the Iran Refined Petroleum Sanctions Act, which targets companies that supply the product and the insurers who underwrite the trade. Lawmakers, who are being given plenty of encouragement by the powerful pro-Israeli lobby, believe the new bill – if implemented properly – will make Iran think twice about the wisdom of pursuing its nuclear plans. But the view among US and European diplomats is that nothing positive will be achieved by choking off Iran's gasoline imports and that the only people who really suffer from such sanctions will be the Iranian people.

For most of the year, Iran's gasoline imports have been running at around 120,000 b/d, with the product delivered in 30,000-35,000 ton cargoes to the Gulf ports of Bandar Mahshahr and Bandar Abbas. The two dominant shippers have been Swiss traders **Vitol** and **Trafigura**, which between them have accounted for some two-thirds of the overall volume and source the product largely from the UAE, where they operate storage facilities and, in Vitol's case, own a refinery. Vitol has been the dominant gasoline supplier to Iran for more than five years and is also the main player in the Caspian swaps business (see below).

But, in what may be a reaction to US-led pressure to stop doing the business, both Vitol and Trafigura have throttled back on shipments and allowed other companies to step into the firing line. These include Malaysia's state-owned **Petronas**, which in December supplied at least three cargoes; Kuwaiti private trader **IPG**; Swiss trader **Glencore**, and **Total** of France. >>>

In any case, Iran has been making contingency plans to deal with a potential reduction in its gasoline imports. In recent months, **National Iranian Oil Company** has been blending different petrochemical products to produce an artificial gasoline which, though very high in pollutants such as MTBE, can be used by motorists. Iran's longer-term plan is to upgrade its existing refineries to improve their gasoline yield, and to build one or two new ones on its Gulf coast.

Any new sanctions on Iran are unlikely to affect its imports of Caspian crude oil, which in recent months have bounced back to up to 100,000 b/d due to the improving economics of the swaps, under which companies shipping crude to Iran are entitled, after paying a fee of $1.50-2/barrel, to lift a similar volume of Iranian Light at Kharg Island.

The biggest shipper by far remains Vitol, which puts in as much as 50,000 b/d of Kazakh crude under a marketing deal with **Kazmunaigas**, plus additional barrels from Turkmenistan. In second place is **Dragon Oil** (see below), which ships around 80% of its net production from Turkmenistan to Iran. The other, much more sporadic, shippers to Iran are **Litasco**, the Geneva-based trading arm of **Lukoil**, which after a long break resumed supplies some two months ago; and **Select Energy Trading**, the Hamburg-based trader which is the most recent addition to the list of companies with a swap contract with NIOC's trade finance subsidiary **Naftiran Intertrade Company** (Nico).

Where sanctions have hit Iran hard is in squeezing its access to external finance, which the country needs to fund new projects such as the upgrade of refineries. Almost all European banks have stopped doing business with Iran, including opening letters of credit, leaving Asian banks – especially from China and Malaysia – as the only viable source of borrowing. There is some trade finance coming from Switzerland's **Banque Cantonale de Geneve**, which has an existing credit line with Nico.