Oil & Gas Bulletin

► 19.04.2013

KRG poised to pipe oil to world via Turkey

Oil&Gas Eurasia (Reuters), *17.04.2013*

Northern Iraq will be ready to export its crude oil directly to world markets via Turkey within months after a new pipeline is completed, a move likely to deepen a row with Baghdad over the distribution of Iraq's hydrocarbon revenues.

The Kurdish Regional Government (KRG) is on track to finish the pipeline in the third quarter, linking Taq Taq oilfield with Iraq-Turkey pipeline. Turkey has given the green light to the plan, under which oil will enter the Kirkuk-Ceyhan pipeline at Fishkhabur pumping station near the Turkish border, from where it will flow directly to Turkey's southern port of Ceyhan for shipping to international markets.

The move will help KRG significantly increase its oil exports but could upset the Iraqi central government, which sees independent exports from the north as illegal and says growing trade between the KRG and Turkey threatens to split Iraq. Oil is at the heart of the fight between the Arab-led central government in Baghdad and the ethnic Kurdish-run northern enclave, which dispute control over oilfields, territory and crude revenues shared between the two regions.

Washington, wary of the divisions between Baghdad and the autonomous region, has urged passage of a long-delayed national oil law to resolve the standoff, which has intensified since the last U.S. troops left in December 2011. "The new pipeline will be linked to the Kirkuk-Ceyhan line", said one Ankara-based industry source familiar with the matter. "Naturally, once they can export via a pipeline and no longer have to truck their oil to the border, the volumes will rise."

The new pipeline was originally designed as a gas pipeline but KRG Energy Minister Ashti Hawrami said it was to be converted to carry oil, a move which had helped Genel Energy to bring its plans of pipeline exports by 2014 forward, sources said. Genel declined to comment on the issue. Sources said the pipeline has been laid up to Dohuk and is currently 80 percent complete. It will be able to carry up to 300,000 barrels per day (bpd) and is being built by a Turkish contractor. Kurdish crude used to be moved to world markets through a Baghdad-controlled pipeline to Turkey, but exports via that channel dried up last year as a result of a row over payments. Crude pumped from the Taq Taq oilfield has instead been trucked over Iraq's northern border with Turkey, bypassing Iraq's federal pipeline system.

Baghdad has said it alone has the authority to control exports and sign contracts, while the Kurds say their right to do so is enshrined in Iraq's federal constitution. But Iraqi Prime Minister Nuri al-Maliki softened his tone earlier this month, saying Iraq welcomed any step towards rapprochement with Turkey on the basis of shared interests, mutual respect and good-neighborliness.

But the hopes of reconciliation could be tested again when the new pipeline is online and the issue of how to distribute revenues between the KRG and Baghdad becomes an even more pressing issue, sources say. “I think that would require an agreement with Turkey, the KRG and Baghdad,” an industry source said. “Where will the money for the oil exports be paid and who will sell the crude from Ceyhan all of these issues will have to be finalized with a written agreement.”

Turkey has said it could play an active role in settling the payment problems between the KRG and the central government in Baghdad. Turkish Energy Minister Taner Yildiz said earlier this month Turkey stood ready to support an arrangement under which 83 percent of oil export revenue went to Baghdad and the remaining 17 percent to KRG. “Turkey will respect the sensitivities of both Baghdad and Arbil and will make sure both sides receive their shares from the oil revenues as stated in the Iraqi constitution,” a Turkish official said. Another Turkish official said opening an escrow account in Turkey into which Iraq’s oil export revenues could be deposited would be a huge step in making sure they are fairly distributed. “Turkey could help Arbil and Baghdad to overcome this problem,” the official said.

For over a year, Kurdish Region has upset Baghdad by signing deals with oil majors such as Exxon Mobil and Chevron , providing lucrative production-sharing contracts and better operating conditions than in Iraq’s south. Earlier this week, KRG called on Washington to accept its negotiations with neighboring Turkey as a way to get its oil to market rather than seeing it as a threat to Iraq’s unity. “The KRG’s relationship with America’s NATO ally Turkey over energy should not be a concern to our U.S. partners. Iraq’s unity and upholding the federal constitution are central to all discussions with Turkey,” KRG’s Hawrami said in a statement.

He said Kurdish Region would seek a dialogue with Baghdad to resolve outstanding energy issues based on the federal constitution. The KRG is entitled to make exports happen and prefers to do so with Baghdad, he said. “We need to get oil from the Kurdish Region, and more widely from northern Iraq, to market. By 2019, over 3 million barrels per day of oil could flow through Iraq’s northern energy corridor to Turkey and the international market,” Hawrami said. Iraq’s central government says Kurdish Region is expected to provide 250,000 bpd towards Iraq’s 2013 oil export target of 2.9 million bpd. In 2012, the KRG was to contribute 175,000 bpd to the federal budget, but realized an average of only 61,000 bpd.

Leviathan gas may see Cyprus route

Upstream Online, *16.04.2013*

Noble Energy's director of LNG development Gerald Peereboom suggested at the LNG 17 conference in Houston on Tuesday that natural gas from the giant 18-trillion-cubic-feet Leviathan field off Israel could be routed to Cyprus for liquefaction.

Peereboom said the option was just one of many for the growing size of gas fields in the eastern Mediterranean. He said total discoveries made to-date off Israel amount to 30 Tcf. The Cyprus A-1 well discovery made in December 2011 carries a gross mean estimate of 7 Tcf.

Pre-front-end engineering and design studies of the Leviathan development are already under way by French contractor Technip and similar work is understood to be going on for Cyprus. At Leviathan the phase one concept entails a single floating production, storage and offloading vessel capable of handling 1.6 Bcfd. Gas would be pumped to shore via a 750 MMcfd capacity pipeline. However, the choice of landfall in Israel is limited, as most of it is reserved for tourism, according to Peereboom.

Peereboom said at least three 5 mtpa trains and two storage tanks are envisaged for Cyprus. They would be fed by a 20-inch diameter, 185 kilometer-long pipeline from the Cyprus A or Aphrodite gas discovery in Block 12 to shore. Peereboom said he believed gas from Israel and Cyprus will become an important source for Asia or Europe. LNG will be "very competitive" with alternative sources and FLNG "equally competitive", he said. "I'm sure there will be more gas found in this prolific basin," Peereboom summed up.

OMV takes RWE's Nabucco stake

Upstream Online, *15.04.2013*

OMV has bought German utility RWE's nearly 17% stake in the Nabucco pipeline project that aims to bring Caspian gas to Europe. Reuters quoted an OMV spokesman confirming media reports about the sale but gave no financial details.

RWE also confirmed the stake was transferred on 1 March but gave no price or other details. "You can be pretty sure that this is not going to be the final (Nabucco) shareholder structure as it is today," the OMV spokesman told Reuters. OMV chief executive Gerhard Roiss had said in December that talks with RWE on a sale was under way.

Nabucco West eyeing new partner

Upstream Online, *16.04.2013*

Stakeholders in the proposed Nabucco West pipeline are in talks to bring onboard at least one other European partner for the project.

"We definitely expect further evolution of the shareholder structure," Nabucco West chief Reinhard Mitschek told. "I expect one or other European companies will join the consortium. There is no indication any partner will leave," he added. Gerhard Roiss, chief executive of Nabucco's biggest shareholder OMV, said: "There are interested partners who would like to join. There are also talks on this, but I cannot say who would like to join because it's confidential."

Bringing new partners on board could help ease concerns about the dominance of state-controlled companies in the consortium after German utility RWE sold its nearly 17%stake to OMV earlier this month and another potential German partner, Bayerngas, said it would not join. Nabucco West's other shareholders are Bulgaria's BEH, Botas of Turkey, Hungarian energy company MOL and Romania's Transgaz.

The Shah Deniz group, led by BP and Norway's Statoil, has said it will announce by the end of June whether Nabucco West or the rival Trans Adriatic Pipeline (TAP) will be chosen to deliver gas from the Azeri field. Mitschek said he did not expect any current Nabucco West shareholders to leave either before or after that decision. The projects are strategically significant because they would reduce European energy dependence on Russia, which provides around a quarter of the continent's 500 billion cubic-metre annual gas consumption.

Russian gas monopoly Gazprom's supplies to Europe have been disrupted in the past due to pricing disputes with transit countries such as Ukraine. Analysts have said Nabucco West project would serve the most Russian-reliant regions, in central and southeast Europe, better than TAP. But they also say that TAP's shareholder structure - comprising Switzerland's Axpo Holding, Germany's E.ON Ruhrgas and Statoil - is better than Nabucco's because it is less state-dominated.

The Nabucco West project was earlier scaled back and renamed from the former Nabucco due to more limited supplies from Central Asia and is now planned at half the size of the original $12 billion pipeline, with capacity of 32 billion cubic meters, backed by the European Union. TAP initially aims to have a capacity of 10 Bcm, which could be increased to 20 Bcm in time. Production from Shah Deniz 2 is expected to begin in 2018 or 2019 and rise to 16 Bcm per year, with 10 Bcm earmarked for Europe and 6 Bcm for Turkey.

Shell looks to double down on gas trade

Upstream Online, *16.04.2013*

Shell is looking to further expand its position in the global gas business and is currently considering investment options totaling more than 20 million tons per year of LNG projects.

Shell is doubling down on the global gas trade, which already brings in more than $9 billion per year about 40% of the company's bottom line through investment in LNG and gas-to-liquid facilities. Shell has already struck a deal to buy Repsol's LNG assets in Peru and Trinidad&Tobago for $4.4 billion, plugging a gap in LNG portfolio by giving it access to gas supply in the western Atlantic and eastern Pacific, said Maarten Wetselaar, executive vice president of integrated gas.

Shell sees gas as the only power source that combines what its executives dubbed "the three A's" – availability, affordability and acceptability, Andy Brown, upstream international director, said at the LNG 17 conference in Houston. Gas will play an increasing role in both the global energy business and Shell's portfolio into the future, he added. The company has pioneered the use of floating LNG at its Prelude project, a concept that was considered incredibly expensive and technically challenging when it was first announced but something that is now a cornerstone of Shell's LNG strategy moving forward. Shell and its partners are looking at FLNG facilities for the Inpex-operated Abadi project off Indonesia and believe it is the best option to re-start the stalled Browse LNG project off Australia.

FLNG is also the base development concept for the Sunrise project on the maritime border of Timor Leste and Australia. While the emergence of shale gas production in the US has upended the global LNG market, Shell ultimately sees shale gas as helping - not hindering - the global LNG trade. "We believe it reinforces (LNG)," Brown said. "Because of the abundance of gas, gas can now be planned on as a long-term energy solution." Part of that long-term solution will involve getting more natural gas into the transportation sector. "We are extremely excited about LNG in transport," Brown said. Shell has already begun work in Canada to make LNG available in trucking corridors and on Monday announced a partnership to do the same in the US.

In Europe, the company is supplying LNG to vessels both on the ocean and on inland waterways. Shell estimates that the equivalent energy of about 1 billion tpa of LNG is used in the heavy truck and marine transport sector by 2025 and if just 10% of that were converted to actual LNG fueling, the market impact would be enormous, Brown said.

Japan begins drilling for oil in Sea of Japan

E&P, *15.04.2013*

Drilling for oil in the Sea of Japan has commenced and will continue for about three months. Citing the Natural Resources and Energy Agency, the media outlet said the project is underway about 30 km southwest of Sado Island in Niigata Prefecture to drill a well up to 2.7 km below the seabed and could be one of the largest oil and gas deposits for the country.

Contractors for the project are JX Nippon Oil & Gas Exploration Corp. and Japan Oil, Gas and Metals National Corp. The Chikyu deep sea drilling rig is being used in the project.

Plans stall on Iraqi pipeline to Egypt

Oil&Gas Eurasia, *16.04.2013*

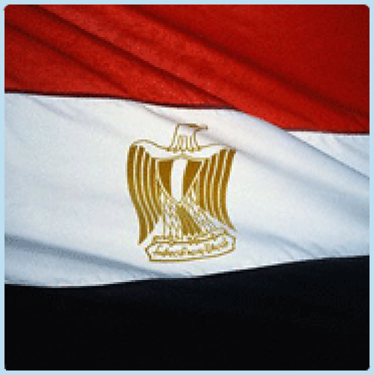
There are no plans to build an oil pipeline from Iraq to Egypt, a statement from the Iraqi Embassy in Cairo said.

The Egyptian government in March said it was committed to a project that would extend an oil pipeline from Iraq through Jordan at the cost of $17 billion. Egyptian refineries would process the Iraqi crude. The Iraqi Embassy in Cairo confirmed that a deal was signed between Cairo and the Iraq State Company for Oil Projects. “There is currently an agreement between us,” an embassy spokesman said. “But we haven’t yet received any official communications from Baghdad regarding their plans.”

Iraqi officials arrived in Cairo to discuss terms of oil deliveries from Iraq. March plans included the possibility that Iraq would send about 4 million barrels of crude oil from southern oil fields to Egypt every year. Egypt, since its 2011 revolution, has suffered energy shortages. In November, the government said it was inviting investors to help develop its refinery sector.

Egypt talks energy with Gazprom

Natural Gas Europe, *15.04.2013*



The Egyptian energy minister has had a meeting with chief executive of Russian gas giant Gazprom in Moscow. Mohamed Kamal Abdel Hamid, Egypt's Minister of Petroleum and Mineral Resources, had talks with Alexey Miller at the state company's offices.

In a statement Gazprom said the meeting participants discussed opportunities for the bilateral cooperation development in the oil and gas industry. Co-operation in projects for hydrocarbon fields exploration and development were specific themes.

Takher Abdelrahim Ali Abdel Aal, deputy chairman of EGAS (the Egyptian Natural Gas Holding Company), Ahmed Soliman Mohamed Fawzy Soliman, advisor to the Egyptian president, and Alaa Mohamed Hamdi Kenavi, Minister Plenipotentiary, were also at the meeting. "The meeting participants discussed the opportunities for bilateral cooperation development in the oil and gas industry. The meeting specifically addressed the prospects for Gazprom and Egyptian energy companies to cooperate within the projects for hydrocarbon fields exploration and development," Gazprom said. The topic of liquefied natural gas (LNG) supplies to international markets was also mentioned. Egypt is Africa's second largest natural gas producer after Algeria. Its proven natural gas reserves amount to some 2.2 trillion cubic meters. Around 80% of domestic gas reserves and 70% natural gas production are focused in the Mediterranean region and the Nile Delta.

Libya hits pre-war output levels

Upstream Online (Dow Jones), *15.04.2013*

Libya has reportedly restored its production to rates last seen before the start of the civil war in 2011. Libyan deputy Prime Minister Awad al-Baraasi told an energy conference in Dubai that "oil terminals and refineries have been restarted and oil production has returned to the pre-war levels".

Baraasi did not specify a figure for Libya's current production, which ran to 1.7 million barrels per day before the conflict erupted. Last November, the chairman of Libya's National Oil Corporation said it aimed to boost oil output to 1.72 million barrels per day by the end of March but warned strikes could interrupt production.

OPEC sees no need to cut output

Upstream Online, *15.04.2013*

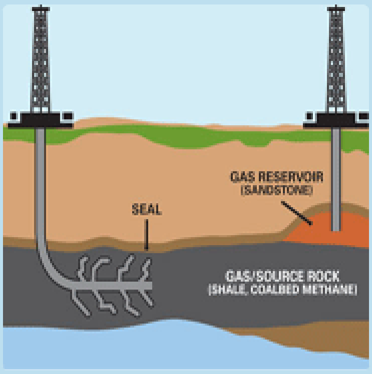
Gulf Arab OPEC producers do not see the need to change production levels to support crude prices, delegates said after benchmark Brent touched nine-month lows last week. A sell-off in commodities saw Brent contracts fall from around $106 a barrel to lows near $101.

Brent recovered to $103.11 at close of trade last week and Gulf exporters are happy to leave production unchanged at current price levels. Price hawk Iran did not call on the OPEC price doves across the Gulf to cut production, but its oil minister said on Sunday oil prices should stay above $100.

“An oil price below $100 is not reasonable for anyone,” the news agency quoted Rostam Qasemi as saying ahead of the group’s next meeting on 31 May. Saudi Arabia’s oil minister said last month that about $100 a barrel was a “reasonable” price for consumers and producers alike. Weak economic data from the US on Friday followed forecasts for lower global oil demand growth for 2013 released last week by the International Energy Agency and OPEC. Brent has traded mostly above $100 a barrel since early 2011, driven by unrest in Libya and a standoff over Iran’s nuclear program, worrying investors that elevated energy costs will hurt the fragile global recovery.

Qatar, Exxon to assess unconventional gas in North America

Oil&Gas Eurasia, *17.04.2013*



Qatar Petroleum International and ExxonMobil have agreed to jointly assess unconventional gas resources in North America and global opportunities in liquefied natural gas.

Both companies are involved in LNG projects in Qatar, the world’s biggest LNG exporter. They also have shared interests in LNG terminals in the United Kingdom, Italy and the US. In a joint statement Qatar Petroleum International (QPI) and US oil and gas company ExxonMobil said the agreement sought to give QPI opportunities to explore various unconventional natural gas resources and associated liquids.

Gazprom resists calls for Henry Hub pricing

Upstream Online, *17.04.2013*

Russian energy giant Gazprom is certainly not feeling the pressure to bow to pressure from buyers to switch from oil-indexed gas prices to Henry Hub-linked ones.

Speaking at LNG17, Gazprom's gas products director, Elena Burmistrova, said the company would consider discussing more flexible pricing options with its buyers but that linking them to US gas prices would not work. Despite admitting that she would also lobby for Henry Hub linked pricing, if Gazprom was a gas buyer rather than a producer, Burmistrova said the company had no plans to abandon its oil-linked pricing structure for natural gas supplies.

"We are open to discussions but I don't think Henry Hub is quite natural for the pricing mechanism (in Russia)," Burmistrova said. She added that continued uncertainty over potential US LNG export volumes, which could compete with Gazprom in European markets, meant the state-run company was under no pressure to price its gas more competitively.

So far the US Department of Energy has only approved one export project – Cheniere's Sabine Pass facility in Louisiana. The department is considering several other applications. US gas producers have expressed frustration with this waiting game and a lack of clarity of clarity regarding the regulatory framework. Key questions such as how much LNG the US will be allowed to export and when the projects will be approved have not yet been answered.

"Here we are in April with no clear idea of what US government policy is going to be," Betsy Spomer, senior Vice President from BG Group said. "It could have a significant impact on pricing all over the world." Spomer said the extend of US LNG exports will be determined by market dynamics, such as demand levels from Asia. Asian gas buyers, such as Japan, India and China, have been calling for a break away from oil-indexed prices as the region's demand for natural gas soars. Countries such as Japan are hoping LNG supplies which are priced on a Hub basis, rather than being linked to global oil prices, will lower their import bills. "Buyers today are waiting for clarity and it's causing other projects not to go ahead," Spomer said.

Michelle Foss, chief energy economist from the University of Texas, said consistently low US gas prices were also causing investors to shy away from the gas-fired power generation sector. "We've seen a lot of stress on the gas power generation business and a lot of reluctance to invest," Foss said. "A belief is growing that we'll have no more growth in electric power generation. Everywhere in the US people would like a higher gas price."

Qatar Gas 'to continue own pricing'

Upstream Online, *17.04.2013*

While indexing prices to Henry Hub seems attractive, Qatar Gas will continue to use its own index, Alaa Abujbara, chief operating officer, commercial and shipping at Qatar Gas, told LNG 17 attendees. "With shale gas emerging, people are looking at the Henry Hub index to be introduced everywhere, especially in Asia," Jbara said.

He sees limits in tariffs, transportation, and the costs of liquefaction with tying to the Hub index. "But if that's what it takes for the market to use more gas, then I'm all for it, but we will continue to have our own index going forward."

Qatar Gas is now producing 42 million tons per year of LNG. Qatar Gas ships 15% of its annual volume to Europe and 5% goes to America. "The vast majority, around 80%, of our LNG has been tied up by Asian buyers," he said. Japan's demand jumped by 8 mtpa following the Fukushima disaster in 2011. Qatar Gas estimates 39 mtpa will have to come from as-yet unsanctioned projects to meet Asian demand. "The gap remains significant at 39 million tons in 2016," he said. Globally, there is a gap of about 170 mtpa to meet the project demand, and that is all from projects that have not been sanctioned. "It is unclear which projects will eventually be approved," Jbara said.

South Korea cuts back on Iranian Oil

Oil&Gas Eurasia, *17.04.2013*

South Korea cut back on the amount of crude oil it received from Iran by more than 15 percent last month year-on-year, government figures indicate, according to UPI.

India, Turkey, South Korea, Sri Lanka, Taiwan, Malaysia and South Africa were given exemptions last year from U.S. sanctions targeting the Iranian oil sector because of reductions in crude oil imports from the Islamic republic. South Korea stopped importing oil from Iran in August following a ban imposed by the European Union. Imports resumed in October, however, when Iran offered up its own vessels to transport crude oil.

The latest customs data from the South Korean government indicate crude oil shipments from Iran declined by about 17 percent in March. U.S. Secretary of State John Kerry last month said Japan and 10 EU countries qualified for an exception to Iranian sanctions for moving away from Tehran's oil sector.

Gazprom: No plans for shale gas in next 10 years

Upstream Online, *18.04.2013*

An executive with natural gas giant Gazprom does not expect shale gas drilling to be a focus in Russia over the next 10 years for the company.

Speaking at LNG 17 in Houston this week, Elena Burmistrova, deputy general director of Gazprom, told attendees that the resources are there, but shale is simply not a focus, likely given the company's involvement in developing the vast conventional gas resources in the region. "We are not going to develop shale gas in Russia within the next five to 10 years," she said.

The country's shale gas potential is still being defined. Studies are underway to get a better grasp on just how much gas Russia has trapped in its fairly extensive shale formations. Gazprom has shown greater interest in the development of shale oil, as confirmed via its link-up earlier this year with super major Shell in a 50-50 joint venture to tap tight oil in Western Siberia.

Additionally, Burmistrova said the pause button could be released soon on the ambitious Shtokman development, as talks with France's Total regarding the best way forward are progressing. "We're working on optimization," she revealed. "We should have a decision within the next few months... regarding pipeline construction."

Spiraling costs forced the partners to put the brakes on development plans for the Arctic field. Norway's Statoil, which sold its interest in the project to Gazprom last year, is said to be pushing a floating LNG concept for the field a move that could signal its intent to rejoin the consortium. Gazprom holds a 75% stake in Shtokman Development an operating consortium established in 2007 to work on the first phase of the project. Total holds the remaining 25% interest.

On land, Gazprom is moving forward with plans to build a 10 million tons-per-annum facility at Perevoznaya Bay at an estimated cost of more than $7 billion by 2018. The Vladivostok LNG project will be fed by a multi-source gas supply from both the Sakhalin and East Siberia discoveries. Gazprom is currently pre-marketing the project and just concluded a road show with its major Japanese customers last week. The operator is spearheading additional drilling to prove up more gas reserves for this project and the planned Sakhalin II expansion.

Iraq-Jordan pipeline could contribute in solving the Kingdom’s energy crisis

Natural Gas Europe, *18.04.2013*

Amman and Baghdad have signed an agreement to construct a 1,680 km pipeline that will run from Iraq’s southern oil-producing region, Basra, to Anbar province and then to Jordan’s port city of Aqaba.

The USD 18 billion costing pipeline will supply Jordan with 850,000 barrels of oil as well as 3.53 billion cubic feet of gas a day and is expected to be fully operational by 2017. The project is expected to satisfy the Kingdom’s energy needs and to boost its economy through job creation and revenue generation. Jordan imports 97% of its energy.

Egyptian gas, supplied via the Arab Gas Pipeline, constituted 80% of the Kingdom’s total imports. Repeated damaged to the pipeline following the Arab Spring prompted an increase in imports of expensive fuel products for electricity generation. The energy bill jumped to USD 5 billion this year (equivalent to 15% of Jordan’s GDP) which will result in a rise in electricity prices expected in June this year that will no doubt create a sentiment of general unrest in the Kingdom. Jordan witnessed street protests last November over austerity measures imposed as a condition for a $2 billion IMF loan. The Iraqi-Jordanian pipeline is one of the many medium/long term projects aimed at reducing Jordan’s dependence on imports. Jordan has in the meantime taken short term measures tackling the demand rather than the supply such as introducing energy-saving light bulbs in public buildings and planning to distribute 1.5 million of those bulbs to households saving a total of USD 1 billion.

The Iraqi-Jordanian deal is not the only initiative undertaken by Jordan to solve its energy crisis. The Kingdom could be home to huge reserves of oil shale. In 2009, the Government of Jordan (GOJ) has signed an agreement with Shell International through its local branch, Jordan Oil Shale Company (JOSCO), in which GOJ has given JOSCO the concession to explore oil from oil shale within a predetermined land space in an attempt to realize Jordan’s master plan: energy self-sufficiency. Shell invested USD 100 million to explore for oil shale in Jordan’s east and north. If the seismic studies are confirmed, the Kingdom could become a net gas exporter by 2020 producing between 300 million and 1 billion cubic feet of gas per day.

Additionally, Jordan’s energy dependence and current crisis drove controversial nuclear efforts. Jordan is close to commissioning two 1GW nuclear reactors 100 km south the Syrian border by either a Russian or French-Japanese consortium at a cost of EUR 12 billion, said Khaled Toukan, chairman of the Jordan Atomic Energy Commission.

The Israeli cabinet has not yet decided on its gas export policy: how much gas it will export, to which markets and via which routes. Exporting gas to Jordan would be a non-mutually exclusive option and a rather simple and low cost endeavor for Israel and could supply the kingdom with much-needed gas while its other projects remain on progress.

LNG buyers seeking lower prices, but risk supply crunch

Oil&Gas Eurasia, *18.04.2013*

Arab News reports that amid the recriminations that pass for debate in Australia, one point was missed about the scrapping of Woodside Petroleum's $45 billion Browse LNG project: nobody said the demand wasn't there. Instead, the debate focused on the escalating costs that rendered the planned onshore LNG plant in the north of Western Australia state uneconomic, and who was to blame for this.

There are plenty of candidates for culprit-in-chief on the cost front, a labor force that is the best-paid in the world and is still in short supply given the seven LNG projects under construction, and higher taxes at both state and federal level.

Add to this the strident objections from some environmentalists to the Browse project, which was to be based at James Price Point, an area rich in biodiversity and with cultural significance to local Aboriginal people. Peter Coleman, Woodside's chief executive, was tactful in saying the Browse project needed a "fundamental" change in its cost structure to be viable. But he also touched on the demand issue. "Every day ... our customers are saying to us very clearly 'No longer can we pay for your expensive projects'," he said.

The key things to note are that Coleman didn't say customers didn't want the LNG and that he remains committed to turning the reserve into the super-chilled fuel, just at a lower price. What sets Australia's LNG industry apart from its coal counterpart is that the future demand seems more assured, given China may increase LNG imports fourfold to over 50 million tons by 2020, Southeast Asian nations are turning to the fuel and Japan will also take more as it turns away from nuclear power. Both LNG and coal projects are suffering from cost escalation, which undermines project viability, and especially so in the current weak pricing environment. But unlike coal, which is suffering from uncertainty over Chinese demand, global LNG demand looks set to increase as fast as new capacity, if not faster. Of course, it won't all be in sync, with new supply especially lumpy as several of Australia's projects are likely to come on line at more or less the same time in the three years starting from late 2014.

These will make Australia the world's largest LNG supplier, with its capacity of about 80 million tons per annum overtaking current No.1 Qatar and dwarfing regional rivals Malaysia and Indonesia. However, for all these projects to make the returns their owners expect, LNG prices in the Asian markets they aim to supply will have to remain high, and indexed to crude oil. It's here that there is pressure for change from traditional customer like Japan and South Korea, the world's top-ranked LNG importers, and emerging giants like China. All have seen the shale gas revolution in the US deliver cheap natural gas and the promise that some of this will make its way across the Pacific in the form of LNG.

This has led to pressure being applied to LNG producers to accept either a much weaker linkage to oil or even go as far tying prices to those at natural gas hubs in Europe or the US. In the current situation where LNG markets appear well supplied and commodity prices are falling virtually across the board, the customers probably think they hold a winning hand. But they probably shouldn't get too carried away as what's likely are more decisions like that Woodside made with Browse. If the LNG developer can't be assured of high returns, the project will be scrapped, or at least delayed until the shoe is back on the producer's foot. Yes, developers will look for ways to deliver new projects at lower costs and floating LNG platforms offer a potential solution. But the cost-saving may not be as much as hoped for, and the complexity of a massive offshore platform means its operating costs may be more than those for an onshore plant.

Also, floating platforms are unlikely to be able to reach the size of onshore developments, robbing LNG companies of the ability to exploit the lower costs associated with building second or third LNG trains at an existing facility. Royal Dutch Shell has approved a floating platform for its Prelude field off northern Australia, with the planned 3.6 million ton per annum capacity expected to cost an upfront $ 12 billion. This isn't much cheaper on a dollar per ton basis than Inpex's billion Ichthys plant in Darwin in Australia's Northern Territory, which has a planned capacity of 8.4 million tons per annum. And it's actually more expensive than the $ 25 billion, 9 million ton per annum plant being built by ConocoPhillips and Origin Energy in Queensland state, which will use coal-seam gas as a feedstock.

While spot LNG prices in Asia LNG-AS have fallen to the current $ 15 per million British thermal units, a 24 percent drop from the recent peak of $ 19.67 in February, it's likely that consumers' hopes for an end to oil-linked pricing in Asia will be dashed. There just won't be enough supply from either the US or Canada to create a glut of LNG in Asia, and the stream of new projects is now under increasing threat of not being built, as shown by the Browse decision. It may well come to a choice for LNG consumers: either pay for the expensive projects in order to secure supply, or take your chances in the spot market, which looks unlikely to be oversupplied on a medium- to long-term basis.

Statoil wants back into Shtokman

Oil&Gas Eurasia, *17.04.2013*

Statoil gave up its shares in the gigantic Shtokman gas field in the Barents Sea in 2012. Now the company considers re-entering the project, provided the technical solution is changed. Statoil will only re-enter the project if conditions for offshore projects and foreign companies are improved, press spokesman Bård Glad Pedersen says to Teknisk Ukeblad.

He confirms that Statoil does not want a solution with both pipelines and onshore LNG production. "We want to have LNG production alone on Shtokman. This will lower investment costs and have synergistic effects for later development stages that are to be based on LNG", he says.

With an unstable European gas marked a gigantic pipeline system to the continent is something Statoil does not want to pursue. Not only will the construction itself be expensive, but the marked can become flooded with gas, making already concluded export contracts less valuable.

Gazprom already in 1996 announced plans to build a large, floating LNG plant on Shtokman, but the plans were dismissed as there are huge technical challenges connected to building a floating LNG plant (FLNG). The plan is to build a complete LNG plant like the one on Melkøya outside Hammerfest, Norway only larger and place it over the field. Here the gas will be extracted, processed, cooled down to liquid form and loaded on LNG tankers.

There are no operational FLNG vessels in the world today. Shell has started construction of "Prelude FLNG" the world's largest floating production facility, which is to be used outside Australia. The vessel will be 488 meters long and replace more than six times more water than the world's largest air craft carrier. There are large technical challenges connected to FLNG technology, especially in harsh climatic regions like the Barents Sea, where high waves and heavy icing are only a few of the obstacles for safe production.

China shows interest in Kashagan

Upstream Online, *16.04.2013*

China has shown interest in buying the stake of US oil major ConocoPhillips in a multinational consortium developing Kazakhstan's giant Kashagan oilfield. "Kazakhstan has not yet taken such a decision, but there is such a possibility," Kazakh Oil & Gas Minister Sauat Mynbayev told.

The news agency said the minister declined to say what company or government body represented China in talks with Kazakhstan over Kashagan. Kazakhstan, Central Asia's largest oil producer and the second-largest post-Soviet producer after Russia, has the pre-emptive right to buy out the 8.4% stake owned by ConocoPhillips in Kashagan.

ConocoPhillips, which has been shedding overseas assets to cut debt and increase its investment in lower-cost domestic shale oil and gas, has said it intends to sell its Kashagan stake to India's state-run oil and Natural Gas Corporation for about $5 billion.

Kazakhstan has until late May to decide whether to buy out the stake of ConocoPhillips, and Mynbayev said that further options would depend on the terms to be proposed by other parties also wishing to own this stake. He declined to speculate whether India or China would have a better chance of owning the stake. "If the terms offered by one side are significantly better than those of the other potential buyer, then the logic of choice of the authorities of Kazakhstan will be crystal-clear," Mynbayev said.

Kashagan, the world's biggest oilfield discovery in more than 40 years, holds an estimated 30 billion barrels of oil-in-place, of which 8 billion to 12 billion barrels are potentially recoverable, with first production expected in the middle of this year, Reuters reported. Kazakhstan, a vast nation of 17 million, is home to 3% of the world's recoverable oil reserves. It has moved in recent years to exert greater management control and secure bigger revenues from foreign-owned oil and gas developments. Kazakh state oil company KazMunaiGas first entered the Kashagan consortium in 2005 as a shareholder in 2005 and later doubled its stake to 16.81%. Identical stakes are held by Italy's Eni, US major ExxonMobil, Shell and France's Total. Japan's Inpex owns 7.56%.

Announcements & Reports

► *Investment Climate in Albania*

Source : Energy Charter
Weblink : http://www.encharter.org/fileadmin/user_upload/Publications/Albania_EE_2013_ENG.pdf

► *Investment Climate in Lithuania*

Source : Energy Charter
Weblink : http://www.encharter.org/fileadmin/user_upload/Publications/Lithuania_ICMS_2013_ENG.pdf

Upcoming Events

Supported by PETFORM

► *Energy Investment Conference* *(in Turkey)*

Date : 6 – 8 May 2013
Place : Istanbul – Turkey
Website : http://www.euroforum.de/eic/

Supported by PETFORM

► *Argus Turkish Power and Gas Trading 2013* *(in Turkey)*

Date : 8 – 9 May 2013
Place : Istanbul – Turkey
Website : http://www.argusmedia.com/Events/Argus-Events/Europe/Argus-Turkish-Power-and-Gas/Home

► *Uzbekistan International Oil & Gas Exhibition*

Date : 14 – 16 May 2013
Place : Tashkent – Uzbekistan
Website : http://www.oguzbekistan.com/2013/

Supported by PETFORM

► *Tight and Shale Gas Summit 2013* *(in Turkey)*

Date : 15 – 16 May 2013
Place : Istanbul – Turkey
Website : http://www.wplgroup.com/aci/conferences/eu-eug2.asp

Supported by PETFORM

► *EMART Turkey* ***(in Turkey)***

Date : 21 – 22 May 2013
Place : Istanbul – Turkey
Website : http://www.emart-turkey.com/

► *Turkmenistan Gas Congress*

Date : 21 – 22 May 2013
Place : Ashgabat – Turkmenistan
Website : http://www.turkmenistangascongress.com/

Supported by PETFORM

► *Energy & Risk Conference* ***(in Turkey)***

Date : 4 – 5 June 2013
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/energy-risk/

► *Caspian Oil & Gas*

Date : 4 – 7 June 2013
Place : Baku – Azerbaijan
Website : http://www.caspianoil-gas.com/2013/index.html

► *12th Moscow International Oil & Gas Exhibition*

Date : 25 – 28 June 2013
Place : Moscow – Russia
Website : http://mioge.com/about/upstream.aspx

► *Oil and Gas Conference and Exhibition 2013*

Date : 3 – 6 September 2013
Place : Aberdeen – UK
Website : http://www.offshore-europe.co.uk/page.cfm/Link=1/t=m/goSection=1

Supported by PETFORM

► *All Energy Turkey* ***(in Turkey)***

Date : 11 – 12 September 2013
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/?lang=tr

► *Texas Oilfield Expo*

Date : 6 – 7 March 2013
Place : Texas – USA
Website : http://www.gshtx.org/en/cev/906

► *21st Kazakhstan International Oil & Gas Exhibition and Conference*

Date : 1 – 4 October 2013
Place : Almaty – Kazakhstan
Website : http://www.kioge.com/2013/upstream2013.html

► *Deep Offshore Technology International Conference & Exhibition*

Date : 22 – 24 October 2013
Place : Texas – USA
Website : http://www.biztradeshows.com/trade-events/deep-offshore-technology.html

► *World Shale Gas Conference & Exhibition*

Date : 4 – 7 November 2013
Place : Texas – USA
Website : http://www.biztradeshows.com/trade-events/world-shalegas-exhibition.html