
ENERGY BRIEF

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UKRAINE, AZERBAIJAN SIGN LNG COOPERATION ACCORD

Ukraine and Azerbaijan on January 28 signed a memorandum of cooperation for the supply of LNG to a regasification terminal that Ukraine plans to have in operation by 2015. The agreement was signed in Davos, Switzerland, during the course of the annual World Economic Forum following a meeting between Ukrainian President Viktor Yanukovich and Azerbaijani President Ilham Aliyev.

The document did not specify whether the natural gas would be supplied by Azerbaijan, or the volume. Azerbaijan is a partner in the Azerbaijan-Georgia-Romania-Interconnector (AGRI) LNG project, which plans to build an LNG facility at Kulevi on Georgia's Black Sea coast and ship LNG to Romania. The agreement with Ukraine suggests that the LNG would come from the proposed AGRI facility. The plant would process 5-7 billion cubic meters/year (bcm/y) into 3.6-5.1 million tons/year of LNG. A start up date has yet to be established, but it would probably not come on-stream until later this decade following the development of more gas reserves in Azerbaijan.

Keen to reduce its dependence on Russia for practically all its natural gas imports, Ukraine plans to bring a LNG regasification terminal into operation by 2015 with a capacity to process 5 bcm/y. The terminal may be expanded to 10 bcm/y by 2016.

Ukraine uses about 60 bcm/y of which 20 bcm/y is produced locally and up to 40 bcm/y is supplied by Russia. About 80% of Russia's gas supplies to Europe – some 110 bcm/y – are shipped through Ukraine's vast pipeline network.

The cost for the LNG terminal is estimated at around \$4 billion. Odessa is seen as the most likely location for the terminal, but Ochakov in the Mykolayiv region and Feodosia in the Crimea are other possible sites. The Ukrainian government has said its stake in the project could be as low as 5-10% or it could take up to 51%, but it has expressed a preference for private investment. The government said it would endeavor to form a consortium to finance and build the terminal in 2011.

Ukraine is expected this month to launch a tender for the construction of the LNG terminal and officials have stated that as many as 20 companies have expressed an interest. Results of the tender are to be announced in late June. Officials add that construction of a tanker fleet to supply the terminal is also under consideration.

Besides Azerbaijan, Kiev considers Algeria, Libya, Egypt and Qatar as possible sources of supply. Contracts are expected to be finalized in early 2013.