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PETFORM

Turkey KRG agree on '50-year energy accord'

Hurriyet Daily News, *05.06.2014*

Turkey and the Kurdish Regional Government (KRG) have signed a 50-year deal to export Kurdish oil, the Prime Minister of the administration has announced amid the ongoing spat between Baghdad and Arbil.

"We have signed an energy deal with Turkey that comprises of 50 years and can be extendable if necessary," Prime Minister of Kurdish Regional Government Nechirvan Barzani said June 4 during a speech at the Kurdish Parliament in Arbil. Relations between Arbil and Baghdad have been strained by disputes over the sale of northern Iraqi oil through Turkey.

The central government insists it has the sole right to export Iraqi crude and says contracts between Kurdish authorities and foreign energy firms without its expressed consent are illegal, statements Arbil rejects. Hussein al-Shahristani, Iraq's deputy prime minister for energy affairs, has threatened legal action against firms that purchase what he called "smuggled oil," which Turkey started to export through its territory last week. Turkish Energy Minister Taner Yildiz dismissed claims that Ankara was trying to illegally profit from the exports.

After the Iraqi central government suspended funds from oil income to the KRG, Arbil went on to export oil in late May, saying it would serve as compensation for the budget cut. "We don't have any intention of dividing Iraq, and this agreement is not part of such an agenda either," Barzani said. The oil exports would not pave the way for the independence of the KRG, said Barzani, adding the Kurdish government would continue to exercise its constitutional rights, which grant 17 percent of the budget to the Kurdish region. He added that the KRG has exported Kurdish oil worth $9 billion to date, which has mainly been used to pay government workers. The KRG had said it needs a total of 850 billion Iraqi dinars ($740 million) to meet outstanding payroll costs.

The Kurdish government needs $31 billion for its citizens to have a normal standard of living, said Barzani. "We need basic services for our citizens, including standard infrastructure such as schools, highways and bridges. We insist on obtaining our constitutional rights and we will not step back under any circumstances," he said. The first batch of Kurdish oil transported through Turkey took place on May 23 and had an estimated value of around $110 million. Turkey and the KRG have stated that the flow of Kurdish oil to international markets would continue despite Iraq's appeal to international arbitration demanding an immediate halt to sales.

Ankara brushes off Iraq's Kurdish oil claims

Hurriyet Daily News, *02.06.2014*

Turkey has insisted that the export of Kurdish Iraqi oil to the world is Iraq's internal business, downplaying opposition from Baghdad, which has accused Turkey of worsening the row over who controls Iraq's resources.

"The income to be generated from here (exports) will be distributed with a system that our Iraqi brothers established by themselves," Turkish Energy Minister Taner Yildiz said June 2, answering reporters' questions after a meeting in Ankara. "Therefore, I don't find it right to say things to Turkey that cannot be told to anybody else," the minister said, when asked about his comments over the issue.

The shipping of oil extracted from the Kurdish Regional Government (KRG) last month has chilled ties both between Baghdad and Ankara, and between the central government and Kurdish authorities in Arbil. The cargo of Kurdish oil left Turkey 10 days ago aboard a United Leadership tanker, prompting Baghdad to file for international arbitration against Ankara for facilitating the sale. Iraq says its State Oil Marketing Organization (SOMO) has exclusive rights to manage sales of crude from the entire country, including Kurdish Regional Government, and considers unilateral exports from the region as "smuggling."

However, in his remarks yesterday, Yildiz insisted Turkey "will preserve its positive attitude over the process." "Think the exact opposite: Would it be better for Iraq if Turkey wasn't letting Iraqi oil to flow through it? It wouldn't. We are a neighbor, friend and fraternal country that is laying the basis for the transmission of Iraqi oil to world markets," he said. "This oil is not Turkey's, it is Iraq's, and the income to be yielded from here will be Iraq's income," he said. Yildiz's remarks came a day after Baghdad accused Turkey of being "driven by greed." "We believe Turkey has been driven by greed to try to lay (its) hands on cheap Iraqi oil," said Hussein al-Shahristani, deputy prime minister responsible for energy affairs, Agence France-Presse reported on June 1.

Tanker with piped Iraqi Kurdish oil U-turns away from U.S.

Reuters, *30.05.2014*

A crude oil tanker at the center of a dispute between KRG and Baghdad has reversed course from its route towards the United States, ship-tracking data showed on Friday, indicating that the shipper may not have a buyer.

The United Leadership oil tanker has become a symbol of a wider conflict between Baghdad and KRG over oil sales from the autonomous northern enclave, as it contains the first crude to come out of the region's newly built pipeline into Turkey. Since loading at the Turkish port of Ceyhan last week, the United Leadership set course for the U.S. Gulf Coast, according to ship-tracking and market sources.

The U.S. State Department said that it did not condone oil sales bypassing Baghdad, and that any buyers could risk a legal suit with the central government. "We do not support the export or sale of oil absent the appropriate approval of the federal Iraqi government," a U.S. State Department official said. Despite its position, the U.S. has already imported small quantities of Kurdish oil, though not from the pipeline. The Kurdish government insisted the oil is going to Europe, when asked about its U.S. destination and that it would be the "first of many such sales". "One million barrels was sold by auction toboth Germany and Italy. No shipment was sent to the United States," Moyad Talab, a spokesman, told Reuters.

But for the moment, the oil appears to be homeless. The tanker reversed course south of Portugal with a new destination, Gibraltar for orders, Reuters AIS Live ship tracking showed, suggesting that the lifter of the oil has still not found a place to put it. Until last week, Kurdish oil exports were constrained to a small volume shipped by truck to two Turkish ports on the Mediterranean. Iraq's state marketer made threats of legal action but did not follow through. But the start of exports out of the KRG's pipeline means much more significant revenues for the region. Iraq swiftly announced that it filed an arbitration case against Turkey with the International Chamber of Commerce. It also asked its customers to confirm they would never buy exported Kurdish oil, which they have done, an industry source with knowledge of the matter said.

In an effort to lock down the whole process of loading a tanker, Iraq's state marketer SOMO told inspections company, Netherlands-based Saybolt, to cease analyzing Kurdish crude, industry sources with direct knowledge of the matter said. Saybolt management could not immediately be reached for comment. Iraq and KRG were trying to reach a political agreement over the oil sales, but five months after the pipeline started up there had still been no final decision, prompting the Kurdish Regional Government to go it alone. "There is no going back," KRG's Prime Minister Nechirvan Barzani said this week in parliament. "If we cannot reach a shared understanding, we have other options and we cannot wait forever. Why did we begin selling oil? In order to make Baghdad realize that we can do it."

Kurd crude tanker that u-turned leaves Morocco without unloading

Bloomberg, *06.06.2014*

An oil tanker hauling crude from Iraq‘s semi-autonomous Kurdish region left Morocco‘s territorial waters without unloading, days after the same ship u-turned in the Atlantic Ocean amid a legal challenge relating to its cargo.

“The United Leadership moved into international waters yesterday upon a request from Moroccan authorities,” Nadia Laraki, director general for Agence Nationale des Ports, said by phone today. “The issue is out of our hands. It has not docked and therefore has not unloaded a single cubic meter.” SOMO, Iraq’s oil-marketing company, said June 1 that buyers should not purchase the tanker’s cargo.

Iraq’s oil ministry said May 23 it sought arbitration over Kurdish oil sales from Turkey at the International. The Kurdish Regional Government says it’s abiding by the Iraqi constitution, according to its website. Two calls to KRG officials today weren’t answered. The ship reached its destination, the KRG said June 3, without specifying where that was. The tanker is owned by Marine Management Services MC in Piraeus, Greece, a database maintained for the United Nations‘s maritime agency shows. Kyriakos Maragoudakis, the company’s operations and marine manager, declined to comment.

The ship is about 40 miles off Morocco’s Atlantic coast, having got within five miles of the port of Mohammedia, ship tracking data compiled by Bloomberg show. “We are monitoring the movements of this tanker and anyone who deals with this oil will be prosecuted,” Iraqi oil ministry spokesman Asim Jihad said by phone from Baghdad today. Conflict Escalation Tensions between Iraq and the Kurdish region escalated last month when the KRG began pumping oil through its own pipeline to Ceyhan, the Turkish port in the Mediterranean sea from where ship tracking data show United Leadership loaded. The tanker crossed the Strait of Gibraltar, signaling for the U.S. Gulf, then turned back after about 190 miles.

It then sailed to Mohammedia in Morocco, tracking shows. The KRG estimates its region has about 45 billion barrels of crude reserves. Iraq, which has about 150 billion barrels without the Kurdish reserves, surpassed Iran in 2012 to become the second biggest oil producer in the Organization of Petroleum Exporting Countries. Shipping signals can be wrong because much of the information is entered manually and because not all data are captured. Disputes about cargoes sometimes delay merchant ships. A tanker called the ETC Isis spent months marooned off Singapore in 2012 as part of a dispute between northern and southern Sudan. Earlier this year, U.S. special forces boarded a tanker shipping crude from eastern Libya that the nation’s government said was illegally shipped.

Iraq threatens legal action against any buyer of piped Kurdish oil

Reuters, *01.06.2014*

Iraq threatened on Sunday to take legal action against any buyer of oil exported via a new pipeline from the autonomous KRG to Turkey, while the destination of the first cargo was still unclear. The cargo of Kurdish oil left Turkish shores 10 days ago aboard the United Leadership tanker, prompting Baghdad to file for international arbitration against Ankara for facilitating the sale.

Iraq says its State Oil Marketing Organisation (SOMO) has exclusive rights to manage sales of crude from all the country, including KRG, and considers unilateral exports from the region as "smuggling".

The tanker's destination is still unclear, but it has become a symbol of a long-running and intractable dispute between Baghdad and the Kurdish region over resource rights and revenue sharing. "SOMO, on behalf of the Iraqi federal ministry of oil, is hereby warning all companies, individuals and bodies from buying the Iraqi crude oil cargo that is loaded on the vessel," SOMO said in a statement signed by General Director Majid Alhilfi. "The Iraqi federal ministry of oil and SOMO ... shall reserve the right to take all legal measures against any company, individual and/or body that bought or might consider buying the said cargo," it added.

After leaving Turkey's Ceyhan port, the United Leadership sailed through the Mediterranean and appeared to be heading in the direction of the United States, but on Friday reversed course, ship tracking data showed. On Sunday it appeared to be stationary in waters off the coast of Morocco.
Until last week, Kurdish oil exports were limited to a small volume trucked to two Turkish ports on the Mediterranean. SOMO also made threats of legal action regarding those shipments, but they have so far come to nothing.

Tehran seeks another Turkish bank for oil, gas transactions

Hurriyet Daily News, *05.06.2014*

Iran seeks another Turkish lender to take part in its oil transactions along with the state-owned Halkbank, a Turkish Cabinet minister has announced. Iran is insistent on another bank apart from Halkbank to reach the $30 billion trade volume aimed for by the end of 2015 with Turkey, Development Minister Cevdet Yılmaz said.

Halkbank has been under scrutiny over its gold trade with Iran during last year's corruption probe. The bank's ties with Iranian business had drawn Western disapproval amid U.S.-led efforts to curb Tehran's much disputed nuclear program.

Turkey has bought natural gas and oil from Iran through an indirect system whereby Iranian exporters received payments through Halkbank Turkish Lira accounts and used that money to buy gold. The bulk of that gold was then shipped from Turkey to Dubai, where Iran could import or sell it for foreign currency. Iranian President Hassan Rouhani is expected to visit Turkey on June 9 to bolster bilateral ties. Iran and Turkey will sign six cooperation agreements in various fields, including the energy sector, during Rouhani's upcoming visit to Ankara, according to Iranian Communications Minister Mahmoud Vaezi as reported by Iran's Press TV yesterday.

Vaezi, who is now in Turkey, said "Turkish officials are willing to increase natural gas imports from Iran," adding that Tehran is ready to meet the demand. Commenting on the possibility of transferring Iran's natural gas to Europe via Turkish soil, Vaezi said negotiations are ongoing between Tehran and Ankara. Iran's contentious nuclear program is also expected to figure high on the agenda of the talks in Ankara. Western powers fear Iran may be seeking nuclear weapons under the guise of a civilian energy program, but Tehran insists its intentions are solely peaceful.Iran and Turkey signed several documents on economic, cultural, political, trade, banking, customs and cinematic cooperation during Prime Minister Recep Tayyip Erdogan's visit to Iran in January.

South Pars gas output to get a boost

Natural Gas Asia, *31.05.2014*

Output from Phase 12 of Iranian giant South Pars gas field is set to double in a month, according to Mohammad Javad Shams, the chief executive officer of Iranian oil and gas company Petropars. Shams last week said gas production from Phase 12 of South Pars will increase to 25 million cubic meters (mcm) per day by June 21, reports Press TV for international media.

The output capacity of Phase 12 currently stands at 12 million cubic meters per day, which will more than double when the second stage of Phase 12 goes on stream in three weeks' time.

Turkey inks deal to raise involvement in TANAP and Shah Deniz projects

Hurriyet Daily News, *30.05.2014*

TANAP

Turkey has signed deals to increase its stakes in the Trans-Anatolian gas pipeline (TANAP) and the Shah Deniz projects, with a ceremony attended by Prime Minister Recep Tayyip Erdogan, marking another step towards its long-lasting dream of becoming an energy hub.

The Turkish Petroleum Corporation (TPAO) has acquired a 10 percent share from French energy giant Total and raised its total share in the consortium operating Shah Deniz gas field.Turkish Energy Minister Taner Yildiz said the TPAO would pay $1.45 billion to Total to raise its share from 9 to 19 percent.

Turkish pipeline company BOTAS has inked a separate agreement with Azeri state-owned energy company SOCAR, increasing its share to 30 percent from 20 percent. The Shah Deniz field in the Caspian Sea, one of the world's largest gas fields, feeds the South Caucasus Pipeline (also known as the Baku-Tiflis-Erzurum Pipeline) and the TANAP, which is planned carry Azeri gas both to Turkey and to other markets in Europe. In a speech delivered at the ceremony, Erdogan said that both realized and planned energy projects would shape the economic and social landscape of the region that Turkey. "Turkish is a country that rises with the aim of becoming an energy hub. As part of this aim, we aim to make Ceyhan the top terminal of the East Mediterranean and the second busiest terminal in Europe after Rotterdam," he added.

Aliyev: Azerbaijan-Georgia-Turkey Energy Bridge to strengthen energy security

Azer News, *04.06.2014*

The implementation of the Azerbaijan-Georgia-Turkey Energy Bridge project will contribute to the development of the Black Sea Electricity Ring.

Azerbaijani Energy Minister Natig Aliyev made the remarks during the 21st International Caspian Oil and Gas-2014 Conference in Baku on June 4. "This will allow Azerbaijan to strengthen its energy security and to ensure the export of its electricity," he said. Aliyev said Azerbaijan has recently achieved great success in the field of power engineering. "In particular, more than 15 power plants were built and reconstructed in the country."

He stressed that the operations are intensively underway to connect Azerbaijan's energy system to similar systems of neighboring countries. "In particular, extensive work has been carried out to ensure parallel operations of power systems of Azerbaijan, Russia and Iran," he added. "Technical work carried out within the Azerbaijan-Georgia-Turkey Energy Bridge project will ensure electricity export to Turkey, and in the future - to Europe." Aliyev said at present, Azerbaijan's energy system capacity is 7,105 MW or by 1,500 megawatts more than the country's electricity needs. The country is able to annually produce about 22 billion kilowatt / hours of electricity. This creates the annual export capacity to the amount of two billion kilowatt / hours.

Aliyev also said Azerbaijan intends to supply gas to Europe soon. "Azerbaijani gas will be supplied further Italy and reached to Central Europe in the future," he added. He stressed that Azerbaijan produced 43.5 million tons of oil and 29.5 billion cubic meters of gas in 2013. "The various companies' and organizations' evaluation of Azerbaijan's hydrocarbon reserves is pessimistic," he said. "However, the country's hydrocarbon reserves are much more than valued." The "Azerbaijan-Georgia-Turkey Energy Bridge" project envisages supplying 1,200 megawatts of electricity to Turkey. Some 600 MW of this volume will fall to Azerbaijan. The project envisages annual export of up to 2,000 megawatts of electricity from Turkey to Europe. Power transmission within the Azerbaijan-Georgia-Turkey Energy Bridge can start in 2014-2015.

Aliyev: "TANAP and TAP will deliver gas to Europe from a new source"

Azerbaijan Press Agency, *03.06.2014*

"TANAP and TAP will deliver gas to Europe from a new source. According to preliminary calculations, $45 billion is expected to be spent for these purposes. Azerbaijan is the largest investor in TANAP. Azerbaijan is pursuing a sound policy and providing financial resources", said President of Azerbaijan Ilham Aliyev addressing the opening of the 21st Caspian International Oil & Gas Exhibition at Baku Expo Center, APA reports.

The Head of State said that oil and gas revenues are aimed at improving the people's welfare and implementing infrastructure projects: "Transparency is our priority.

We were not able to collect as much money without ensuring transparency. We spend funds on the internal projects to improve the people's welfare and on the implementation of global projects such as TANAP and TAP. Shah Deniz-2 will further ensure our sustainable development. Hundreds and thousands Azerbaijani companies will work as contractors, tens of thousands jobs will be created and non-oil sector will boom. Azerbaijan's non-oil sector is growing annually at least by 9-10 percent; economic diversification is being ensured".

The President noted that these successes are related with the signing of the Contract of the Century and the commencement of the exhibition: "We have managed to turn this into human capital. Investment in education, space industry and other spheres lead us to development. Our foreign debt is equal to 8 percent of GDP, unemployment rate – 5 percent. Azerbaijan ranks 39th for competitiveness index. But for rich oil and gas resources and their rational use we would have taken a lot of time to achieve such a development". President Aliyev recalled that the Shah Deniz-2 agreement was signed after last year's exhibition: "I believe that we climb to new successes until the next exhibition."

Gazprom cuts export forecast to Europe, Turkey

Daily Sabah, *03.06.2014*

Russia's Gazprom plans to export 158.4 billion cubic meters (bcm) of gas this year to Europe, including Turkey, down from 161.5 bcm shipped in 2013, the state-controlled company said yesterday.

Gazprom added that the gas price it was charging its clients in Europe, including Turkey, was $387 (TL 813) per 1,000 cubic meters last year. Russian giant Gazprom, which accounts for around one-third of Europe's gas needs, said it plans to ship 56.4 bcm to Baltic States and countries in the Commonwealth of Independent States this year, down from 59.4 bcm from 2013.

Ukraine is a major Russian gas transport route to Europe and any suspension of gas flow will have dire consequences down the line. Moscow and Kiev are locked in a dispute over prices and volumes, although tensions eased on Monday when Gazprom delayed switching Ukraine to prepayment for supplies by almost one week, until June 9. Late on Monday, after some six hours of talks brokered by the EU, European Energy Commissioner Guenther Oettinger said the chief executives of Gazprom and Ukraine's Naftogaz had agreed to consider a plan that could avoid price disputes recurring over the European winter when demand peaks. Gazprom yesterday hailed progress to resolve a crisis that is threatening to cut gas supplies to Ukraine and could disrupt the flow of gas to Europe.

"There's an understanding now of how to move forward. This is probably the main result of Monday's talks," Gazprom Spokesman Sergei Kupriyanov said in Moscow. Kupriyanov stressed it is important for Ukraine to clear its $1.4 billion debt for the November and December supply as well as to start clearing the April-May debt. Moscow has not made public the amount of Ukraine's debt for the past two months, but Gazprom CEO Alexei Miller said last week the May deliveries alone could cost about $2 billion. EU Energy Commissioner Guenther Oettinger said on Monday that Russia and Ukraine have agreed on a proposal that would see a lower gas price for Ukraine complete with a debt repayment schedule.

In the meantime, Ukrainian Prime Minister Arseny Yatseniuk told parliament yesterday he expected talks with Gazprom on gas prices to end this week and, if they prove inconclusive, Ukraine will file a case with a Stockholm arbitration court. He also added that a cut in Russian gas supplies to Ukraine which could disrupt supplies to Europe remains a possibility. The prime minister reiterated that Kiev would "never" pay close to $500 per 1,000 cubic meters of gas, the price set by Moscow after the ouster in February of Ukraine's Kremlin-backed president. "If Russia thinks of Ukraine as a cash cow, it's wrong," he added. Turkey pays $393 per 1,000 cubic meters of gas. According to Turkish Pipeline Corporation, Turkish natural gas demand is forecast to grow to 81 bcm a year by 2030 from the current 47 bcm/year. Turkey imported 45.2 billion cubic meters of gas in 2013.

Azerbaijan's large energy resources fundamental for global market

Azer News, *04.06.2014*

United States of America ambassador to Azerbaijan, Richard Morningstar made the remark at a joint reception organized by the embassies of the United States of America and United Kingdom in Azerbaijan as a part of the 21st International Caspian Oil and Gas Exhibition and Conference that took place in Baku.

The envoy said with the construction of the Baku-Tbilisi-Ceyhan pipeline, Azerbaijan became major supplier of oil to world markets. "The construction for the Southern Gas Corridor has begun. It will make Azerbaijan a major supplier of gas to Europe," Morningstar stressed.

The ambassador further said the objectives of the U.S. energy policy in the region have remained consistent over the last twenty years, adding that the U.S. wants to help Azerbaijan to develop its energy resources to help it become a strong and independent nation. He went on to add that secondly, the U.S. would like Azerbaijan's energy resources to contribute to European and world energy supplies, stressing that diversifying global energy supply benefits everyone. "A strong and stable Azerbaijan contributes to regional stability and benefits the region, as well as Europe and the whole world with respect to the global energy markets," Morningstar stressed. British Prime Minister's Trade Envoy to Azerbaijan, Kazakhstan and Turkmenistan, for his part said, Azerbaijan is considered to be playing a vital role in supplying European gas market for decades.

Charles Hendry said Azerbaijan is at the heart of the region, and the country's large energy resources are fundamental for the European and global energy market. Hendry stressed that the Southern Gas Corridor is designed to transport Caspian gas to European markets and it will play important role for diversification of the EU supplies."The construction of the corridor is one of the most challenging infrastructure projects," he said. The Southern Gas Corridor is a project that will allow Europe to diversify its sources of hydrocarbon supply and strengthen energy security and enable Azerbaijan to get a new market in Europe. The gas to be produced within the second phase of the Azerbaijani gas condensate Shah Deniz field's development is considered as the main source for the Southern Gas Corridor.

"We have 300 companies working here. And not only in energy, but also in such spheres as construction, design, and education and etc.," he said. Azerbaijan is an important current and future supplier of both oil and natural gas. The country's largest hydrocarbon deposits are located in the Caspian Sea, particularly, the Azeri-Chirag-Guneshli (ACG) block of oil and gas fields and Shah Deniz, Umid and Absheron gas fields. The Energy Ministry reports that currently the country's proven gas reserves are at the level of 2.6 trillion cubic meters, while the oil reserves amount to 2 billion tons.

Azerbaijan produces over $1b tons of oil, gas

Azer News, *05.06.2014*

To date, Azerbaijan has produced about 1.53 billion tons of oil and gas condensate, SOCAR Vice President for Economic Affairs Suleyman Gasimov said. He made the remarks at the 21st Caspian International Oil & Gas Exhibition in Baku.

Gasimov also noted to date, Azerbaijan has produced 559.5 billion cubic meters of gas. Touching on the increase in the gas production volume in Azerbaijan, the SOCAR official mentioned the important role of the Shah Deniz field in this regard. "Up to date, around 45.4 billion cubic meters of gas and approximately, 94.5 million tons of gas condensates have been produced at the field," Gasimov noted.

He went on to add that the implementation of the second phase of development of Azerbaijan's giant Shah Deniz field in the Caspian Sea will allow it to annually produce some 16 billion cubic meters of gas for export to Turkey and European markets. The Shah Deniz field, one of the world's largest gas-condensate fields was discovered in 1999. Its reserves are estimated at 1.2 trillion cubic meters of gas. The gas which will be produced at the second stage of Azerbaijan's Shah Deniz field development will be the main source of the Southern Gas Corridor, which envisages the transportation of the Caspian gas to European markets.

The Shah Deniz consortium announced the selection of TAP as the main route for transporting its gas to Europe in late June. Back in September 2013, Azerbaijan agreed to annually sell over 10 billion cubic meters of natural gas from the second phase of its Shah Deniz development to nine companies in the European Union. The initial capacity of TAP will amount to 10 billion cubic meters per annum with the possibility of expanding to 20 billion cubic meters per annum. The TAP's construction project is planned to start in 2015. The peak gas production volumes at the Shah Deniz field will exceed the projected forecast. "The peak gas production volumes will be 30-35 billion cubic meters per year," Azerbaijan's Energy Minister Natig Aliyev told reporters on June 4. Some 360 m tons of oil produced at ACG fields

Azerbaijan, an energy-rich South Caucasus country, has produced some 360 million tons of oil since the beginning of the development of the giant Azeri-Chirag-Gunashli (ACG) block of oil and gas fields in the Azerbaijani sector of the Caspian Sea. These remarks were made by SOCAR Head Rovnag Abdullayev at the Oil & Gas Exhibition. "Some 96 billion cubic meters of gas has been produced from the block during the reported period," he said. The forecasts show the annual volume of oil on the block will make up 34-35 million tons. "It is also expected that in 2015 the gas production (excluding volumes pumped into the reservoir) in Azerbaijan will reach 20 billion cubic meters, and in 2020 this figure will be 40 billion cubic meters," Abdullayev added. The ACG block has been producing oil since 1997. Its production started from the Chirag which has been continuing successfully to this day.

Armenia concerned about weak energy security

Azer News, *05.06.2014*

Armenia is keen to improve its energy security by diversifying energy sources and is exploring ways for this aim with international organizations. The government's attempts to diversify energy sources have failed so far because the country's energy security fully depends on Russia. Armenia sees no progress in the implementation of energy projects which are vitally important for the post-Soviet state.

Armenia's great hope for bright energy future is fading as its plans to construct a new power transmission line with Iran are unlikely to come true.

The two neighboring countries had to suspend the construction of the third 400-kilovolt transmission line with a 400-kilovolt capacity due to financing problems resulted from Western sanctions imposed on Iran. Armenia and Iran reached a 107.9 million euro agreement on construction of the third transmission line in 2004. The Export Development Bank of Iran acts as a major source of financing for the project, which is aimed at facilitating the Armenian electricity supply in exchange of Iranian gas. Armenia hopes that Iran will overcome the problems related to the project. Armenia's new energy minister is set to visit Iran in near future to discuss the problematic issues. Armenia also expects to construct a transmission line with a 400-kilovolt capacity connecting it to neighboring Georgia through funding from the German bank KfW. The construction work is expected to start in 2014.

Armenia's larger dependence on Russian energy has turned into a big concern for local MPs. "Our economy now depends on the diameter of the gas pipeline from Russia," independent MP Khachatur Kokobelyan said recently during a parliamentary discussion. In response, Deputy Energy Minister Ara Simonyan said that fortunately, Armenia has a second gas pipeline with Iran. He reminded that Armenia immediately activated gas cooperation with Iran some days ago when gas supply from Russia was stopped due to a landslide in Georgia. Armenia still has some independent energy sources such as an outdated nuclear power plant, some hydro power plants, and a gas pipeline from Iran. Local media believe that Russia methodically neutralizes these factors to ensure full control over Armenia's energy system.

Armenia, neighboring with the regional leader in the energy field, Azerbaijan, cannot benefit from large-scale regional energy projects due to its non-peaceful position in the South Caucasus region. Armenia pursues some aggressive policies in the region including keeping under occupation 20 percent of Azerbaijan's lands which hamper its involvement in the regional projects. Turkey also keeps Armenia isolated from regional energy projects. Yerevan's aggressive policy towards Azerbaijan and groundless claim on the so-called genocide has hindered the Armenian-Turkey economic relations.

How Woodside's Leviathan withdrawal affects Israeli export options

Natural Gas Europe, *02.06.2014*

Woodside's withdrawal from the Leviathan deal leaves the door open to various speculations regarding Israel's export strategy. The parties were engaged in serious talks that could have led to the Australian giant acquiring 25% of the Leviathan - a 19 Tcf field located 130 kilometers of Haifa, in waters 1,500 meters deep and operated by Noble Energy.

The parties had previously signed an MOU on February 7 preparing for the final signing in March 27. The closing of the deal failed to happen as expected in March due to a disagreement between the company and the Israeli Tax Authority.

Despite Woodside and the Leviathan's partners pledge to pursue their pourparlers, they recently declared the end of the negotiations saying they had 'failed to reach a commercially acceptable outcome'. Woodside and the Leviathan partners' decision to part ways has numerous ramifications. The Australian company would have brought in its LNG expertise. Without it, it is unlikely that Israel will opt for an onshore LNG terminal to export its natural gas to export markets. If Israel did not prove to be too lenient towards Woodside, it is perhaps because the newly hydrocarbon-rich country has other plans for itself. And it is not to be dismissed that it might be inclined to diversify its export routes to ensure its robustness vis-à-vis adversity.

Such a philosophy would not be hazardous; in fact, Israel suffered for a long period of time from its dependence on Egyptian gas supplies. The disruption in the flow of gas from its Egyptian neighbour due to the sabotage of the Arab Gas Pipeline was a wake-up call for Israel to achieve energy independence and strengthen its energy security. When it comes to export routes, and given the complicated geopolitics of the region, a combination of various scenarios is foreseeable. Jordan too experienced a similar vulnerability towards Egypt, given that the Hashemite Kingdom has been also highly reliant on imports from Egypt to satisfy domestic demand.

Jordan suffered from the disruption in the flow of gas in the aftermath of the Arab Spring and is currently undergoing a severe energy crisis due to that. Israel, taking advantage of the momentum, and whilst it studies possible solutions to reach further markets, decided to start by exporting to its immediate neighbours: a Jordan in desperate need of cheap natural gas imports to substitute the Egyptian gas, an Egypt suffering from domestic gas shortages due to export obligations and a growing population, and the Palestinian Authority. In January 2014, the Leviathan partners entered a USD 1.2 billion deal to sell 4.75 bcm to the Palestine Power Generation Company. In February, the Tamar partners agreed to sell the Jordanian firms Arab Potash and Jordan Bromine 1.8 bcm of natural gas over 15 years for USD 500 million. Furthermore, the partners of the Tamar field signed a letter of intent with Spanish firm Union Fenosa Gas to supply gas to the company's existing gas liquefaction facilities in Egypt.

Israel would not only be selling gas to the Egyptians, but would use their export terminals to reach export markets, such as Europe or Asia where gas prices are higher than the rest of the world. Whilst exporting to immediate neighbours seems a logic and simple endeavour, Israel is unlikely to limit itself to its environs. How Israel would achieve such reach is still a matter of speculation. Because a deal with Woodside is no longer a possibility, the remaining options would be using Greek Cyprus' projected LNG terminal in Vassilikos, using an FLNG or exporting gas via an undersea pipeline that would connect the Leviathan field to the Turkish coast.Turkish energy companies Turcas Petrol and Zorlu Holding have recently announced that they are considering building a pipeline which may cost $2-$2.5 billion and could supply 7-10 billion cubic meters of gas annually to Turkey via a 500-kilometer undersea route.

The prerequisite to such a solution remains the same: a solution to the Cyprus conflict given that such a pipeline would have to cross Greek Cyprus' exclusive economic zone. Joe Biden's recent visit to the island created new hopes that the talks would this time progress and potentially reach a settlement. The second necessity is the reestablishment of trust between Israel and Turkey: despite Netanyahu's apology to the Turks in March 2013 over the Mavi Marmara flotilla incident and the restoration of their diplomatic ties, to date, their relationship remains fragile.

Europe gas-market push strengthens as oil-link widens

Bloomberg HT, *05.06.2014*

European natural gas buyers are pushing to renegotiate long-term supply contracts as the premium of oil-linked fuel to that on hubs rises to the most since 2009.

GDF Suez SA (GSZ), France's largest gas company, plans to agree new supply terms withOAO Gazprom (GAZP) next year, Vice Chairman Jean-Francois Cirelli said in a June 3 interview. Gas for next month on Germany's biggest hub costs 32 percent less than under long-term agreements linked to oil, the biggest gap since March 2009, according to Bloomberg's gas contract calculator. More than 50% of Europe's agreements are now linked to hub prices.

That has helped boost trading on regional hubs, with German volumes gaining 42 percent last year and buying and selling in the Netherlands climbing 10 percent, according to Trayport Ltd. data. "If there's more gas market-indexed, on the hub, it will increase liquidity of the hubs and facilitate the development of the market," he said in London. "We have entered since 2010 fundamental changes in the European market. Until 2009-2010 there was U.K. market-based and continental European oil-indexed. That is over." The oil-linked price for July is 26.17 euros a megawatt-hour ($10.44 per million British thermal units), according to the Bloomberg calculator using the 2014 BAFA proxy.

That compares with 17.73 euros on the NetConnect Germany hub today, according to broker data compiled by Bloomberg. The oil-linked price was last lower in January. European buyers tied to long-term contracts with suppliers including Gazprom and Norway‘s Statoil ASA (STL) have sought a link to spot rates rather than crude as prices diverged after the 2008 crisis curbed demand. German month-ahead gas has fallen 32 percent over the past year while Brent crude gained 4.9 percent. Agreements linked to oil can last as long as 35 years in a method that dates back to the 1970s, when the fuel was more widely used in power generation. Buyers from EON SE to RWE AG have won price revisions with suppliers through talks or arbitrations after they posted losses selling gas into domestic markets.

Eni SpA, Gazprom’s largest client, renegotiated a contract with the Russian firm last month, a move Stanford C. Bernstein said would boost operating profit at its gas and power unit by 560 million euros ($760 million). Eni’s new terms prove Gazprom is “ready to compete in the new European gas market, where prices are now mostly spot based,” Societe Generale SA said today in a report. “If you are a buyer under long-term oil-indexed contracts, bankruptcy is not far from the center of your mind,” Howard Rogers, director of gas research at the Oxford Institute of Energy Studies, said last month in Amsterdam. “If that rebate goes, you are buying high and selling low. It’s very difficult for buyers to play that game and win.”

Traditional long-term contracts ensure secure supplies as they set annual volumes the producer needs to meet, Sergey Komlev, head of contracts structuring and price formation at Gazprom, said last month. Oil-indexed prices aren’t always higher than those on hubs, according to Anne-Sophie Corbeau, a senior gas expert at the International Energy Agency. “It’s a firm obligation on our side to deliver and if we don’t deliver, we have to pay huge fines,” Komlev said at the Flame conference in Amsterdam. “If you have hub prices, the risk of the supplier is increased and in order to make risk more or less balanced, you will have to get an option not to deliver if you don’t like the price.”
Gazprom has had scheduled renegotiations with all of its clients and doesn’t expect extraordinary reviews, Andrei Zotov, deputy head of the department for economic assessment and pricing, said on an April 29 call.

There’s not enough market transparency on hub trading for the data to be relied on for contractual purposes, Zach Allen, president of Pan Eurasian Enterprises, said today by e-mail. Changing that would require all transactions to be put through an exchange where there’s open and public access to volumes and price data, he said. Gas trading on Germany‘s NetConnect and Gaspool climbed to 2,242 terawatt-hours last year as volumes on the Dutch Title Transfer Facility rose to 8,290 terawatt-hours, according to Trayport, which compiles data on broker bilateral, broker-cleared and exchange-executed trades. “The liberalization of the market is an irreversible process,” Rune Bjoernson, a senior vice president at Statoil, said last month in an interview at Flame. “We need to believe in the price, that there’s enough liquidity for us to use it in these large contracts. Therefore we have changed it and long-term I think it’s the only sensible approach.”

Greece also wants South Stream to pass via its territory

Sofia News Agency, *30.05.2014*

Greek officials said Thursday the country was interested in having the South Stream gas pipeline on its territory. Yiannis Maniatis, the Greek Environment, Energy and Climate Change Minister announced that a "ramification" of the gas pipeline, which is to pass through Bulgaria and Serbia on its way to Central Europe, would make the dynamic cooperation between Gazprom and Athens "even more successful", as he was quoted saying.

Maniatis made the proposal at the 17th annual General Assembly of the European Business Congress (an international non-profit) in Athens.

The meeting was presided by Gazprom's CEO Alexey Miller, who is also the current Chairman. The Greek Minister described the Russian energy concern as a "long-term gas supplier for Greece and the whole of Europe" and pointed that dialogue between the EU and Russia is important for the bloc's energy strategy. Greece is not the first Balkan country to state interest in being included into the South Stream pipeline project, which is expected to increase Europe's total Russian-based gas supplies by one-fifth, pumping 30 bcm yearly into the continent. Macedonia has also insisted that a "derivation" of the pipelines be constructed to deliver gas to its territory. In end-2000s, Greece expected to increase gas supplies from Russia after the construction of the Burgas-Alexandroupolis gas pipeline, but had to renounce these expectations after former Prime Minister Boyko Borisov's center-right cabinet announced in 2011 it was pulling out of the project.

Greece to buy Russian gas at discounted price of $396 per 1,000 cubic meters

ITAR-TASS, *05.06.2014*

Greece will buy Russian gas at a price of $396 US dollars per 1,000 cubic metres, Georgios Chelikidis, the General Manager of Prometheus Gas S.A., a Greek-Russian joint venture with participation of Russia's Gazprom Export, told ITAR-TASS on Thursday.

He said Greece had recently signed a contract with Russia's gas giant Gazprom within the framework of the current intergovernmental agreement on gas supplies up to 2016, with an option of extending it for ten years more. "We have signed a good contract with Gazprom, both in terms of the price and in terms of supplies volumes," Chelikidis said.

"The contract satisfies both Greece and Gazprom. It provides for annual gas supplies of about two billion cubic metres from 2016. Moreover, it provides for a certain margin - the Greeks may take more if they need." In his words, cooperation with Russia was carried out "at a rather high level." "There is good understanding. Gas price talks proceeded smoothly and the price was fixed at $396 per 1,000 cubic metres," he noted. "The agreement was extended for ten years more, till 2026, which only strengthens our cooperation." The long-term contract on Russian pipeline gas supplies via Bulgaria "has ensured development prospects for Greece," Chelikidis said.

When he had been asked if possible construction of a branch line from the South Stream gas mains Athens had recently asked if it could help Greece to diversify gas supplies, Chelikidis said, "Naturally." "Apart from becoming a transit country for natural gas, Greece would have a good alternative route in case gas supplies via Ukraine are interrupted," he noted. According to earlier reports, Greece's Ministry of Environment, Energy and Climate Change said on February 25 that the country's state gas company DEPA and Russia's Gazprom had agreed a 15% discount on the current gas price exported to Greece. The agreement on discounts would have a retroactive effect and would be applicable to gas supplies executed after July 1, 2013. This agreement would be in force within the framework of the current intergovernmental agreement till 2016 and could be extended for ten years.

Gazprom ready to do without external funding of South Stream

RIA Novosti, *03.06.2014*

Russian Gazprom is going to attract external funds into South Stream project but ready to manage without it under unfavorable conditions, the company's deputy CEO told.

"Project financing was successfully realized both in Nord Stream and Sakhalin-2 projects and I think that these tools will be used in South Stream as well. If you ask me if I'm ready for the worst case scenario, I'd say 'Yes, we are ready,'" Medvedev said. Aksyutin, head of South Stream Transport, the project operator, said that funding for the maritime section of the South Stream gas pipeline projects are to be determined by the end of the year.

The shareholders will invest 30 percent of total cost of the project, the rest 70 percent will be paid thanks to loans, according to him. South Stream is a Russian-initiated 15.5-billion-euro gas pipeline project aimed to cut Moscow's dependence on the Ukrainian transit system and diversify Russian gas deliveries to Europe. The pipeline, construction of which began in 2012, will transport Russian natural gas across the Black Sea to Bulgaria and farther to EU countries, bypassing Ukraine. Commercial deliveries through the South Stream to Europe are expected to begin in the first quarter of 2016, with the pipeline becoming fully operational in 2018.

South Steam's offshore leg will comprise four parallel pipelines. Each pipeline will be over 930 kilometers (575 miles) long and have a capacity of up to 40 million cubic meters of natural gas per day. Gas flows will be monitored and controlled around the clock by South Stream Transport. The tender for the first of the four offshore pipelines was awarded in March to Italy's Saipem S.p.A., a subsidiary of energy giant Eni. South Stream Transport said it had already signed a contract for the delivery of some 150,000 pipe segments. Russia annually pumps about 100 billion cubic meters of gas to European countries via Ukraine, which makes up 80 percent of its total gas supplies to Europe.

Bulgarian cabinet survives no-confidence vote over South Stream

Reuters, *30.05.2014*

Bulgarian Prime Minister Plamen Oresharski's on Friday survived a no-confidence motion the opposition had launched alleging that the centre-left government is violating EU rules regarding monopolies in the South Stream gas pipeline project. It was the fourth no-confidence vote against Oresharski's government in the past year. The vote went 116-93 against the motion.

European Commission President Jose Manuel Barroso said after the EU summit on Tuesday that Bulgaria must follow EU energy market rules in the construction of the South Stream pipeline.

The trigger for the EU criticism and the no-confidence motion was a law proposed by Oresharski's government that would secure the monopoly of the Russian natural gas supplier Gazprom monopoly over the South Stream. The South Stream aims to deliver Russian gas to Western Europe via the Black Sea and the Balkans, circumventing Ukraine.

Construction of South Stream in Serbia most likely to start in July

Natural Gas Europe, *03.06.2014*

Although there is no agreement between the EU and Russia over the South Stream natural gas pipeline, Russian Gazprom has announced that the construction of the pipeline's section in Serbia could start in July. EC President Barroso said in Brussels that by building a section of South Stream Bulgaria was violating the rules of the EU and added that the EC would take measures to prevent.

However, head of Gazprom's international projects department Syromyatin announced plans for building the pipeline in Serbia, after Bulgaria, the next on the route to the final users of Russian gas in Western Europe.

“We expect to be able to launch the works as early as July,” Syromyatin told reporters in Belgrade, during a break in the meeting titled Role of Serbia in the Balkan Energy Market, organized by the Natural Gas Europe and the Chamber of Commerce and Industry of Serbia. Apart from the discord between the EU and Russia, Serbia also has a specific problem in the construction of the pipeline – the Serbian budget is seeing a chronically large deficit and lacks the funds for such a big investment. The investment in the pipeline section running through Serbian territory would cost at least 1.7 billion euros. The Russian and Serbian side are on the brink of reaching a solution for the beginning of the works – Gazprom has offered Serbia a loan. Syromyatin said that the two sides are to sign an agreement in two weeks’ time, and stressed that the loan for financing South Stream would be according to the most favorable conditions and that there are few companies that would offer interest of about four percent. It was said earlier that the loan, aimed at securing the founding share of Srbijagas in the joint company with Gazprom in order to implement the South Stream project in Serbia, will amount to 275 million euros.

Siromyatin said that the winner of the tender for the South Stream contractor in Serbia is to be selected soon. He indicated that the South Stream project is running according to plan, and that the Ukrainian crisis has only shown that the right thing was done in starting the implementation of the pipeline’s construction. Asked to comment on Russian President Vladimir Putin’s position that the South Stream project may be revised, he said that there were different options for the pipeline route. “We have different options for the pipeline route and depending on the situation we can change the route,” Syromyatin said. A solution to the South Stream problem is simultaneously being sought on the line European Commission-Bulgaria. The European commissioner for energy, Guenther Oettinger, said in Brussels on May 28 that in talks with the Bulgarian government the European Commission is aiming to find a solution that would harmonize the South Stream pipeline section in Bulgarian territory with European regulations.

“The negotiations are going well in Bulgaria, the Bulgarians have an intergovernmental agreement with Russia, we are talking with Sofia and pointing out to them that this is not completely in tune with European regulations,” said the European commissioner. Serbian Chamber of Commerce President Zeljko Sertic confirmed the importance of South Stream for Serbia and the other states in the region it will run through. “The benefits for the Serbian and the economies of the region will be visible in the first works that will directly involve several thousand people… The implementation of the project in the long term will enable the stable and sustainable development of the domestic and regional economy, and especially of the production that uses gas as fuel or raw material in production,” Sertic said at the Natural Gas Europe meeting in Belgrade.

Addressing participants of the meeting, Syromyatin said that Gazprom was the biggest natural gas supplier in the world, which is why it saw its mission in the secure and balanced supply of its consumers. According to him, a significant portion of the gas Russia delivers to Europe is distributed via Ukraine, Belarus and Moldova, which envisages certain risks, because the partners do not always fulfill their obligations. “By accomplishing its mission as a secure gas supplier, Gazprom considers the further diversification of deliveries through the forming of new routes in gas deliveries its contribution to Europe’s energy security,” the Gazprom official said. He added that the first quantities of gas are to run through South Stream in 2015, while it will reach its full capacity in 2018, which will conspicuously diminish the risks in gas deliveries to EU consumers.

New gas pipeline on table for Gazprom

UPI, *04.06.2014*

Russian energy company Gazprom it's ready for the "worst-case scenario" in terms of financing its South Stream gas pipeline for Europe, an executive said. Gazprom last month signed the necessary contracts needed to start construction of the onshore section of the pipeline later this year.

The company says lingering debt issues with Ukraine, through which the company sends most of its gas to Europe, are creating energy security risks and South Stream could address those problems. Some European officials, however, have said the pipeline would only make the region more dependent on Russian gas.

Alexander Medvedev, deputy chief executive officer at Gazprom, said the company is ready to start construction despite the opposition. "If you ask me if I'm ready for the worst case scenario, I'd say 'Yes, we are ready,'" he said Tuesday. A resolution passed in April by the European Parliament calls on members of the European Union to reconsider the pipeline.

Estonia supports Poland's idea for creating Energy Union

Baltic Course, *05.06.2014*

Paet remarked that Estonia and Poland are very close allies and that Estonia supports Poland's proposals for creating an Energy Union. According to the Estonian Minister, both countries place a lot of value in contributions to enhancing security and related defence spending.

"In order to guarantee NATO's deterrent capacity, it is important for Poland to continue contributing to the air policing mission in Estonia, Latvia and Lithuania," said Paet. The two ministers discussed the situation in Ukraine, and talked about the case where OSCE observers were detained in troubled areas.

When speaking about energy security, Paet emphasised the importance of reducing energy dependence. "The EU will need to pay more attention to guaranteeing energy security, resolving energy issues and implementing regional energy projects, and elaborate an action plan for that purpose," said Paet, adding that Estonia supports Poland's proposals for creating an Energy Union.

Oettinger: Delivery interruption from Russia unlikely

Natural Gas Europe, *03.06.2014*

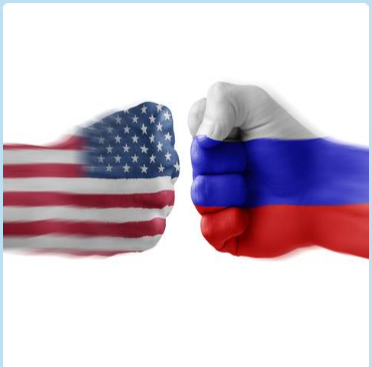
EU, Russia and Ukraine agreed that there would be no interruption of delivery 'as long as talks are ongoing,' the European Commission wrote on Monday evening commenting on the trilateral meeting on energy security between EU Energy Commissioner Oettinger, Russian Energy Minister Novak and Ukrainian Energy Minister Prodan.

'Real progress has been made. Intensive discussions led to a bilateral meeting between the CEOs of Gazprom and Naftogaz who discussed key commercial issues for a settlement of the ongoing gas supply questions,' reads a note released on Monday.

Parties also agreed that 'as long as these talks are ongoing,' there would be no prepayment for gas deliveries for June. At the same time, they ruled out the possibility of Ukraine going to Stockholm for arbitration. A few hours later, late at night, Naftogaz confirmed the talks, but restated the possibility of seeking arbitration. Earlier on Monday, Gazprom confirmed it received 786 million USD from Naftogaz. The news increased confidence and made a solution more likely. Last week, the Russian company voiced its intention to stop gas flow unless Naftogaz payed $2 billion before the end of the previous week. Ukrainian payment went through on Friday and was recorded on Monday.

US can't compete with Russia to meet European energy needs

RIA Novosti, *30.05.2014*

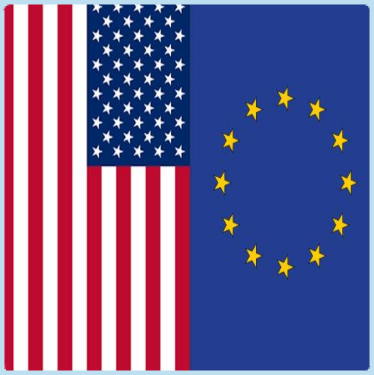


The United States energy exports to Europe are unlikely to have an impact on European demand for Russian oil and natural gas, Senior Democrat of the House Foreign Affairs Committee Brad Sherman told RIA Novosti. The congressman said that the US competition with Russia for LNG exports to Europe was unrealistic, unless they were subsidized by the US taxpayer or Europeans paid up to 50 percent more for energy.

"Even if we were to export natural gas, Asia will pay us more for it than anyone in Europe, in part because Europeans can buy it from Russians," Sherman said.

US shale gas exports won’t solve EU energy problems

Reuters, *05.06.2014*



The European Commission (EC) lacks enough powers to delay the construction of the South Stream gas pipeline, Vladimir Chizhov, Russia’s Ambassador to the EU, told ITAR-TASS in an exclusive interview.

He was commenting on the commission’s launch of procedures against member-state Bulgaria, accused by Brussels of failing to observe European norms in holding a tender for South Stream’s construction. “The European Commission does not have enough power to do it. But that is not the point. The commission does not have any reason to do it.”

“The violations must be proved for the reasons to appear. The presumption of innocence of the participants of the tender in Bulgaria hasn’t been annulled,” Chizhov said. “I do not know all the details of the tender and how the consortium of Russia and Bulgaria took part in it, but I am sure that in legal terms the participation was adjusted perfectly. The project is too serious,” he added. This week the European Commission demanded that Bulgaria freeze laying the Russia-led South Stream pipeline until this project meets European legislation, while EC head Jose Manuel Barroso threatened EU states that will participate in the project with sanctions.

The Bulgarian government said the project complied with the laws. Brussels also suspected Bulgaria of “breaking European rules for the holding of tenders for infrastructure construction projects” and of granting “preferential possibilities for Russian and Bulgarian companies”. The South Stream pipeline will carry Russian gas to the EU bypassing Ukraine. Gas will be pumped to the Bulgaria’s Black Sea port of Varna before extending overland through Serbia, Hungary, and Slovenia to supply gas to the Western Europe via Italy and Austria. The pipeline’s capacity amounts to 63 billion cubic meters.

Russian pricing strategy makes US LNG, TAP unprofitable

Natural Gas Europe, *06.06.2014*

US LNG and expensive pipelines from the Caucasus region heavily depend on the Russian pricing strategy, which implicitly gives Moscow an edge to increase its clout in Europe in the years to come, said Thierry Bros, Senior European Gas and LNG Analyst for Société Générale, this Wednesday.

“Gazprom‘s profitability is not at risk,” Bros said, adding that alternative supplies are likely to be delayed. These temporary suspensions are related to Russia‘s ability to adjust prices in relation to changes in market conditions, as Gazprom can easily decrease prices to make new projects unprofitable

In this sense, Bros predicted Gazprom to increase its market share over the coming years. Mentioning Statoil and Total‘s retreat from Shah Deniz, the analyst argued that current prices are too low to allow expensive projects to go forward, at least for now. He even doubted the feasibility of the TAP pipeline. “There are two alternatives: delays now or a price war later,” he said during the second day of the of the Unconventional Gas & Oil Summit in London, strongly restating that economic factors will be decisive for investments in European infrastructures. His take was shared by other panelists. According to other experts, US LNG and pipelines from Shah Deniz are expensive alternatives that would require a form of political support and would eventually lead to a price war with Russia.

In this sense, question marks heavily hang over TAP’s timing. These statements come as little surprise, considering the fact that major participants are withdrawing from the project. According to an article published by Reuters on Wednesday, E.ON could soon follow Statoil and Total, selling its stake in TAP. The Kremlin’s decision is set to have similar effects on other projects that could decrease European reliance on Russian gas. “Despite rhetoric, there are limits to Europe’s appetite for securing alternative resources like US LNG due to cost,” confirmed Will Pearson, Analyst at Eurasia Group. Costs do play a central role in European leeway, which is also constrained by seemingly uncorrelated decisions.

For instance, US macro-economic policies could further deteriorate European position, limiting the feasibility of projects to import gas from the United States. Being US LNG dependant via shale gas, eventual problems in North American unconventional production would have knock-on effects on European options. That is why American macro-economic decisions have to be factored in as well. According to Paul Stevens, Distinguished Fellow at Chatham House, US unconventional small-medium companies are running a great risk. “Shale gas revolution has been built on a mountain of debt,” said Stevens. He argued that small-medium companies are very vulnerable to interest rates changes. “When interest rates rise there will be lots of bankruptcies raising interesting issues of orphan wells, which could strengthen environmental opposition to shale,” Stevens added.

In this sense, European governments do not have many options. They are rather dependent on the long-distance arm-wrestling between the United States and Russia. As strange as it may seem, the only lifeline could come from Kiev. The standoff over Ukraine has indeed promoted a sense of urgency. This could have three separate consequences. Firstly, it could push Europe to develop a collective purchasing mechanism in particular for Member States that are highly dependant on Russian gas. Grid harmonisation and internal market projects could ramp up as well. Secondly, the current uncertainties could pave the way to shale gas production.

Thirdly, the current geopolitical crisis could turn the spotlight on research. According to James Woudhuysen, Professor of Forecasting and Innovation at De Monfort University, funds for R&D in Europe decreased over the last thirty years, registering a 39% plunge from 1992 to 2012. While funds for energy efficiency and renewable energy sources went up in the last decade (2002-2012), research on fossil fuels and nuclear shrank also in the ten years to 2012. In this sense, the current situation could clearly have positive effects on research.

If US LNG and other expensive projects are nothing but uncertain, in-house research is a good option. The opportunity cost of research and development is indeed extremely low. With few options left, Europe could and should orchestrate a cooperation to promote efficiency through technological achievements and ameliorations. America is probably going to be of little help on a practical level, but it is still a model reminding that technology can sometimes lead to unexpected results. Unless significant Russian acquisitions of European technology firms, Gazprom’s gas pricing would have little voice in this process.

Ukraine says prepared to pay gas arrears to Russia if gets contract first

Reuters, *01.06.2014*

Ukraine is prepared to pay arrears to Russia for gas once it has a contract with Moscow and will take the country to court if it refuses to sign, Ukrainian Prime Minister Yatseniuk was quoted as saying on Saturday. Ukraine told Russia on Friday a $786 million partial payment on a bill that Russia says could exceed $5 billion by next week was on its way to Moscow.

That averted an immediate threat that Russia would stop supplying the former Soviet republic with gas if it fails to make advance payments. In an interview, Yatseniuk said Ukraine's only demand was to get a "fair contract" and gas should not be used as a "political weapon".

Ukraine insists on a price of $268.50 per 1,000 cubic meters while Russia stands by its demand for $485. The average gas price paid by European customers to state-run Gazprom is around $370. "We would like a comprehensive market-oriented approach in Ukrainian-Russian gas relations. We're prepared to pay our arrears but first we must sign a contract," Yatseniuk said. "If not, we'll take the case to court," he said, adding that this would be the best option if Moscow refused to come to an agreement. He gave no further details on the law suit threat but said Russia had confiscated Ukrainian property, including gas, in Crimea, resulting in Ukraine losing billions of dollars. In a separate interview with German newspaper Die Welt, Ukrainian gas oligarch Dmytro Firtash said he would advise Yatseniuk to tell Russian President Vladimir Putin that Ukraine would pay its gas debts if Moscow returned Crimea. "We're not against paying but our territory was taken away from us. If you were to take my apartment should I continue to pay for electricity and gas?" Firtash was quoted as saying.

European Energy Commissioner Guenther Oettinger, who acted as a mediator during talks between Ukraine and Russia in Berlin, said both sides had agreed to continue talks on Monday in Brussels as long as the $786 million payment arrives in Gazprom's account on Monday morning as planned. Oettinger said he was optimistic the energy dispute between Ukraine and Russia would be resolved next week, according to an advance copy of an article due to be published in Frankfurter Allgemeine Sonntagszeitung on Sunday. "I think there's a good chance that we'll get normal supply relationships," he was quoted as saying, adding that major progress had been made on Friday and all sides had shown a willingness to come to an agreement. Russia was prepared to negotiate a "fair market price," he said.

Ukraine says paid Russia $786 million for gas debt

Reuters, *12.04.2014*

Ukraine has paid $786 million to Russia in back payments for natural gas deliveries, far less than the sum Gazprom demands, Ukrainian Prime Minister Arseny Yatseniuk said on Friday. Yatseniuk said Kiev had paid the debt calculating the sum at a price of $268 per thousand cubic meters - the level Russia had agreed with Ukraine before nearly doubling the price after the ouster of Moscow-backed President Viktor Yanukovich.

Gazprom has said Ukraine's debt for gas supplies will have risen to about $5.2 billion by June 7 unless Ukraine begins to pay it off.

Gazprom, Naftogaz closer to agreement in Berlin

Natural Gas Europe, *05.06.2014*

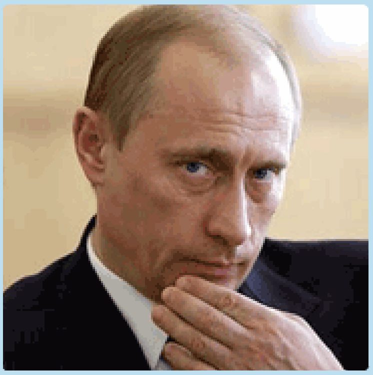
Berlin hosted on Wednesday a working meeting between Gazprom's Alexey Miller and Naftogaz' Kobolev, with the parties moving closer to an agreement. The two delegations are not expected to hold talks on Thursday.

'On request of the Ukrainian party, the debt settlement deadline was postponed until June 10, due to June 9 being a holiday in Ukraine,' reads a note released on Wednesday. On June 2, Naftogaz paid off USD 786 million, stoking hopes of a compromise. According toRussia's Gazprom, Ukraine's debt for Gazprom's supply totalled $ 4.455 billion after the payment covering the debt for the first quarter.

As widely expected, Germany keeps having a central role in the negotiations. The country is also reaping some benefits. Capitalising on the country's reputation, German companies signed a series of agreement with Russian firms.

Putting a price on gas or Putin's gas price?

Natural Gas Europe, *03.06.2014*



By avoiding pushing too much volume, Gazprom/Russia and Statoil/Norway not only avoided a price war in 2011-2013 but managed to reset spot prices at a level that is acceptable to them. Higher prices were leading to permanent demand destruction.

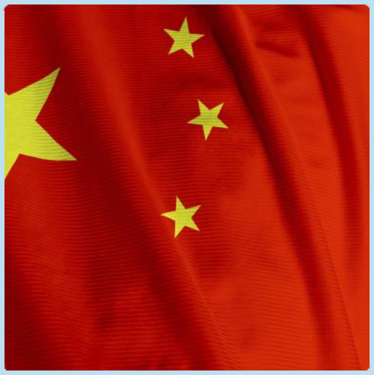
Russia is not willing to boost European gas demand for power generation at a price that it considers too low. As even with no growth in demand, Gazprom's volumes are rising to mitigate the decline in European gas production. So why has Gazprom provided additional volumes to Europe at the expense of prices, that went down by 40% since end-2013?

Higher prices were also leading to the development of alternative supply. With the Final Investment Decision (FID) in December 2013 for Shah Deniz 2 in Azerbaijan and a long list of potential LNG projects in North America, Russia could see the threat of new suppliers/competitors entering the European market after 2020e. The two main producers (Russia and Norway), by flexing their own supply, have made Shah Deniz gas attractive both for European buyers (diversification of supply) and sellers (reduced risk of tough price competition). But with prices now down by 40%, Shah Deniz looks less attractive... And what we saw with Woodside in May, electing to terminate the memorandum of understanding on the Leviathan project, offshore Israel, where profitability on selling LNG into Europe was challenged by higher costs/taxes and lower European prices could now happen in other parts of the world.

Lower European prices could make US LNG only profitable for the Asia market. We believe that the cost of US LNG to berth in Europe is going to be 6 $/Mbtu, on top of the US Henry Hub (HH) price. Hence the broad metric should be to compare NBP and HH+6 (both in $/Mbtu). This means that the optionality embedded in US LNG to serve both Europe and Asia could prove to be wrong. This price decline in Europe could make reaching an FID in US LNG more difficult than consensus thinks. In this no-demand-growth world, Gazprom's strategy to reduce its prices to delay alternative supply after 2020e makes perfect sense.

China deal about geography and economics, not politics

Natural Gas Europe, *05.06.2014*



On May 21, Presidents Putin and Xi Jinping signed a $400 billion Russian–Chinese gas deal in Shanghai. According to the contract, Gazprom will supply the China National Petroleum Corporation (CNPC) via Power of Siberia gas pipeline with 38 billion cubic meters (bcm) over 30 years, from 2018/2020.

Gazprom's largest contract will be based on the supplies originating from the Kovykhta and Chayanda gas fields in Eastern Siberia. The project will cost $75 billion, with the Chinese share amounting to $45 billion ($20 billion direct investment and $25 billion pre-payment for the Russian gas).

Gazprom will have to spend $30 billion on this project, which is already labeled the largest construction site in Russia. The deal is frequently seen as a skillfully planned political response to the sanctions imposed on Russia by the U.S. and the EU, and also as a means of diversifying away from the European energy market. While these considerations indeed played a significant role in an expedient conclusion of ten years of negotiations, it is possible that they were not the key arguments that closed the deal. In reality, it may be that commercial and geographic interests played a greater role than pure politics did. There are six factors that played key roles in the rapid advancement of this deal.

Why go to China? One reason is that East Siberian gas is too far away from Europe. Local gas demand is too low to justify development of the Chyanada and Kovykhta fields with a total reserve base of over 3 trillion cubic meters (tcm). China, with its booming economy and rapidly increasing usage of natural gas, seems to be the perfect client for Gazprom. The geographical imperative also played an important role in China's decision to go ahead with the gas deal— Power of Siberia will go directly into the northeast China with a particularly high natural gas demand. Furthermore, security of supplies plays an important role in China's "energy thinking."

Most of the gas imported by Chinese energy companies is either shipped/transited from potentially unstable Central Asia or transported in the form of liquefied natural gas (LNG) via unprotected sea-lanes and easily lockable "choke points" such as the Ormuz Strait in the Persian Gulf or the Strait of Malacca in the Southeast Asia. Therefore, from a security of supply point of view, Russian gas allows China to mitigate the transit/transport risk and to diversify the imported energy supplies.
Russia's internal market is oversupplied with natural gas, with the glut amounting to about 20 to 30 billion cubic metres (bcm) of supply per year. Several factors have contributed to this surplus. For example, slower industrial growth, particularly in Russia's energy-intensive industries, sent annual gas consumption sharply down. In 2011, demand was 496.3 bcm, compared to last year's record of just 456.3 bcm.

While Gazprom’s exports to Europe rose unexpectedly last year to a record of 162.7 billion cm, it continued to shed market share in Russia, which fell by about 6 percent during the course of 2012. Gazprom’s Chief Executive Alexei Miller even indirectly admitted the existence of under-used spare production capacity, when he said the company’s output capacity could be rapidly increased by 130 bcm/year. European gas markets also offer little attraction for the investors and energy suppliers. They are over-regulated, and EU internal gas consumption is unlikely to grow fast, at least in the years to come. Present market conditions coupled with often-excessive subsidies for renewables renders the immediate future for gas in Europe rather bleak. On the contrary, natural gas consumption in Asia is set to grow as the region’s economies expand. Asian customers are often happy to pay higher prices and even provide necessary investment for the upstream hydrocarbon projects in order to attract additional supplies.

China is Russia’s single largest trade partner. The trade between the two countries accounted for $90 billion in 2013, and is set to increase to $200 billion by 2020. Russia has a surplus in trade with its main commercial partners—the EU, Turkey, Ukraine, the U.S. and Japan—but not with China. In 2013, Moscow had a $10 billion trade deficit in its trade with Beijing and this gap is rapidly widening. Gas exports to China which would easily reach $13-14 billion a year will help to offset growing imbalances in the trade relations between the two countries. In 2012, the Chinese government released its Five-Year Plan for the development of unconventional gas, setting ambitious production targets. Shale gas production is set to grow from 6.5 bcm per year in 2015 to at least 60 bcm per year in 2020. However, at present only two companies—China Petroleum & Chemical Corporation (Sinopec) and a joint venture between Royal Dutch Shell and CNPC—have made visible progress with a total of 100 wells drilled in China.

The progress in shale gas development is being compromised by the difficult geological structure of China’s shale gas reservoirs, lack of water supplies for fracking activities and insufficient technological base. Furthermore, China’s gas consumption is growing at a faster rate than forecasted—the country’s natural gas use increased by 13.9 percent to 167.6 bcm last year and this number is expected to reach 186 bcm by the end of 2014. In these circumstances, Beijing is forced to use all possible sources of gas, whether they might be domestically produced or bought abroad. China is expected to pay for Russian gas at a rate of $10.5 - $11 per million British thermal units (BTU) or $370-$390 per thousand cubic meters. This is significantly cheaper than what Chinese companies are currently paying for their LNG imports. The LNG import price in northeast Asia oscillates between $13.5 and $19.7 per million BTU—affordable Russian gas supplies increases Beijing’s bargaining power vis-à-vis liquefied gas exporters, potentially forcing them to lower gas prices. Russia’s economy will also benefit from this deal.

According to Bank of America’s report released on May 27, 2014, the Russia-China gas project will boost investment in Russia’s economy and might increase its’ GDP growth to 2.1 percent in 2015. This agreement, conditioned mostly by economic and geographical imperatives, highlights the growing strategic significance of China’s economy. Traditionally Soviet and Russian policies were Euro-centric, which reflected the key role the Euro-Atlantic region had played in the world affairs since the 16th century. However, in the last decade the power and economic balance was rapidly shifting towards the Asia–Pacific region, with China becoming the world’s second biggest economy. Washington was quick in responding to this shift, by partially “switching” to Asia. Until now Moscow had little to offer except rhetoric. Last year’s Rosneft deal and Gazprom’s contract were the first real steps towards this new Asian policy.

US EIA report: increase in Russia natural gas exports to Europe

Energy Global, *30.05.2014*

In 2013, Russia exported an average of 15.6 billion ft3/d of natural gas on pipelines to countries in Eastern and Western Europe, 16% more than in 2012, according to data from the US Energy Information Administration, Eastern Bloc Research, and Russian Energy Monthly.

Russia's natural gas pipeline exports to Western Europe drove most of this increase, rising by 20%, to 12.3 billion ft3/d. The entire increase in Russian natural gas exports to Western European countries during 2013 occurred in three members. These three were Italy, Germany, and the United Kingdom.

Italy had the largest increase in natural gas pipeline imports from Russia in 2013, receiving 2.4 billion ft3/d of natural gas. This reflected a 1.0 billion ft3/d increase over 2012. Italy accounted for 16% of total Russian natural gas pipeline exports to Eastern and Western Europe in 2013, versus 11% in 2012. Italy can receive Russian natural gas on the Bratstvo (Brotherhood) and Soyuz (Union) pipelines, which pass through Ukraine. Germany saw its natural gas pipeline imports from Russia increase in 2013 to 3.9 billion ft3/d. This was 0.7 billion ft3/d over 2012 levels. Germany can receive Russian gas on the same pipelines as Italy, as well as the Yamal-Europe and Northern Lights pipelines. However, most of Germany's Russian gas imports now flow via the Nord Stream pipeline, which bypasses transit states, such as Ukraine and Poland, and brings gas directly from Russia via the Baltic Sea.

The United Kingdom's natural gas pipeline imports from Russia increased to 1.2 billion ft3/d in 2013, 0.4 billion ft3/d more than in 2012. The United Kingdom mainly imports natural gas from Russia via the Nord Stream pipeline, along with other interconnecting pipelines. Currently, Russia's entire natural gas pipeline exports flow to Europe, with the exception of small volumes to Armenia, in Eurasia. However, following several years of negotiations, Russian and Chinese officials agreed last week to a 30 year contract for the construction and operation of the Power of Siberia pipeline, which would initially flow 3.7 billion ft3/d of Russian natural gas produced in East Siberia to northern China, with the trade volume eventually reaching 6.4 billion ft3/d.

However, Russia will continue to export pipeline gas exclusively to Europe and Armenia until the Power of Siberia pipeline begins operating, with official commencement scheduled for late 2017. Since 2009, Russia has also exported less than 1 billion ft3/yr of liquefied natural gas (LNG) from its Sakhalin Energy LNG plant. LNG exports from Russia could increase with the addition of a third train in Sakhalin between 2017 and 2018, and with completion of the Yamal LNG project. While Europe imported more natural gas last year from Russia, it imported less natural gas overall. Total natural gas imports into Eastern and Western Europe declined from 43.8 billion ft3/d in 2012 to 42.2 billion ft3/d in 2013, raising Russia's share from 31% to 37%.

The portion of Russian production reaching Eastern and Western Europe on pipelines running through Ukraine also rose, to 19% from 18%. EIA estimates that 16% of all natural gas consumed last year in Europe (including non-European Union countries and Balkan states) flowed from Russia to importing countries on pipelines that passed through Ukraine. Unlike the US, countries in OECD Europe have seen a decrease in natural gas production and consumption since 2005. While this has occurred, OECD Europe has increased its levels of coal consumption.

Gazprom gas exports to Europe in May up over 10% year-on-year to 13.75 bcm

Platts, *04.06.2014*

Deliveries of Russian gas to both Europe and Ukraine rose sharply in May as the gas price dispute between Russia and Ukraine persists, raising concerns over possible interruptions in supplies in June. Deliveries to Europe rose more than 10% year-on-year to 13.75 billion cubic meters of natural gas in May, Gazprom's Alexei Miller said late Tuesday.

"Gazprom continues to increase sales of gas to its clients in Europe even when it is compared to record supplies last year," he said, as quoted by Gazprom's press office. "That the increase came as gas production in Europe as well as supplies from other sources continues to decline," he said.

In the first five months of the year, Gazprom's supplies of natural gas to European markets, including Turkey, grew 5%, Miller said, giving no absolute figures. Another factor that likely sparked the increase in gas purchases is a looming risk of possible disruptions in gas transit via Ukraine as Russia has warned it could switch to prepayment supplies to Ukraine from June 9 if Kiev fails to pay for gas supplied in late 2013 and in April-May. This means Gazprom would stop supplies to Ukraine if it receives no payment for June deliveries. As a result, Ukraine may start taking for its own needs transiting gas destined for Europe as happened during gas price disputes 2006 and 2009.

"This is a record volume, especially for this season," Gazprom's deputy CEO Alexander Medvedev told reporters at a briefing Tuesday. Ukraine has increased its gas requests in May and Gazprom was meeting them despite uncertainty over payments for gas already delivered, he said. In the four week from May 2 through May 30, Ukraine injected about 3.24 Bcm of gas into its underground storage facilities, according to Naftogaz Ukrayiny, the national energy company. Gazprom's conservative forecast envisages gas exports to Europe and Turkey to total 158.4 Bcm in 2014, down 1.9% year-on-year from 161.5 Bcm in 2013. But the actual total could be higher, depending on weather conditions, Gazprom's Medvedev said Tuesday. In 2013, Gazprom raised its gas exports to Europe by 16% -- despite lower overall demand in the region -- because of disruption to Libyan supplies to Italy and lower Norwegian exports to northern Europe, as well as declining production within the EU itself.

GDF Suez to review Gazprom gas contract in market push

Bloomberg, *04.06.2014*

GDF Suez SA (GSZ), France's largest natural gas company, plans to renegotiate a supply contract with OAO Gazprom next year as Europe moves away from linking the price of the fuel to oil. The Paris-based company is "constantly" renegotiating its contracts with suppliers, Jean-Francois Cirelli, vice chairman of GDF Suez, said in London. The talks with Gazprom, following an accord last year, are "something for 2015," he said.

"This year we have few negotiations to be done, but next year there will be more," Cirelli said yesterday in an interview at the Eurelectric conference.

"There is no other solution than to progressively switch to a market-based approach for our long-term contracts." European gas buyers tied to long-term contracts with suppliers including Russia's Gazprom andNorway's Statoil ASA have sought a link to regional spot rates rather than crude as the two prices diverged when the 2008 crisis curbed demand and made gas available at hubs cheaper. That pushed companies from EON SE to Eni SpA to seek reviews of long-term contracts through talks or arbitration as they incurred losses buying gas at higher oil-linked prices and selling it to customers at lower market rates. "We have entered since 2010 fundamental changes in the European market," said Cirelli, who is also president of lobby group Eurogas. "When you have the customers only wanting to pay market-based gas you have to have supply adapted to that."

The oil-linked price for July is 26.21 euros a megawatt-hour ($10.46 per million British thermal units), according to Bloomberg's gas contract calculator using the 2014 BAFA proxy. That compares with 18.25 euros on the NetConnect Germany hub and is the biggest premium since 2009. While the move toward spot-price indexation has in previous years been more visible in northern Europe than in the south, the trend has extended across the continent, Cirelli said. Eni, Gazprom's biggest customer, secured new contract terms last month with the Moscow-based exporter, including an "important change in the price indexation to fully align it with the market," the Rome-based company said at the time. The contract revision with Gazprom will have a "positive impact" of 560 million euros ($760 million) on the operating profit of Eni's gas and power unit this year.

EON and Polskie Gornictwo Naftowe i Gazownictwo SA withdrew their arbitration cases against Gazprom when settling price disputes in 2012 while the court proceedings were completed last year with RWE AG, Germany's second-biggest utility, as the tribunal ordered reimbursement for past payments and a spot-price link in the supply formula. Utilities typically may seek arbitration if they fail to agree via talks within six months after a price review request, while the proceedings may take as long as two years to get a tribunal decision, Pierre Vergerio, chief operating officer of GDF's Edison SpA, said May 22. Milan-based Edison expects its arbitrations with Gazprom and Eni to be completed "in a few months," he said.

Traditional long-term contracts ensure secure supplies because they set annual volumes that the producer needs to meet, Sergey Komlev, head of contracts structuring and price formation at Gazprom, said last month. Long-term, oil-indexed contracts have an intrinsic premium to hub prices due to security of supply, according to Komlev.”There is a value to this long-term relationship which benefits the two,” Cirelli said. “I am sure that Europe will continue to be based on long-term contracts for a large part of its supply. But what changes is vis-a-vis our customers. Customers are market based and they are paying on the market base, which means the supply must be market based too.”

Ukrtransgaz, Shell slow down operations in Eastern Ukraine to protect personnel

Natural Gas Europe, *03.06.2014*

Ukrtransgaz disposed to move the families of its workers based in Donetsk and Luhansk to other regions of the country, explaining that the decision is due to the increased risks caused by the ongoing military confrontation.

According to a note released on Monday, a total of 200 people will move to Odessa and Lviv. Similarly, Royal Dutch Shell said on Tuesday that it has halted drilling for shale gas in EasternUkraine to avoid risks for its personnel. The company signed an agreement with Ukraine to explore the Yuzivska block, with gas extraction activities previously estimated to start in 2015.

In the backdrop, Ukrtransgaz also said that new rates for the transportation of gas came into effect on June 1. Tariffs increased from Rs. 138.40 for 1,000 cubic meters to Rs 366.70. The rates apply for the transportation of gas in the country. The company did not mention gas flows to Europe.

Serinus announces multiple gas zones in Ukraine

Natural Gas Europe, *04.06.2014*

Canada-based Serinus Energy announced it found multiple gas zones, with drilling activities expected to commence by the end of June. 'Logging is now complete and has identified net pay in four zones of Bashkirian or Serpukhovian age, three of which have been established as productive within the company's Ukrainian Licences,' reads a note released by the company on Tuesday.

According to Serinus Energy, the KUB-operated Olgovskoye-11 development well has been drilled to its total depth of 3,230 meters, with the rig to be soon moved to the North Makeevskoye-4 location 'to test a seismically-identified.'

Naftogaz to be split in three to comply with EU laws, says Ukraine's PM

Natural Gas Europe, *04.06.2014*

Naftogaz will soon be restructured, splitting into three separate companies. This move would allow the company to comply with EU's Third Energy package and boost profitability in order to meet its financial obligations on time.

"I suggest the following solution – NJSC Naftogaz Ukrainy will focus exclusively on natural gas sales. We establish PJSC Ukrainian Gas Transportation System, which, according to European legislation, will deal exclusively with the transportation of natural gas, as well as PJSC Ukrainian Gas Storages Facilities, which will deal with the storage of natural gas," Prime Minister of Ukraine Yatsenyuk said.

Ukraine is a member of the Energy Community. The government voiced its intention to step up efforts to align with European standards. "This significantly changes the whole system of energy security and energy policy in Europe. The faster we develop the more confident Ukraine and Europe will feel themselves in energy security issues," reads a note released by the Ukrainian government on Wednesday.

Total and E.ON plan to withdraw from TAP gas pipeline project

Reuters, *03.06.2014*

France's Total and E.ON of Germany plan to withdraw from the Trans Adriatic Gas Pipeline (TAP) project designed to reduce Europe's reliance on Russian gas, Azeri state energy company SOCAR officials said.

"Total and E.ON plan to withdraw from the TAP project," Vagif Aliyev, SOCAR's investment department head, told journalists on the sidelines of the Caspian Oil & Gas conference in the Azeri capital Baku. He did not elaborate further. Total and E.ON were not immediately available for comments. A second SOCAR senior official, who did not want to be named, confirmed the information.

The TAP project aims to transport gas from Azerbaijan's Shah Deniz II field in the Caspian Sea, one of the world's largest gas fields, by the end of the decade. The 870 kilometre (545 mile) pipeline will connect with the Trans Anatolian Pipeline (TANAP) near the Turkish-Greek border at Kipoi, cross Greece and Albania and the Adriatic Sea, before reaching southern Italy. TAP's shareholders are BP (20 percent), SOCAR (20 percent), Statoil (20 percent), Fluxys (16 percent), Total (10 percent), E.ON (9 percent) and Axpo (5 percent).

Enel close to 20-year LNG supply deal with Cheniere Energy

ITAR-TASS News Agency, *03.06.2014*

European Commission explains its recommendation to freeze the South Stream pipeline project with Russia's actions in the World Trade Organization (WTO). According to the EC Commissioner for energy's spokeswoman Sabine Berger, it is important to estimate whether the project complies with the EU energy security policy.

Russia's lawsuit against the EU Third Energy Package disrupted the work of the bilateral intergovernmental group examining compliance of bilateral agreements between Russia and eight EU countries on the South Stream construction with the EU norms, Berger said.

Announcements & Reports

► *Prime Supplier Report*

Source : Energy Information Administration
Weblink : http://www.eia.gov/pub/oil_gas/petroleum/data_publications/prime_supplier_report/current/pdf/c007.pdf

►*What Drives Crude Oil Prices?*

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/finance/markets/reports_presentations/eia_what_drives_crude_oil_prices.pdf

► *In Search of the Mexican Way – How to kick start competition in the electricity sector and achieve lower tariffs*

Source : The Oxford Institute for Energy Studies
Weblink : http://www.oxfordenergy.org/2014/05/in-search-of-the-mexican-way-how-to-kick-start-competition-in-the-electricity-sector-and-achieve-lower-tariffs/

► *This Week in Petroleum*

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/oog/info/twip/twip.asp

► *Natural Gas Weekly Update*

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/totalenergy/data/monthly/pdf/mer.pdf

Upcoming Events

► *International Congress on Economics, Finance and Energy*

Date : 12 – 14 June 2014
Place : Almaty – Kazakhistan
Website : http://icefe.org

► *Utility Energy Storage Europe*

Date : 18 - 19 June 2014
Place : London – United Kingdom
Website : http://atnd.it/6753-0

► *Gas Storage and Transmissions*

Date : 18 – 19 June 2014
Place : London – United Kingdom
Website : http://atnd.it/6752-0

► *Iran Oil & Gas 2014 Summit*

Date : 23-25 June 2014
Place : Dubai
Website : http://www.iransummit.com/

► *ECSEE 2014 - The Second European Conference on Sustainability, Energy and the Environment*

Date : 3 – 6 July 2014
Place : Brighton – United Kingdom
Website : http://ecsee.iafor.org

► *2014 EIA Energy Conference*

Date : 14-15 July 2014
Place : Washington – USA
Website : http://www.fbcinc.com/e/eia/?src=home-b1

► *3rd International Conference on Smart Grid Systems (ICSGS 2014)*

Date : 17 – 18 July June 2014
Place : Bangkok, Thailand
Website : http://www.icsgs.org/

►International Conference on Energy (ICOE) 2014

Date : 12 – 13 August 2014
Place : Colombo – Sri Lanka
Website : http://www.energyconference.co

► 4th Erbil Oil & Gas International Exhibition

Date : 1 – 4 September 2014
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/

► South Russia Oil & Gas Exhibition

Date : 2 – 4 September 2014
Place : Krasnodar – Russia
Website : http://oilgas-expo.su/

► 2nd East Mediterranean Oil & Gas Conference

Date : 9 – 10 September 2014
Place : Paphos – Greek Cyprus
Website : http://www.eastmed-og.com/Home.aspx

Supported by PETFORM

► All Energy Turkey- 2014 *(in Turkey)*

Date : 24 – 25 September 2014
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/?lang=tr