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Turkish shippers press for balancing market plan review

ICIS, *24.07.2014*

Turkish private natural gas companies have approached the natural gas market regulator EPDK with a request to revise draft proposals for the creation of the gas balancing market, noting that existing guidelines may skew the market in favour of the incumbent BOTAS and create additional costs to shippers.

The watchdog is working together with BOTAS to launch the much-needed platform that would help to establish a transparent, functional market and enhance security of supply. Private companies appreciate EPDK's work on the project.

However they say existing proposals are not spelling out how the platform would operate, what the responsibilities of shareholders are, how data would be shared and what precautions would be taken to limit the dominant position of any one player. They have asked the regulator to amend the proposals in a way that the new guidelines would ensure the transparency of the platform, create a fair playing field for importing and wholesale firms, guarantee the correct management of demand as well as the proportional purchase or sale of balancing gas with the existing gas stock in the system. In order to create a fair price, shippers say, companies should have access to accurate and reliable information related to gas levels in the system at any one time.

Although shippers insist the new balancing gas price should be created based on supply and demand, rather than established by BOTAS as is currently the case, they accept proposals by the regulator to retain a bid threshold and offer ceiling until the market becomes more liquid. They say the highest offer given for the same day and same point should not exceed 10% of the lowest offer given. Conversely, the lowest bid for the same day and same point should not be lower than 10% of the highest bid. The balancing market was expected to go live at the beginning of the year. However,it has suffered delays on a number of accounts.

Firstly, EPDK and BOTAS are expecting to launch an updated Electronic Bulletin Board that would include a balancing gas module. EPDK and BOTAS have been working to launch a tender for the relevant software. Secondly, BOTAS has argued that it would not be able to publish comprehensive information until all distribution companies had the necessary equipment in place to feed real-time transparent flow data and forecasts to the centralised unit operated by BOTAS. Finally, draft proposals for the establishment of the exchange had undergone several changes amid concerns from the private sector that they may not create a fair playing field for all participants. In addition, private companies say that the balancing market would not work unless EPDK addresses four conditions as a matter of priority.

These include limiting the integrated structure of BOTAS as a forerunner to unbundling it; completing the Electronic Bulletin Board to include a balancing gas module; the centralisation of data from distribution companies; and removing all legal, commercial and technical obstacles to ensure the creation of a liberal market operating according to free market principles. Private companies have constantly insisted that EPDK and BOTAS should pay the greatest care to the correct establishment of a balancing market since this will become an essential building block towards market liberalization. EPDK could not make any comments by publication.

Turkey approves environmental report for South Stream pipeline

Hurriyet Daily News , *24.07.2014*

Turkey has given the green light to the Environmental Impact Assessment (CED) report for the section of the South Stream Offshore Pipeline that will cross the country. The Turkish Environment and Urbanization Ministry has approved the CED report that oversees the potential impact of the project on nature, a statement released by South Stream has said.

The report concluded that the project, which will carry natural gas from Russia to Europe, is not expected to have any significant impact on the marine environment or fisheries in its Turkish section from the environment impact assessment perspective.

According to information provided by the company, the pipeline will be constructed at a distance of over 110 kilometers from the Turkish coast, in waters up to 2,200 meters deep. Due to the anoxic nature of the Black Sea environment, with virtually no oxygen below 100-200 meters, hardly any life is found at these depths, so few environmental effects are expected during the pipeline construction. In addition, fishing activities are not expected to be impacted by the pipeline as they generally take place closer to the coast.

The ÇED Report identified a number of measures that have been incorporated into the project designed to avoid or minimize impacts. For example, the pipeline has been rerouted in certain locations so that shipwrecks on the seabed are avoided by at least 150 meters, and are therefore not affected during the construction. Offshore pipe laying will start in Russian waters in late 2014 and the first vessel will enter the Turkish exclusive economic zone in the first quarter of 2015. The first pipeline will be operational by the end of 2015.

Iraqi official: Iraqi Kurdistan starts oil pumping from Kirkuk

Reuters, *17.07.2014*

Iraq's autonomous Kurdish region has begun to pump oil from Kirkuk fields previously controlled by Iraq's central government into the pipeline system. Kirkuk lies on the disputed boundary between the northern Kurdish region and the rest of Iraq and is at the heart of a long-running dispute between Baghdad and Arbil, the Kurdish regional capital, over territory and natural resources.

Kurdish forces took control of production facilities at the Kirkuk and Bai Hassan northern fields on July 11, exploiting a power vacuum created by an Iraqi military withdrawal in the face of an Islamist insurgent offensive.

The Iraqi official told Reuters by telephone from Baghdad the Kurdish region had started to pump crude from one of the Kirkuk domes to the Khurmala dome, out of which the Kurdish pipeline runs, using an existing connection. "They are using a pipeline which was originally used to send crude from (Kurdistan), but they have now reversed it (to use it by the Kurdish region)," the official said, estimating the quantity at around 20,000-25,000 barrels of oil per day. The Kurdish Ministry of Natural Resources could not immediately be reached for comment. Kirkuk's Baba and Avana geological formations were previously administered by Baghdad before the July 11 takeover. The Kirkuk region's third formation, Khurmala, has long been under the control of the Kurdistan Regional Government (KRG).

Kurdish forces took control of Kirkuk a month ago, making good on a longtime territorial claim to the city, after Iraqi troops left in the face of a lightning assault by Islamic State insurgents, who have seized large parts of northern and western Iraq, but not threatened well-defended Iraqi Kurdistan. The Kirkuk and Bai Hassan oilfields have a combined production capacity of 450,000 bpd but have not been producing significant volumes since March, when Iraq's Kirkuk-Ceyhan export pipeline was sabotaged by Islamist militants. Last year, Baghdad signed a deal for BP BP.L to revive the Kirkuk oilfield, a plan that the KRG has rejected as illegal.

Oil smuggling finances Islamic State's new caliphate

Reuters, *23.07.2014*

Islamic State militants seized four small oilfields in north Iraq last month and are now selling crude oil and gasoline from them to finance their newly declared "caliphate". Near of Mosul, the Islamic State has taken over the Najma and Qayara fields, while further south near Tikrit it overran the Himreen and Ajil fields.

The oilfields in Islamic State hands are modest compared to Iraq's giant fields near Kirkuk and Basra, which are under Kurdish and central government control. Most of the Islamic State-held oil wells - estimated by a Kurdish official to number around 80 - are sealed and not pumping.

"But the monopoly over fuel in the territory it has captured gives the Islamic State leverage over other armed Sunni factions who could threaten its dominance in northern Iraq. Iraqi officials say that in recent weeks the group has transported oil from Qayara to be processed by mobile refineries in Syria into low quality gasoil and gasoline, then brought back for sale in Mosul, a city of 2 million people. Larger shipments of crude, some of them from Najma, are also sold via smugglers to Turkish traders at vastly discounted prices of around $25 per barrel, they said. "We have confirmed reports showing that the Islamic State is shipping crude from Najma oilfield in Mosul into Syria to smuggle it to one of Syria's neighbors," said Husham al-Brefkani, head of Mosul provincial council's energy committee. "The Islamic State is making multi-million dollar profits from this illegal trade."

Petrol stations in Mosul are now selling fuel supplied by traders working with the Islamic State, which charges either $1.0 or $1.5 a liter depending on quality - a huge increase on previous prices, one petrol station owner in the city said. "The fuel is brought from Syria ... It's triple the price before, but drivers have to buy it because subsidized government fuel was halted," he said. Brefkani said the Islamic State was the sole sponsor of the imports from Syria, where the group also controls oilfields in the Syrian province of Deir al-Zor. "They use part of it for their vehicles and sell the rest to their traders in Mosul."

Najma and Qayara had been operated by Angola's state-owned firm Sonangol, but it pulled out last year declaring force majeure amid rising development costs and security concerns over Sunni militants in the area, even before last month's assault. Qayara, which has estimated reserves of 800 million barrels, had been producing 7,000 barrels per day of heavy crude before the Islamic State took over the field and a nearby 16,000 bpd refinery. Qayara refinery and second smaller plant at Kasak, northwest of Mosul, stopped operating when staff fled. But Qayara oilfield itself has kept pumping after the militants asked Iraqi employees to stay at their posts, promising to protect them - as they have done at most oil facilities in order to maintain production. Iraqi official gave the example of the battle to seize Baiji refinery in the north, Iraq's largest, where the Islamic States and other insurgents have been trying since mid-June to control the site without damaging its facilities.

“(The Islamic State) were keen to keep energy installations inside Qayara intact. We did not realize why they did not destroy facilities, but a week later they started to fill the trucks with Qayara crude. They were planning from the beginning to profiteer the field,” said an engineer who works at Qayara, speaking on condition of anonymity for fear of reprisals. Iraqi government sources said it was hard to assess how much money the group makes from selling crude or the fuel refined in Syria as the number of trucks fluctuates daily. One source said that a separate - and now terminated - smuggling operation into the Kurdish enclave and into Iran generated nearly $1 million a day earlier this month. One dealer and shipping company owner in Mosul said he buys 250-barrel truckloads of crude from the militants for $6,000. “The next step depends on our cunning in dealing with the Turkish traders,” he said.

As another revenue earner, the Islamic militant group levies taxes on all vehicles and trucks bringing goods into Mosul. A large truck must pay $400, while small trucks are charged $100 and cars $50 if they are also carrying goods. Ahmed Younis, a Baghdad expert on armed groups, said the Islamists were in effect establishing an economic state based on the increasing resources and infrastructure under their command. Considering its spread across the Syria-Iraq border, its grip over oilfields there and its growing economic activity, the Islamic State will “transform into an economic giant with assets of billions of dollars,” he said. “In future, will they buy shares in NYMEX? Everything is possible,” Younis said. Further south Islamic State fighters control another two oilfields east of Tikrit, home town of Saddam Hussein. One of them, Ajil, produced 25,000 bpd of crude that were shipped to the Kirkuk refinery and 150 million cubic feet of gas per day piped to the government-controlled Kirkuk power station.

The gas is still pumped - albeit at lower volume of about 100 million cubic feet daily - because, according to energy experts, Kirkuk power station supplies many towns in the region and the militants want to avoid energy shortages. The militants are moving only small amounts of oil from Ajil because of fears that their primitive extraction techniques could ignite the gas, according to an engineer at the site. The other small oilfield captured by the Islamic State is Himreen, with a capacity of 5,000-6,000 barrels per day from five operating oil wells. “The militants brought technicians from outside Tikrit to deal with crude from Himreen and they started to dig up craters and siphon crude out of the wells using small water irrigation pumps,” said an oil ministry employee working at the field. An Iraqi security official said trucks used to smuggle crude from Ajil and Himreen into Iraqi Kurdistan and Iran. Kurdish peshmerga forces used to turn a blind eye.

But Iraqi national security forces as well as the peshmerga began to halt the trade on July 12, he said. The army used helicopters to bomb trucks heading east from Tikrit, while Kurdish security forces seized trucks with smuggled crude crossing into territories under their control.”We have managed to destroy more than 50 trucks as of July 12,” Iraqi counter-terrorism spokesman Sabah Nouri said. “Our helicopter strikes hit the smuggling process hard and cut a vital source of finance to the terrorists.” An oil ministry adviser estimated that in the first two weeks of July, before the operation was halted, the Islamic State made around $10 million - nearly $1 million a day. The mayor of Tuz Khuramto, a town on the route between Tikrit, the Kurdish enclave and Iran, said the smuggling route had been shut down 10 days ago. “Before that, between 30 to 60 trucks moved into the Kurdish region, but now we can say number is zero,” Shallal Abdul said.

Israel's Leviathan gas reserves estimate raised by 16%

Reuters, *13.07.2014*

The estimated size of natural gas reserves in Israel's Leviathan field has been lifted by 16 percent. Leviathan, discovered in 2010 off Israel's Mediterranean coast, is the world's largest offshore gas find in the past decade and is expected to provide the country with greater energy independence.

Production is expected to begin in the year 2017. Based on updated analysis by consultant Netherland Sewall & Associates (NSAI), the reserves estimate was increased to 21.93 trillion cubic feet (620 billion metres) cubic from 18.91 tcf.

The high estimate was raised by 10 percent to 26.52 tcf, while the low estimate was increased by 11 percent to 16.58 tcf. NSAI estimates that the field holds 39.4 million barrels of condensate, up from 34.1 million. The increases follows expansion of Leviathan's database, including 3D seismic surveys and laboratory analysis. Texas-based Noble Energy is the field's operator with a 39.66 percent stake. Avner Oil and Delek Drilling – subsidiaries of Delek Group – hold a combined 45.34 percent and Ratio Oil has the remaining 15 percent. Delek Drilling said the higher reserves ensure Israel's energy independence for decades to come.

"The dramatic increase in Leviathan's gas reserves gives a wide range of export options and bases Israel's position as a leading player in the international energy map with gas reserves of 1,000 billion cubic metres (bcm)," Delek Drilling CEO Yossi Abu said. Along with Leviathan's 620 bcm, the Tamar field - which started production last year - has 303 bcm, while two smaller sites hold 58 bcm. Israel's government has decided to allow exports of up to 40 percent of the gas reserves. Last month, the partners in Leviathan said they had signed a preliminary agreement with British oil and gas company BG Group to negotiate a deal to export gas to BG's liquefied natural gas (LNG) plant in Idku, Egypt.

Eastern Mediterranean gas

Al Jazeera, *10.04.2014*

East Mediterranean gas reserves might pave the way for better Turkey-EU relations and a Cyprus deal. Recent gas finds offshore Cyprus and Israel have led to suggestions that Eastern Mediterranean gas could supply Europe via Turkey along the so-called Southern Gas Corridor, e.g., through the Trans-Anatolian Pipeline (TANAP).

Assuming that the various challenges to this proposal can be overcome, it could inject a positive dynamic into the troubled Turkey-EU relations by enhancing Turkey's role as a transit country for European gas supplies and thereby helping the EU reduce its dependence on Russian gas.

The most formidable of these challenges is the decades-old Cyprus problem - the de facto division of the island into a Turkish Cypriot north and a Greek Cypriot south - with only the de facto Greek Cypriot led Republic of Cyprus (RoC) recognised as the legitimate government on the island.The obstacle arises because a pipeline to Turkey from either Israel or Cyprus would have to traverse the exclusive economic zone (EEZ) delineated by the RoC, which has no diplomatic relations with Turkey. Under international law the RoC would need to grant consent for its trajectory and RoC officials have made it clear that consent would not be given before a settlement of the Cyprus problem.

The Cyprus problem also prevents progress in Turkey's EU accession negotiations, which were launched in 2005, one year after the RoC joined the EU. Because of the Cyprus problem, Turkey does not recognise the RoC and as a result of this no less than 14 of the 35 negotiation chapters are blocked (an additional four are blocked for other reasons). Consequently, any significant improvement in EU-Turkey relations is dependent on a settlement of the Cyprus problem.To date the discovery of natural gas offshore Cyprus has made a solution more difficult, by increasing tensions between the Greek Cypriots and Turkish Cypriots as well as between the Greek Cypriots and Turkey. It has reinforced the parties' divergent positions on the question of sovereignty and related rights to exploit offshore natural resources, and has led to "tit for tat" exploration. It is, therefore, no surprise that sovereignty-related differences delayed the agreement on the joint declaration that re-launched the latest round of UN-led peace negotiations on 11 February.

Despite this, there has been much speculation that gas might have formed part of a wider deal that made the joint declaration possible. One obstacle to this potential catalyst is that each side perceives the other side's need to be greater than its own. The Greek Cypriots believe that the Turkish Cypriots should have the stronger incentive to solve the Cyprus problem because without a solution they cannot have their share of the gas revenues. Similarly, they think that Turkey, as an energy-hungry market, is eager to find alternative cheap supplies via Cyprus gas. On the other hand, the Greek Cypriots' strategic goal to build a liquefied natural gas (LNG) plant is being further postponed as they realise that the current estimated resources in RoC's Block 12, at around 140 billion cubic metres (bcm), are not enough to finance an LNG plant.

Further drilling including in other blocks is not due before late 2014, therefore it could be many years before sufficient volumes are found to begin construction. With this in mind, Turkey and Turkish Cypriots believe that Greek Cypriots, because of the dire state of their economy, need gas revenues as quickly as possible and that the fastest route to revenues is via a pipeline to Turkey. Moreover, statements by Turkish experts and academics suggest that the gas volumes offshore Cyprus are not large enough to be of significant interest. Therefore, each side presumes that the other side has a greater need to solve the Cyprus problem. If gas offshore Cyprus is not large enough alone to be attractive to Turkey, would the addition of Israeli gas make a difference? In other words, could the benefits of gas cooperation among Cyprus, Turkey and Israel motivate the parties towards a settlement of the Cyprus problem which would in turn help EU-Turkey relations?

One option that has such a potential is what might be termed the "pipeline plus LNG promise": That is, an arrangement whereby following a Cyprus settlement a gas pipeline runs from Israel to Turkey through Cyprus' EEZ, while at the same time Israel pledges to supply gas for an LNG plant in Cyprus. Israel's current gas resources of an estimated 800 bcm, of which 320 bcm are available for export, are large enough to support this option. The proposed model could bring significant gains to all players. It offers Turkey an alternative gas supply that should be cheaper than some of its current options; it offers Israel diversity of gas exports and geopolitical benefits; it offers Greek Cypriots the opportunity to build the LNG plant they desire faster than would otherwise be the case and without having to depend on Turkey as an export market; and it offers Turkish Cypriots a share in gas revenues. Given all this, the "pipeline plus LNG promise" could be a strong incentive for the parties to conclude the negotiations for a settlement of the Cyprus problem quickly.

There are some caveats to this idea, however, such as Israel's security concerns, which may be why new technologies such as a floating LNG (FLNG) plant or Compressed Natural Gas (CNG) by ship appear to be gaining traction. Despite these uncertainties, recent statements suggest that the parties may be warming more generally to the idea of post-settlement gas cooperation. The RoC president, Nicos Anastasiades, linked natural gas and a Cyprus settlement in an interview with the Associated Press on February 17, while on February 12, Turkey's energy minister, Taner Yildiz, said that a solution of the Cyprus problem could lead to cooperation on energy projects. Although the "pipeline plus LNG promise" depends on further improvement in Turkey-Israel relations as well as a final decision by Israel and the Leviathan partners on export options, it might be evolving into a more attractive option in light of recent developments: lower estimates in RoC's Block 12, a volatile Turkish lira and pressure from foreign companies on Israel to finalise its export plans. Whether or not these calculations will encourage the parties to push for a Cyprus solution, or whether new evolving uncertainties will simply make them more risk-averse, remains to be seen.

The coming Mediterranean energy war

Natural Gas Europe, *13.02.2012*

CA significant gas find offshore has propelled hopes for brighter future in the Mediterranean. For the Republic of Cyprus, it came as a blessing amid the deteriorating Eurozone crisis. The rating agencies had downgraded the southern part of the island four times in 2011 to its current Standard & Poor's rating of BB.

In December 2011, the U.S. company Nobel Energy discovered natural gas on the Cypriot coast, which marks the beginning of a new era of prospects that open up for [this] country, the area and Europe" said Greek Cypriot energy minister Praxoula Antoniadou.

Mrs Antoniadou claims her country will have electricity for about two hundred years. The EU would also benefit from a new source of energy that might help wean it from its dependency on Russian gas. The Greek Cypriots' new partner in the gas endeavor, Israel, adds pressure to the island's already complex relations with Turkey. And Israeli prime minister Benjamin Netanyahu's visit to Nicosia this week will do nothing to reduce tensions. Experts warn against the possibility of a deteriorating security situation brought about by these new discoveries in the eastern Mediterranean. Turkey is vehemently opposed to the Greek Cypriot plans for unilateral gas drills that do not include the island's North. The discovery of natural gas has "brought new dimension to the political tension in the region," says Gary Lakes, analyst with the Nicosia-based Middle East Economic Survey.

For four decades Cyprus has been ethnically divided into the Greek-populated Republic of Cyprus in the South of the island, which is a member of the European Union, and the breakaway Turkish Cypriot state in the North. So far, only Turkey has recognized the latter and has stationed between thirty thousand and forty thousand of its troops on its territory. Ankara does not accept the existence of an exclusive economic zone (EEZ) in the waters around Cyprus, precisely the spot where Nobel made its gas discovery. Last year Turkey even sent a warship to cruise around the company's exploration team. This move could not stop the quest for offshore gas reserves in the area. But Turkey's threatening stance has since increased talks between Israel and the Republic of Cyprus, which along with Greece has traditionally sided with Palestine.

Although Greek Cypriot officials insist that nothing has changed in their relations with "our Arab friends," the new energy sources in the area have already reshuffled traditional allegiances in the eastern Mediterranean against the backdrop of damaged Turkish-Israeli ties. If Israel wants access to these new wells, it must fill the void of insufficient Greek Cypriot military capability to protect future drilling operations off the Cypriot coast. Shortly after the confirmation of gas deposits there, this January Israel and Greece signed agreements on defense cooperation and exchange of classified information. This is perhaps unsurprising: the Israeli companies Delek Group and Avner Oil and Gas are the U.S. firm Nobel's partners in the Greek Cypriot offshore oil field also known as Block 12.

The two are said to have an interest in exploration licenses and also in the remaining twelve blocks in the Greek Cypriot EEZ that would go to tender this year. Local media report that cooperation in the joint marketing of Israeli and Cypriot gas is among the top issues that Benjamin Netanyahu will bring to the negotiating table during the first-ever visit of an Israeli prime minister to Cyprus on February 16. Ankara has so far remained unimpressed by the diminishing distance between Nicosia and Tel Aviv.

Turkey continues on a collision course and has announced plans by the state-run Turkish Petroleum Corporation to proceed with exploratory oil drills in the northern parts of Cyprus as soon as the end of February. The Greek Cypriot government is vocal about its opposition but Brussels has so far remained relatively calm, although it did reprimand Turkey for sending a warship too close to Nobel's exploratory drill operation last year. But it remains to be seen what Europe's reaction would be to an actual drilling effort by the Turks. Although the whole of Cyprus is officially part of the European Union, EU law does not currently apply to the occupied North.

The quantities of gas in Block 12 that have now been confirmed are not yet enough to justify excitement over the idea of pan-European energy security. But they offer potential for more. Hopes are waning that Europe will be able to lessen its dependence on Russian energy through the proposed Nabucco pipeline project to the Caspian region. And Germany needs to look for alternative energy sources after its post-Fukushima decision to phase out nuclear plants by 2022. Thus Europe may start taking a closer look at the Greek Cypriot resources and preparing for the coming dispute with Turkey. Analyst Gary Lakes summed up both the promise and peril of the new Cypriot energy sources: “2012 will be an interesting year, provided nobody loses their head.”

Tony Blair advisor BP for export of Azerbaijani gas to Europe

Reuters, *18.07.2014*

Former British Prime Minister Tony Blair was appointed adviser to the consortium led by BP to export natural gas from Azerbaijan to Europe. According to «Financial Times», with his supply a gesture was made by Western companies to reduce dependence on Russian supplies.

Blair will enter a South Advisory Group, which will "advise on political, environmental, reputational and social problems that can confront Shah Deniz - 2 and a transport corridor for the first years of existence. Blair has been hired because of political and business experience - especially when dealing with EU institutions.

Since seven countries are involved in the project, the consultations of this politicians are important in view of the impending organizational, political and environmental conflicts. The project involves BP, Norway's Statoil, the state oil company of Azerbaijan, as well as partners in transportation - Botas, Fluxys, Axpo and Eon. Blair's appointment is also associated with his growing role in the Caspian basin - at one time he was successful adviser to the government of Kazakhstan "reform program" - from 2011 to 2013. And another important point, in parallel Blair hopes to open an office in Abu Dhabi with an obvious attempt to make the Middle East with the participation of his company «Tony Blair Associates». He has also charities - Climate Group, Foundation of Faith and the African Governance Initiative.

Corporation BP - operator of the consortium for the development of "Shah Deniz - 2", the largest in the Caspian Sea. Its gas will be delivered through the "southern energy corridor" through two pipelines - through Turkey and Greece to Albania, Italy and further - to the rest of Europe. The $45 billion was supported by EU leaders on a background of relative gas dependence on Russia, especially evident after the Crimean crisis ("Gazprom" supplies to the European Union 29.4% of gas consumed.) Blair as an adviser will join former German Foreign Minister Hans-Dietrich Genscher and former head of BP Peter Sutherland.

Bulgarian government approves South Stream loan from Gazprom in its last days

Natural Gas Europe, *23.07.2014*

The state-owned Bulgarian Energy Holding (BEH) will approve the EUR 620 m loan it was offered by Russia's Gazprom for the construction of South Stream in Bulgaria. The news comes as the government of Plamen Oresharski is expected to resign on Tuesday, the resignation being set for parliament voting on Thursday.

The amount however would not be enough for BEH to cover its 15-percent share, as the contract with Stroytransgaz Consortium is estimated at EUR 3.8 m rather than the initial EUR 3.5 m, thus obliging BEH to put EUR 68 m more of own financing on the table.

BEH will pay back the loan with the future dividends from the pipeline. The newspaper also informed that the capital of South Stream Bulgaria will be increased with 10 percent so that it could make the required advanced payment of 10 percent (EUR 380 m) to the consortium. This news is just one of a series of rumours pointing to the fact that Bulgaria has not actually stopped working on South Stream despite promises to the EU for the opposite. Bulgarian liberal political formation the "Reformist Block" alarmed on Monday that the Bulgarian government is preparing to issue an EUR 100 million bank guarantee via the Bulgarian Development Bank (BDB) and the Bulgarian Export Insurance Agency (BEIA) for the construction of South Stream gas pipeline despite earlier signals that the project has been put on hold in accordance with the EU's grievances. Ex-energy minister during the GERB government and current member of the Reformists Traicho Traikov stated that the state intends to make its participation in the South Stream project irreversible through the issuance of a state guarantee via the DBD and the BEIA despite the fact that the construction of the pipeline might not happen in the end.

"If the project is to be stopped, delayed or modified, these 100 million euros will be paid by the Bulgarian taxpayers", Traikov said. This statement follows earlier evidence uncovered by the Reformists which suggested planned amendments to Bulgaria's Energy Act in favour of South Stream's construction were directly adopted from a series of Gazprom letters to the BEH, both partnering with equal shares in the joint venture and future pipeline operator South Stream Bulgaria. Meanwhile the rumoured tacit replacing of U.S.-sanctioned Stroytransgaz in the construction of the Bulgarian stretch of South Stream with the Gazprom subsidiary Centrgaz was confirmed by Bulgaria's energy minister Dragomir Stoinev in an interview for bTV. Centrgaz will partner with five Bulgarian companies reported by Bulgarian media as close to the current socialists-led government. Last week Centrgaz was announced as construction of the pipeline in Serbia.

Greece considers exclusive zone in offshore gas fields

ALMONITOR, *09.01.2013*

The discovery of oil and natural gas in the Mediterranean Sea has taken the genie out of the bottle. Now Greece wants to strike against Turkish interests by claiming sovereignty over this newly found wealth near Turkey's shores. There is a popular Turkish saying for such circumstances: Don't say "Amen" for something that won't happen.

The Greek weekly To Vima reported over the weekend that Greece is preparing to make a unilateral declaration to the United Nations seeking to determine its demarcation line based on what Greece thinks are the limits of its exclusive economic zone in the Aegean and the eastern Mediterranean.

Accordingly, Greece would double its sovereign rights in the disputed territorial waters with Turkey, and would allow almost no room for Turkey to exploit its coastline. The report also suggested that Greek Prime Minister Antonis Samaras is paying a great deal of importance to the issue, and believes that Turkey won't have the energy to indulge in a new crisis with Greece while it is already overwhelmed dealing with its own Kurdish issue and the Syrian crisis. What makes Samaras think that Turkey will easily concede its long-term interests is another interesting detail in the story. It's true that Turkish Prime Minister Recep Tayyip Erdogan's government has nearly exhausted its energy and political capital trying to expand the country's presence in the Middle East, and that Erdogan's efforts to position himself as the leader of the Sunni world have reached a stumbling block. It's also true that Turkish Foreign Minister Ahmet Davutoglu's failed "zero problems with neighbors" policy is not only causing problems for his political future, but has also branded Ankara as a daydreamer. That said, it would be naïve to assume that the Turkish state is going to give up its long-term interests in the disputed Aegean and Mediterranean territorial waters.

Just as Greece has the right to apply to the international body for the demarcation of its exclusive economic zone, Turkey no doubt has the same rights. "In such a situation, Turkey takes counter-action," said Davutoglu, trying to downplay the unilateral attempt by Greece that scored yet another embarrassment to his illusionist policy of "zero problems with neighbors." "While Turkey-Greece relations have gained momentum, it is important to move together in this process," he said on Jan. 7. With the discovery of rich hydrocarbon fields in the eastern Mediterranean basin, and possibly in the Aegean, Greece is trying to free its hand from its long-standing territorial water disputes with Turkey. As a signatory to the UN Convention on the Law of the Sea (UNCLOS), Greece claims that it has the right to extend its territorial waters up to 12 nautical miles, and its exclusive economic zone up to 200 nautical miles. While UNCLOS may on paper favor Greek demands, it certainly does not tell the whole story. One of the main elements of the international law of the sea concerning exclusive economic zones concerns equity. This is linked to geography as well as fairness. These are also reasons why Turkey rejected becoming a signatory to this international agreement.

Take the Greek island of Kastellorizo, or Meis in Turkish, as an example. It's only 2 kilometers (1.2 miles) from the Turkish coastline. It occupies an area almost 12 square kilometers (4.6 square miles) with a population of fewer than 500 people. Forget about the big issues like sharing the wealth of the sea and the hydrocarbon fields: Greek demands suggest that Turks should only be a spectator of the sea at their shores, as if looking at a painting, and that they cannot even take a swim in it. Such an approach not only defies logic, but surely isn't serious. As Davutoglu said, Turkey will respond if and when Greece officially applies to the UN with this request. If nothing else, the Turkish foreign ministry has true expertise over territorial water disputes in the Aegean and the eastern Mediterranean, as well as the Cyprus issue. From that perspective, the path ahead is going to be long and will likely present the Greek side with a reality check. Just because Athens came up with an idea does not mean that it's going to be implemented.

OMV production falls on Libya, Kazakhstan

Reuters, *23.07.2014*

Austrian oil and gas group OMV 's production fell 5 percent in the second quarter from the first, due to security problems in Libya and technical difficulties in Kazakhstan. OMV said on Wednesday that the second-quarter production was 297,000 barrels of oil equivalent per day (boe/d), down from 311,000 in the first quarter and on a level with the year-ago period.

The Austrian oil and gas group's refining margin, which is a key measure of profitability, rose to $1.92 per barrel from $1.63 in the first quarter, thanks mainly to improved gasoline spreads. The figure compared with $2.48 in the second quarter of 2013.

OMV's oil output in Libya, which accounted for 10 percent of its total production before the 2011 uprising that toppled Muammar Gadaffi, has been virtually nil since mid-March due to protests at major oilfields and ports. Libya's oil production fell again this week for the first time since the end of a year-long rebel port blockade in April allowed it to start increasing. OMV said it would have charges of 145 million euros ($195 million) in the quarter, consisting of a 110 million-euro impairment in Kazakhstan due to unsuccessful field redevelopment results, and an exploration licence write-off in Tunisia. It also said exploration expenses increased significantly to 180 million euros mainly due to the recognition of unsuccessful wells in Gabon, the Faroe Islands and Norway. In the second quarter of 2013, exploration expenses were 137 million euros. ($1 = 0.7426 Euros)

Gazprom to maintain gas export monopoly — president's aide

ITAR-TASS, *23.07.2014*

The gas export monopoly of Russia's gas giant Gazprom will remain intact, presidential aide Andrei Belousov said in a news conference on Wednesday.

"We did not discuss spinning off the pipeline. There were no such orders. Gazprom's monopoly on gas exports remains unshakable. Anyway, I am aware of no ideas to deprive (Gazprom) of the monopoly," Belousov said. However, several options are being considered now. "There is an option of a consortium of independent gas producers participating in the construction of the gas transportation system", he said.

There is an option of their participation in expanding the capacities of the projected gas transportation system," he added. "These are strategic issues, but they are not connected with depriving Gazprom of its monopoly." Belousov also said that the government is considering injecting capital in Gazprom. "The order is being carried out now. We are working on it; which sources to use is a different issue. We are considering different options."

In June, Finance Minister Anton Siluanov said that there is no need in boosting Gazprom's capital after it signed a $400 billion 30-year contract to supply 38 billion cubic meters of gas per year to China. The supplies are to be done via a yet-to-be-built pipeline Sila Sibiri and President Vladimir Putin suggested increasing Gazprom's capital to help it build the pipeline. But sources said that Gazprom does not need the money because China will pay $25 billion in advance for gas, which is enough to finance the construction.

Putin suggests ending Gazprom pipeline monopoly

Financial Times, *22.07.2014*

President Vladimir Putin has ordered the Russian government to consider breaking Gazprom's monopoly on pipeline gas exports by allowing other producers to export from new fields in eastern Siberia and the far east. This could be a victory for state-owned Rosneft, which has lobbied hard to increase in the Russian gas sector.

While the government will not make a decision on liberalisation until September 1, a decision to do so would offer Rosneft a piece of Russia's gas deal with China and potential access to the planned Power of Siberia pipeline that will link eastern Siberian gas production to China.

Another potential winner from the deal would be Surgutneftegaz, which also has new gasfields in the region. Mr Putin's order comes as Russia continues its pivot towards Asia, symbolised by the long-awaited gas deal, signed this May. Under the agreement, Russia will export 38bn cubic metres of gas annually to China over the next 30 years, suggesting a price of $350 per thousand cubic metres. Gazprom has fought for full control of the Power of Siberia pipeline, insisting it will pay for its construction itself. But the gas export monopoly has come under increasing pressure from Rosneft and its head Igor Sechin, which view the pipeline as a key tool in fulfilling its growth targets. Earlier this month Rosneft threatened to sue Gazprom if it refused to grant it and other producers access to Power of Siberia, insisting that not doing so would prevent Siberian residents from fulfilling their heat and electricity needs. In a separate victory for Rosneft, Mr Putin has also ordered the government to review granting Rosneft access to the trans-Sakhalin pipeline, another source of contention.

While Rosneft had wanted to use the pipeline to pump gas from its planned liquefied natural gas facility, Gazprom had declined the request, insisting the pipeline had no available capacity. Analysts said new western sanctions against Russia and increased geopolitical tensions could prompt Moscow to speed up its gas liberalisation plans even further. "Given sanctions and potential pressure on Russia, it likely makes more sense for the Russian government to allow independent producers access to western pipelines," said Ildar Davletshin, an analyst at Renaissance Capital, noting it would allow Russia to increase its utilisation of the Nord Stream pipeline.The two main players that have benefited from Russia's gas liberalisation steps so far are Rosneft and independent producer Novatek, both of whom were placed on a US sanctions list last week. Under the new sectoral sanctions, the two groups are barred from raising new long-term loans from US banks and investors. Gennady Timchenko, one of Novatek's billionaire shareholders, admitted the sanctions would complicate the company's financing plans. However, both groups have insisted they have sufficient enough cash flows to continue funding their projects and servicing debt.

Oil and natural gas sales 68% of Russia's total export

EIA, *23.07.2014*

Russia is a major exporter of crude oil, petroleum products, and natural gas. Sales of these fuels accounted for 68% of Russia's total export revenues in 2013, according to Russia's Federal Customs Service. Russia received almost four times as much revenue from exports of crude oil and petroleum products as from natural gas.

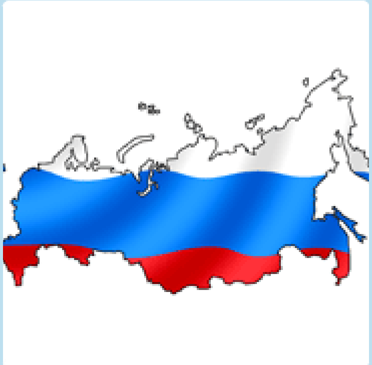
Europe, including Turkey, receives most of Russia's exports of crude oil and products, as well as virtually all exports of natural gas. Asia (especially China) receives substantial volumes of crude oil and some liquefied natural gas (LNG) from Russia.

Recently, Russia finalized a 30-year, $400 billion deal to supply China with natural gas from fields in Eastern Siberia, which will further increase Russian export revenues. North America imports some Russian petroleum products, particularly unfinished oils used in refineries. Although Russia exports less crude oil and less natural gas than it consumes domestically, domestic sales of crude oil and natural gas are much lower in value than exports because of vertical integration of the oil and natural gas industry and subsidized domestic prices. Many Russian oil firms are vertically integrated, owning both the oil fields and refineries that process crude oil. These firms can sell crude oil directly to their own refineries at low prices.

Domestic natural gas prices are also subsidized, forcing Russian companies like Gazprom to use export revenue to fund investment in new infrastructure and projects. EIA estimates that Russian domestic sales of natural gas and crude oil were about $20 billion in 2013, based on data from IHS Energy. Although revenue from domestic sales of crude oil and natural gas in 2013 was significantly lower than revenue from exports, Russian domestic sales of petroleum products, particularly motor gasoline and distillate fuel oil, were approximately $102 billion, similar to revenue from product exports. Oil and natural gas activities make up a large portion of Russia's federal budget. According to the Ministry of Finance, 50% of Russia's federal budget revenue in 2013 came from mineral extraction taxes and export customs duties on oil and natural gas.

Russia's friendship with China work

CNN, *05.06.2014*



When Russian President Vladimir Putin and his Chinese counterpart Xi Jinping signed a huge gas deal last month, the timing couldn't have been better. It was on the eve of the Putin's St Petersburg Forum, and just weeks after the G7 energy ministers had announced a long-term plan to lessen Europe's troubling dependency on Russian energy.

The multi-billion deal had been in the works for a decade, as the two parties negotiated the price. Russia finally agreed to supply natural gas for 30 years starting 2018. The price was not made public, but is estimated at around $456 billion over the 30-year term.

The deal is a milestone in Russia's efforts to pivot towards the east. The country has suffered as the crisis in Ukraine deepens and the West implements sanctions." The deal will allow [Russia] to continue with an energy-focused business model," said Andreas Woergoetter, an OECD economist and the head of Russian economy division. The IMF said that the Russian economy is in recession, and has lowered its growth forecast to just 0.2% for the year. "There have been consequences on the Russian economy as a result of the geopolitical situation, the uncertainty, and the sanctions that have been decided," IMF chief Christine Lagarde told CNN last month. But as its traditional trading ties have weakened, Russia has been building economic relationships elsewhere. In the last five years, trade between Russia and China has grown by a third, from $21 billion in 2008 to nearly $36 billion in 2013.

Russians are buying even more from China. In 2013, Russian imports from China added up to $53 billion, largely made up of textiles and other consumer technology such as mobile phones. However, Woergoetter said that any increase of imports from China might be problematic, "making it even more difficult for Russia to develop a competitive manufacturing sector." VTB, Russia's second biggest bank, and the Bank of China have also agreed to pay each other in their own domestic currencies to bypass the U.S. dollar. Politically, the two countries have often faced the Western world together within the UN Security Council meetings, such as when they voted against the majority on issues around Syria, Zimbabwe and Myanmar. The deepening relationship was underlined when Xi decided that his first foreign visit as a newly elected Chinese president would be to Moscow.

New EU sanctions may affect Russia's finance, oil and gas sector

Financial Times, *24.07.2014*

European Union will weigh sanctions against Russia that may include a ban for Europeans to purchase Russian state-owned banks' stock and debt, in a 10-page document prepared by the European Commission. Russian banks may be prohibited from floating new share issues on European stock exchanges to raise foreign capital.

"The measure would consist in prohibiting any EU persons from investing in debt, equity and similar financial instruments with a maturity higher than 90 days issued by state-owned Russian financial institutions anywhere in the world," according to the document.

The proposal does not extend, however, to the Russian banks' existing securities and Russia's sovereign bonds. But even these measures may be quite sensitive for Russian financial institutions, The Financial Times said. Specifically, the European Commission's document says that Russian banks with over 50% state ownership placed bonds worth €7.5 billion on European markets last year while the total amount of bonds floated by Russian banks in Europe in 2013 is estimated at €15.8 billion.

Aside from restrictions on Russia's financial sector, the EC document mentions a ban on EU exports of sensitive technologies to Russia to target three areas: deep-sea drilling, Arctic exploration and shale oil extraction. The European Commission may also impose an arms embargo to limit Russian weapons exports to Europe estimated at €3.2 billion a year and restrict trade in dual-purpose goods. However, the measure will have to be agreed unanimously by all 28 EU member states while some European countries have spoken against imposing sanctions on Russia, The Financial Times said.

Polish oil and natural gas production rising

UPI, *22.07.2014*

Oil and natural gas production in Poland increased during the second quarter of the current year, state energy company PGNiG said in a Tuesday report. In an amended quarterly report, the state energy company PGNİG said it produced roughly 2.2 million barrels of oil during the full second quarter of the year 2014, a 33 percent increase year-on-year basis.

Regarding production in natural gas, the state company said its second quarter production volume was nearly 40 billion cubic feet, a 3.7 percent increase over the same period last year.

The European Investment Bank last month loaned Poland $132 million for the expansion of a pipeline that could bring gas, including domestically sourced liquefied natural gas, to the border of the Czech Republic, Slovakia and Ukraine. The EIB said the Polish gas project is “crucial” to European energy security. Poland is thought to be rich in shale natural gas reserves. In April, PGNiG said it would asses shale reserves with the Polish subsidiary of Chevron, though shale developments in the country have been slow to evolve. PGNiG provided no data on the origin of natural gas produced in its quarterly report. As of 2013, Poland produced an average 27,680 barrels of oil per day.

EU happy 'in principle' with UK plan to ease unbundling rules

ICIS, *22.07.2014*

The UK is free to change the way it applies the EU's unbundling laws, the European Commission told ICIS after UK energy secretary Ed Davey's proposals to relax the laws, which prohibit energy companies owning both supply and the means of distribution assets in the power and gas sectors.

"The European Commission has been informed and remains in contact with the UK authorities," the spokeswoman said. "We have not seen the draft legislation yet, but in principle, EU member states are free to adapt their legislation in the field of unbundling as long as it continues to respect the third package," she said.

Davey wrote to British regulator Ofgem last Thursday outlining the proposals, which would see the regulator look at investments on a case-by-case basis to decide if they are anti-competitive (see ESGM 17 July 2014)."These unbundling rules were designed for good competition reasons; but over-rigid interpretation is stopping infrastructure investment that could not possibly result in any discriminatory behaviour," he told a conference in London last week. "We will consult on our precise approach to a more flexible unbundling regime, but we think there is scope to give Ofgem more discretion in its assessment and final decision on transmission system operator certification," said a spokeswoman for Department of Energy and Climate Change.Any changes to the unbundling laws, a key part of the EU's third energy package, which has driven market liberalisation across Europe, remain firmly within the commission's purview. This is because the commission has to certify the unbundling rules are complied with in each case. A draft of the new regulations will be published in autumn 2014, with implementation anticipated for early 2015.

Europe risks losing 30 million jobs to U.S. shale boom

Bloomberg, *17.07.2014*

The U.S. shale-gas boom is placing 30 million jobs at risk in Europe as companies with greater reliance on energy contend with higher fuel prices than their American counterparts, the International Energy Agency said.

Manufacturers of petrochemicals, aluminum, fertilizers and plastics are leaving Europe to take advantage of booming U.S. production of natural gas from shale rock formations, Fatih Birol, chief economist for the International Energy Agency, said. "Many petrochemicals companies in central Europe are moving out," Birol said. "Thirty million jobs are in danger."

The U.S. has become the world's largest producer of oil and gas as hydraulic fracturing and horizontal drilling help producers extract resources from shale rock. The country's refineries processed a record volume of crude last week as plants took advantage of cheaper domestic crudes. Chemical makers from Germany's BASF SE to Brazil's Braskem SA plan to invest as much as $72 billion in U.S. plants to take advantage of low-cost natural gas feedstock. West Texas Intermediate crude traded at a discount of $5.85 a barrel to European benchmark Brent at 5:43 p.m. on the ICE Futures Europe exchange in London. U.S. August natural gas futures traded for $3.96 per million British thermal units on the New York Mercantile Exchange, compared with $6.49/MMBtu for the equivalent U.K. contract on ICE in London. U.S. refineries are competing for market share and benefiting from margins that exceed those of European competitors by as much as $10 a barrel because of cheaper crude, Hermes Commodities said in a report today.

OFGEM rushing through natural gas capacity charging reforms

ICIS, *21.07.2014*

The British regulator Ofgem is rushing through controversial reforms to UK gas system entry charges, industry group the Gas Forum said on Monday. The regulator is planning to overhaul the way entry capacity is charged at all entry points, under the auspices of the EU's Network Code reforms.

"There are some concerns in the industry that Ofgem is trying to rush this through," said Nick Wye of Waters Wye associates, on behalf of the Gas Forum. "The plan is to conclude the modelling by September, then go away and produce an impact assessment based on the modelling, which will then be put forward for consultation," said Wye.

"Ofgem's plan is to have a UK view completed by the end of the year, which is definitely a challenge," he added. The UK's view will be submitted to European authorities and will influence the final outcome of the EU network codes reforms, that aim to standardise procedure across the European energy market. The Gas Forum wrote to regulator Ofgem to express concerns about the narrow scope of the modelling that Ofgem are undertaking, as part of the technical working groups. "Many are concerned that Ofgem's impact assessment will be overly reliant on that modelling which doesn't include important things such as new investments," said Wye. "The modelling will consider scenarios out until 2035 and it is hard enough to predict the market in the 2020, so there are some concerns that this is being done very quickly," he added. "We would prefer the date for the impact assessment to be pushed back to next spring, which would give enough time for the industry to conduct a broader review at the potential implications of the changes, as they are certainly controversial reforms."

Ofgem wants to move towards floating charges at all UK transmission system entry points along with other changes to what shippers must pay to enter the UK system. Floating charges would mean that while shippers can book entry capacity into the UK system up to 17 years in advance, the final charge will depend on the capacity price in the year that it is delivered by system operator National Grid. In effect this means that the payable price for capacity will be different from the initial bid price that is entered into auction by the shipper, reflecting revenue at each entry point in the preceding year. All capacity at UK interconnector points will be subject to floating charges as of 2017 under EU regulation, but Ofgem is minded to implement it across all entry points. Furthermore, Ofgem would like to adjust the charges for monthly capacity for inflation, saying that it has caused some decline in National Grid revenue, necessary to invest in the system.

U.K. gas erases jet crash gains in third day of declines

Bloomberg, *22.07.2014*

Data is showing that natural gas in the United Kingdom fell a third day, erasing almost all of the increase after a passenger plane was shot down in eastern Ukraine, as ample supplies and falling demand cushion the risk posed by the crisis in that country.

The August contract in the U.K., Europe's biggest market, declined as much as 1.2 percent to below the close on July 16, the day before the downing of Malaysia Airlines Flight 17 caused prices to jump 6.9 percent, according to broker data compiled by Bloomberg. Supply into Britain's network was forecast to exceed demand, National Grid Plc data show.

Flows into the U.K. system were in line with the 10-day average, while demand was forecast to be 4.5 percent lower than the seasonal norm, according to National Grid Plc, the network operator. Forecast supply was set to be 3 million cubic meters (100 million cubic feet) more than demand through 6 a.m. London time tomorrow, grid data showed. "The system remains well supplied," Trevor Sikorski, head of natural gas, coal and carbon and Energy Aspects Ltd. in London, said by e-mail today. While the probability of Russian sanctions, which could affect gas exports, has increased after the plane crash, the threat is "still low." U.K. gas for delivery in August fell to 37.05 pence a therm ($6.32 a million British thermal units) before trading at 37.35 pence at 5:08 p.m. in London, broker data show. The contract closed at 37.15 pence a therm on July 16. Winter supplies, for delivery in the six months from October, rose 0.4 percent to 57.75 pence a therm, highlighting a risk premium for the coldest months of the year. Ukraine, which transits about 15 percent of Europe's Russian gas needs, and its U.S. and European Union allies accused pro-Russian rebels in eastern Ukraine of shooting down the Boeing 777 plane. Disputes between Ukraine and Russia over gas prices disrupted supplies to Europe in 2006 and 2009.

Flows into the U.K. have been boosted by arrivals of cargoes carrying liquefied natural gas. Eight vessels carrying the super-chilled fuel already docked at British ports this month and another four are already scheduled, according to port authorities and ship-tracking data compiled by Bloomberg. That's more than double the number of ships in July last year and would be the most for that month since 2011. "LNG flows to Europe from Qatar remain robust as spot LNG prices in Asia continue to fall," Citigroup analysts including Christopher Main said in a report e-mailed yesterday. "Little change is expected on the prompt, but increasing Russia tail risk may push winter prices marginally higher." Actual flows into the U.K. were at 174 million cubic meters a day, compared with forecast demand of 171 million cubic meters, grid data show. The nation's pipelines were forecast to contain 341 million cubic meters of gas at 6 a.m. tomorrow, from 338 million cubic meters at the same time today.

U.K. gas for within-day delivery declined 2.1 percent to 37.2 pence a therm, while the day-ahead contract slid 1.1 percent to 36.95 pence, broker data showed. Lower prices are incentivizing the use of gas for power generation in the U.K., with 45 percent of all the electricity produced being fired by the fuel, compared with 21 percent for nuclear, 18 percent for coal and 3.4 percent for wind, according to grid data. “European spot gas prices have found a floor as coal-to-gas switching is occurring in the U.K. yet this will likely remain a floor rather than something to push prices higher,” Citigroup said, adding that coal demand could still increase should there be any gas supply disruptions to Europe.

The European Union plans to extend sanctions on Russia by adding “an additional couple of names” of people who are “materially or financially supporting the annexation of Crimea or the destabilization of Ukraine or benefiting, in cooperation with decision-makers,” Gunnar Wiegand, a director in the European External Action Service, said in Brussels. The EU will draft possible financial sanctions and will take the first decisions by the end of the month, German Foreign Minister Frank-Walter Steinmeier said today. EU governments would move toward stiffer sanctions if Russian President Vladimir Putin refuses to abide by a United Nations resolution calling for an international probe into the disaster and unimpeded access to the crash site, according to proposals being weighed by the bloc’s foreign ministers at a meeting in Brussels today.

Britain should privatize onshore oil and gas deposits

Reuters, *22.07.2014*

Oil and gas taxation has become a major source of conflict between producers and Britain's tax authorities. But like other indirect taxes, the amount of attention oil and gas taxes draw is out of all proportion to the amount of money they raise for the treasury.

Britain raised less than 5 billion pounds from taxes on oil and gas production last year, about 1 percent of all central government receipts, according to the authorities.Oil and gas taxes raised less money than duty on alcohol or cigarettes and only a little more than minor imposts such as insurance premium tax air passenger duty and landfill tax.

"Oil and gas revenues are tiny compared with income tax (152 billion pounds), national insurance (102 billion), value-added tax (100 billion) and fuel duties (27 billion). Two-thirds of oil and gas tax revenues come from the ring-fenced corporation tax (1.6 billion pounds) and supplementary charges (1.9 billion) paid by companies operating in the North Sea and other areas off the coast and onshore, with the rest coming from petroleum revenue tax (1.1 billion). Oil and gas producers no longer pay royalties on fields developed after 1982, even though the government, rather than private landowners, has owned all oil and gas deposits since the passage of the Petroleum (Production) Act in 1934. In any case, royalty payments never amounted to more than a small share of receipts from oil and gas, and effectively stopped from 2003 with the exhaustion of older fields ("Statistics of government revenues from UK oil and gas production", June 2014).

In March, responding to heavy lobbying by the industry, the government promised a review - which was formally launched on July 14 - of North Sea oil and gas taxation. "Exploration and production is becoming harder and more expensive, and the UK is facing competition for capital from other countries," the finance ministry admitted. But the tiny amount of tax raised from Britain's oil and gas producers (other than payroll and sales taxes paid by all businesses) suggests taxation is not the reason behind dwindling North Sea oil production. Many in the industry hope that improved fiscal treatment can restore the sector's fortunes, but that seems unlikely.

"Oil companies have welcomed the UK government's announcement ... that it is reviewing the North Sea oil and gas tax regime, amid concerns the fiscal burden is threatening the sector's long-term future," the Financial Times wrote, reflecting the industry line. A tax overhaul could "slow down this precipitous decline we've been seeing in oil production", one producer told the newspaper ("Oil companies welcome North Sea tax review", July 14). But with the entire industry paying just 4.6 billion pounds in direct and corporate taxes, it is unlikely taxation is the "burden" many claim. The reality is that Britain's remaining offshore oil and gas deposits are relatively expensive to produce and investment is going to more promising areas such as North America's shale.

The oil and gas industry is on firmer ground complaining about the complexity of the tax system and frequent changes made to tax rates and allowances, and the introduction and then abolition of various special levies. Fiscal stability might help unlock more long-term investment - though the industry must accept its own share of responsibility for the complexity and unpredictability of the system. Much of it is the result of past tax avoidance and fierce lobbying for specific tax breaks. The tax authorities have been playing an elaborate game of “whack-a-mole” with production companies to collect adequate revenue from Britain’s offshore and onshore oil and gas fields.”The regime has become too bespoke.

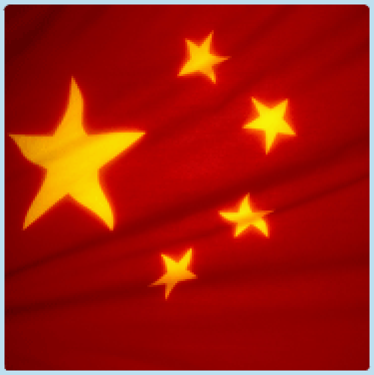
It needs to be simplified and made more predictable,” the head of the Oil and Gas UK trade association acknowledged to the Financial Times. Greater stability will require a more open and trusting relationship between the operators and tax collectors, something that will not be easy to achieve. The government’s focus is now shifting toward encouraging more onshore exploration for oil and especially gas. Ministers have hinted that yet another special regime could be created to encourage the development of relatively high-cost onshore shale deposits. Britain has extensive shale oil and gas deposits in three major onshore sedimentary basins, which policymakers hope could be brought into production. There are many challenges but among the stiffest is intense opposition from some local communities and green groups to hydraulic fracturing in rural areas.

Part of the problem, as many analysts have noted, is that local communities will bear all of the costs of oil and gas exploration without capturing any of the benefits. Unlike in the United States, landowners do not own any oil and gas that might be found beneath their property, so cannot claim royalties or other payments from producers. The 1934 Petroleum Act nationalized all oil and gas deposits in Britain. Public ownership makes sense for offshore oil and gas, since the state, in the form of the Crown Estate, has always controlled the seabed. But it makes less sense for onshore oil and gas, for which private ownership was the norm until 1934. The UK Onshore Operators Group, a trade association, has developed proposals for compensating communities that host shale wells by paying them for each well drilled plus a small share of the proceeds from any hydrocarbons from the well (“UKOOG Community Engagement Charter”). The government has taken this a step further by making payments to local communities a condition of future exploration and production consents. But it would make more sense simply to transfer the ownership of oil and gas back into private or community ownership and enable operators to negotiate commercial agreements with communities directly. There would be no significant loss of government revenue, and the prospect of a financial windfall might make local residents more willing to accept drilling in their community.

Landowners are already compensated (through royalties) for extracting other minerals except oil, gas, coal, gold and silver, according to the British Geological Survey (“Legislation and policy: mineral ownership”). The system works well for other substances found below ground. There is no reason why the same system should not now apply to oil and gas. There would be complications. In some instances, the ownership of the surface land has been severed from ownership of the mineral rights beneath it. But that is not an insuperable obstacle. While the rights to other minerals may be owned by other private owners, the rights to oil and gas are currently owned by the government, so they could be transferred to individuals or communities. The bigger issue is how to handle conflicts between neighboring landowners in which some but not all would receive a financial windfall. But settling such disputes is the purpose of the local planning system. Local authorities are already involved in all aspects of the process from planning permission to traffic management and the regulation of noise and other nuisances.

Xinhua: China to curb blind investment in coal-to-gas

Natural Gas Asia, *22.07.2014*



China's National Energy Administration (NEA) has told local authorities to curb irrational development of coal-to-oil and coal-to-gas projects, after new technology sparked an investment spree regardless of environmental and economic realities.

The country will ban coal-to-gas projects with an annual output of no more than 2 billion cubic meters and coal-to-oil schemes that produce 1 million tonnes or less, according to an NEA document published on Tuesday. Projects larger than those will be subject to regulatory approval from the State Council, China's cabinet, the NEA said.

Previous data showed nearly 70 percent of energy consumed in China comes from coal, a ratio much higher than in developed countries. The NEA noted that developing coal-to-oil and coal-to-gas is significant for ensuring China's energy security and the shift towards cleaner energy use. However, some regions have been enthusiastic about building new plants, and there are signs of blind development regardless of realities in environment, water resources, as well as technological and economic capabilities, the NEA said.

Oil prices rise on geopolitical tensions

AFP, *22.07.2014*

Oil prices rose on Tuesday on geopolitical tensions fuelled by a warning of tougher sanctions against Russia and fierce fighting in Gaza, traders said. Brent North Sea crude for delivery in September climbed 64 cents to stand at $108.32 a barrel in London midday deals.

US benchmark West Texas Intermediate (WTI) for August increased 34 cents to $104.93 a barrel compared with Monday's closing value. "The crises in Ukraine and the Gaza Strip, coupled with the risk of tougher economic sanctions against Russia, caused oil prices to climb," said analysts at Commerzbank in a note to clients.

Asia Group II base oils may extend falls on demand lull

ICIS, *23.07.2014*

Group II base oil spot prices in Asia are likely to come under pressure in the weeks ahead amid a seasonal lull in demand and ample supply in the market.On 18 July, prices of Group II higher viscosity grade 500N were assessed at $1,010-1,025/tonne FOB (free on board) Asia, down by $5-15/tonne from the previous week, ICIS data showed.

For light grade material, spot prices also declined $5-10/tonne over the same period to $1,000-1,010/tonne FOB Asia. Regional demand for these base oil grades typically weakens in the summer months of June to August pulling down prices, industry sources said.

Lacklustre demand continues to be observed in key markets like China, and is expected to persist through the third quarter of the year, they said. Improvement in offtake of Group II base oils usually happens ahead of winter, as end-users change their preference and opt for material with better solubility and anti-freeze properties in the colder months. Apart from current weak demand, new Group II capacities coming on stream in Asia, the US and the Middle East over the next 12 months are raising concerns of oversupply – further weighing down spot buying ideas from Asian importers.

In South Korea, a joint venture 650,000 tonne/year unit of Shell Petroleum Company Ltd and Hyundai Oilbank (HDO) is expected to start up by the end of August, according to some market players. The plant is expected to boost spot and contractual availability of Group II base oils in an already sufficiently-supplied market. Competition from deep-sea cargoes of US-origin in India is also affecting the overall Asian market, some industry sources said. This situation is expected to intensify by August, as fresh supply will hit the international market in the third quarter, with the commercial start-up of Chevron's Pascagoula Base Oil Plant (PBOP). In the Middle East, the planned start-up of Abu Dhabi National Oil Company's (Adnoc) base oils unit in fourth quarter of 2014 will provide an additional 100,000 tonnes/year of Group II light grade base oil into the market. A number of northeast Asian buyers are being cautious about procuring cargoes from the international spot markets, amid uncertainty in the near-term trend in Group II import prices.

"Offers for import material are still coming in, said a northeast Asia-based Group II buyer. "But our [company's] focus would still be on domestic availability, especially since it is difficult to tell how import prices would move in the next three to four weeks. It will be less risky to buy domestically," the buyer said. Some other market players, however, are convinced that Group II base oil prices may have no more room to fall because of the presently squeezed margins of producers. "I don't think prices have much more room to decline. It should be bottoming out within the next few weeks, and we will see demand pick up again in September, a regional trader from Asia said. "Buyers, who have not bought cargoes in a long time, will likely start to replenish their inventories," the trader said.

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Obama administration said to plan oil-by-rail rules

Bloomberg, *23.07.2014*

The Obama administration will propose train speed limits and studier rail tank cars today as part of a set of new rules intended to reduce the risks of hauling crude oil, two people familiar with the plan said.

The draft proposal, which follows a series of fiery accidents, will also require improved braking systems as well as testing of crude oil before being it is loaded, the two people said. It's expected to apply to shipments of corn-based ethanol as well as oil, said another person. All of these people have asked not to be identified nor declared because the details aren't public.

The regulations are designed to update standards to account for an increase in the use of trains to carry flammable liquids, particularly crude oil from places like North Dakota's Bakken field where production is soaring beyond the capacity of pipelines. U.S. carloads of oil jumped to 408,000 last year from 11,000 in 2009. Safety advocates and local officials from communities near where the oil trains pass have pushed regulators for months to update rules in response to a series of accidents, including a derailment in downtown Lynchburg, Virginia, in April that caused a train to catch fire and dump oil into the James River. The worst of those accidents happened just over a year ago when an unattended train rolled downhill, derailing in Lac-Megantic, Quebec, and creating an explosion that killed 47 people.

Announcements & Reports

► *OPEC Monthly Oil Market Report*

Source : Organization of the Petroleum Exporting Countries
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMRJuly2014.pdf

► *OPEC Annual Statistical Bulletin*

Source : OPEC
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2014.pdf

► *Energy Supply Security 2014*

Source : IEA
Weblink : http://www.iea.org/media/freepublications/security/EnergySupplySecurity2014_PART1.pdf

► *TSO Cooperation and the Internal Energy Market*

Source : Entso - E
Weblink : https://www.entsoe.eu/Documents/Publications/ENTSO-E%20general%20publications/140415_ENTSO-E_Annual_Report_2013_Final.pdf

► *Costs, Competitiveness and Climate Policy: Distrotions Across Europe*

Source : Oxford Energy Institute
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/04/Costs-Competitiveness-and-Climate-Policy.pdf

► *Mexico's emerging infrastructure opportunity*

Source : Ernst & Young
Weblink : http://www.ey.com/Publication/vwLUAssets/EY-mexicos-emerging-infrastructure-opportunity/$FILE/EY-mexicos-emerging-infrastructure-opportunity.pdf

Upcoming Events

► International Conference on Energy (ICOE) 2014

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

► Oil & Gas Producer Hedging and Marketing Forum

Date : 11 September 2014
Place : Dallas - USA
Website : http://www.mercatusenergy.com/oil-gas-hedging-marketing-conference/

► 4th Annual LNG Global Changes

Date : 16 - 19 September 2014
Place : London – United Kingdom
Website : http://www.lnggc.com/?xtssot=0

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

► 2nd European Shale Gas and Oil Summit 2014

Date : 29 – 30 September 2014
Place : London – United Kingdom
Website : http://www.esgos.eu/

► USEA 7th Annual Energy Supply Forum

Date : 02 October 2014
Place : Washington - USA
Website : http://www.usea.org/

► Energy and Economic Competitiveness

Date : 06 – 07 October 2014
Place : London – United Kingdom
Website : http://www.chathamhouse.org/events?field_event_flags_tid=conference

► Energy Hedging, Risk Management & Trading Seminar

Date : 15 – 16 October 2014
Place : Houston - USA
Website : http://www.mercatusenergy.com/energy-hedging-trading-risk-management-events/

► FT European Gas Summit: New Supplies for Europe: Feast or Famine

Date : 23 October 2014
Place : London – United Kingdom
Website : http://event.ft-live.com/ehome/index.php?eventid=87259&&reference=twittertweet

► European Automn Gas Conference

Date : 28 – 30 October 2014
Place : London – United Kingdom
Website : http://www.theeagc.com/

► Turkey International Underground Gas Storage Conference

Date : 29 – 31 October 2014
Place : Ankara – Turkey
Website : http://tugs2014.org/

► Gas to Liquids

Date : 29 – 30 October 2014
Place : London – United Kingdom
Website : http://www.smi-online.co.uk/energy/uk/conference/gas-to-liquids

► Climate Change: Raising Ambition, Delivering Results

Date : 03 – 04 November 2014
Place : London – United Kingdom
Website : http://www.chathamhouse.org/ClimateChange14?campaign=ngfe

► *Iran Oil & Gas Summit*

Date : 03 – 05 November 2014
Place : London – United Kingdom
Website : http://www.iranoilgas-summit.com/

► *Turkmenistan International Oil & Gas Conference and Exhibition*

Date : 18 - 20 November 2014
Place : Ashgabat - Turkmenistan
Website : http://www.oilgasturkmenistan.com/

► *Oil & Gas Cyber Security*

Date : 24 – 25 November 2014
Place : London - United Kingdom
Website : http://www.smi-online.co.uk/energy/uk/conference

► *Middle East and North Africa Energy*

Date : 18 – 21 Feburary 2015
Place : London – United Kingdom
Website : http://www.chathamhouse.org/node/15232

► *4th Erbil Oil & Gas International Exhibition*

Date : 18 – 21 Feburary 2015
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/

► *6th OPEC International Seminar*

Date : 03 – 04 June 2015
Place : Vienna - Austria
Website : http://www.opec.org/opec_web/en/press_room/2793.htm

► *OGA 2015*

Date : 02 – 05 June 2015
Place : Kuala Lumpur - Malaysia
Website : http://www.oilandgas-asia.com/home/index.php