Yıldız: No further delays expected on Russian gas price discount

Natural Gas Europe, *03.08.2015*

Turkey expect no further delays in the 10.25% gas price discount agreement with Russia, Taner Yildiz said in a press conference in Ankara. Turkey and Russia agreed on gas price discount but both countries did not signed any agreement before Turkish Stream project.

Yildiz said that the talks between Turkey and Russia, Iran, Azerbaijan may slow from time to time but gathers pace eventually, which may not cause a major problem. "This is not a suprise for us. Both Turkey and Russia already agreed on gas price discount agreement, the signing of necessary documents will be completed.

We expect no further delays in signing the agreement," Yildiz said. Yildiz also said that Azeri gas flows to Turkey will be stopped from tomorrow due to maintenance. Russian gas giant OAO Gazprom shelved South Stream pipeline project, which was planned to deliver gas to southeastern Europe, after the European Union blocked construction on competition grounds. During a state visit, Russian President Vladimir Putin replaced this project with Turkish Stream, which will carry 63 BCM gas to flow to Turkey and onward to the European Union. The EU filed anti-monopoly charges against OAO Gazprom. The EU's import requirements are expected to rise further, since the gap between the production and consumption of natural gas continues to grow.

Another Turkish pipeline attack indicates increase in tensions

Natural Gas Europe, *04.08.2015*

A few hours after Iran resumed natural gas exports to Turkey, another attack hit a pipeline in Turkey. According to Reuters, flow from Azerbaijan was not affected as supply was already suspended for planned works.

"With last night's attack, the separatist terror organization (PKK) has once again shown that they aim to prevent our people from accessing their most basic needs," Energy Minister Taner Yildiz said in a statement. According to Reuters, Turkish officials claim that members of the PKK is responsible for the early-Tuesday assault on the pipeline in Turkey's Posof province near to the border with Georgia.

Apart from the attach to the pipeline connecting Iran and Turkey, last week witnessed another attack on a pipeline connecting Turkey and Iraqi Kurdistan. The developments indicate an increase in tensions between Turkey and PKK. Turkey's air force attacked Islamic State (IS) positions in Syria and Kurdish PKK militants in northern Iraq.

Minister: Turkey in Turkish Stream talks with Russia

Hürriyet, *04.08.2015*

A continuing delay in the Turkish Stream energy project stems from factors in both Russia and Turkey, Energy Minister Taner Yıldız said. "The pipeline project to carry Russian gas to Europe, with Turkey as a transportation hub, was caused because the Russian side was late in delivering the coordinates for the construction route, and because of talks to form a new coalition government in Turkey,"

"The delivery date for the route coordinates had been extended. Turkey could not begin any construction without these coordinates," said Yıldız, speaking to Anadolu Agency in an exclusive interview.

"The inter-governmental agreement for the project should be ratified in parliament, and Turkey must first form a new government through either a coalition or a snap election," Yıldız added, since talks for a coalition government are ongoing among Turkish political parties. Russian President Vladimir Putin scrapped the South Stream project last December and announced Turkish Stream, which is slated to deliver Russian natural gas to Europe through the Black Sea and Turkey by four pipelines with a capacity of 63 billion cubic meters. Turkey has also agreed to a 10.25 percent discount on Russian gas purchases, and a $1 billion retroactive payment is due on the agreement, which was dated to Jan. 1, Yıldız said, adding that Turkey was the second-largest consumer of Russian gas. Turkey has said Russian gas prices should not be higher than what EU countries pay and that the price gap is closing, he added. The minister said the discount and the construction of the pipeline were separate issues, but being handled simultaneously at Russia's demand. Both agreements are yet to be signed. Turkey will build the 265-kilometer section of the pipeline traversing its territory, while the section beneath the Black Sea will be constructed by Russia, Yıldız said. Touching on a talk with Maros Sefkovic, vice president of the European Commission in charge of the Energy Union, Yıldız said, "As an EU member, if you demand natural gas on the one hand and refuse the project on the other, it would create a contradiction, which Europe needs to overcome. The minister also said demand for natural gas continues to grow in Europe.

Yıldız said Turkey was hopeful of winning a dispute on gas prices with Iran at the International Court of Arbitration (ICA), as litigation has ended, with a decision expected to be delivered soon. Turkey has repeatedly objected to the high cost of Iranian gas and demanded a discount by taking the case to the ICA. Ankara currently takes 10 billion cubic meters for $487 per 1,000 cubic meters. “I think the court has made its decision. We opened the case expecting to win it, and we maintain the same belief now,” Yıldız said. Asked about relations with Iran after the agreement on nuclear energy between Iran and world powers, Yıldız said Turkey had always maintained good relations with Iran and would continue to do so. On a pipeline between Europe and Iran that is planned to carry 35 billion cubic meters of Iranian gas, Yıldız said Turkey would help with the construction process for the section passing through Turkey. Yıldız said he recommended that Turkish investors place funds in Iran’s economy, while warning that Iran’s constitution should be changed to create an easier business environment after sanctions are removed.

Putin, Erdogan to discuss Turkish Stream impasse

Sputnik, *01.08.2015*

The current gridlock over the planned construction of the Turkish Stream gas pipeline may be broken when Russian and Turkish leaders meet each other, President Vladimir Putin’s press-secretary said.

Negotiations between Russia and Turkey on the Turkish Stream natural gas pipeline project have been put on hold and a personal meeting between the two countries’ leaders may now be needed to kick-start the stalled process. The meeting between Vladimir Putin and Recep Tayyip Erdogan may come as part of the Supreme Cooperation Council session.

Ankara obtained a 10.25 percent price discount on the 28-30 billion cubic meters (bcm) of gas it buys from Russia, Turkish Energy Minister Taner Yildiz said in February, but the discount, which should have been in effect as of January 2015, still needs a final signature. Another sticking point in talks has been Russia’s insistence that Ankara grant permits for the construction work on four planned lines in the project. Turkey has so far only given licenses for the first line. Turkish Stream is the working name of the proposed natural gas pipeline from the Russian Federation to Turkey under the Black Sea. The proposal was announced by President Vladimir Putin in December 2014, during his state visit to Turkey. The proposed pipeline should replace the cancelled South Stream project. It is supposed to bring 63 bcm of gas per year to Turkey and to southern Europe via Greece by 2020. The first phase of the pipeline was expected to be operational by 2017 and to carry 15.75 bcm of gas. The first direct gas pipeline between Russia and Turkey was the Blue Stream, commissioned in 2005. The expansion plan was replaced later by the South Stream. Putin proposed a line parallel to Blue Stream 1 under the Black Sea, from Samsun to Ceyhan, and further to Syria, Lebanon and Cyprus island.

Turkey to boost security for energy infrastructure as PKK attacks rise

Reuters, *06.08.2015*

Turkey will deploy thermal cameras and horse-back patrols to heighten security around key oil and gas pipelines as Kurdish militant attacks increase, in a bid to safeguard energy supplies in the import-dependent country, energy officials said.Tighter security around energy infrastructure would be welcomed by KRG, whose oil exports to the world are piped through Turkey. A recent attack on the line has cost it more than $250 million by halting oil pumping.

Kurdistan Workers Party (PKK) said it was stepping up attacks over what it said were ceasefire violations by the Turkish state.

Attacks have become almost daily since Ankara began air strikes on PKK camps in northern Iraq, in what Prime Minister Ahmet Davutoglu has called a “synchronized fight against terror”. Other energy infrastructure has also become a target. The Azeri Shah Deniz pipeline and the Iranian pipeline, which carry a total of 16 billion cubic meters of gas annually, came under attack within the last 10 days. Oil flow in the Iraq-Turkey pipeline, carrying Kurdish and Kirkuk oil to Turkey’s southern port of Ceyhan, resumed on Thursday after a week-long shutdown following a PKK attack, a Turkish energy official and a shipping agent told Reuters. “The risks for companies who are supplying to or through Turkey has increased quite a bit in the light of recent attacks,” according to one energy industry official in charge of pipeline operations involving Turkey. With few hydrocarbon reserves of its own, Turkey purchases 98 percent of its natural gas and more than 90 percent of its crude oil from foreign producers. The imports, estimated at $61 billion worth in 2014, help to swell its current account deficit, which reached $45.84 billion the same year. Bombing energy infrastructure therefore was an effective tactic commonly used by the PKK in the 1990s. Attacks lasted until 2013, when a ceasefire was sealed after Tayyip Erdogan, then the prime minister, opened talks with jailed leader Abdullah Ocalan to end three decades of conflict, which has killed more than 40,000 people. “It seems PKK is going back to its old methods of damaging the energy infrastructure,” a senior energy official said. “We have been seeing signals of this. These attacks hurt both our citizens and other countries using Turkey as transit hub.” The 650 kilometre-long portion of the Iraqi pipeline stretching from the Turkish border town of Silopi to the southern port of Ceyhan will be protected with new thermal cameras. They will be set up on locations along the pipeline identified as most vulnerable to attacks. Horse-back patrols will also be dispatched to monitor the pipelines, officials said. They declined to share more details on the planned measures for security purposes.

The measures will also be designed to halt theft of oil by people tapping the pipeline, which has become increasingly common in border provinces Mardin and Sanliurfa. But the task is challenging. “Even the best security plan would not be able to stop attacks. We’re talking about hundreds of kilometers of pipelines being patrolled 24/7 - that’s not possible,” Aaron Stein, non-resident fellow at the Atlantic Council’s Rafik Hariri Center for the Middle East said. The Iraqi pipeline carries 650,000 barrels per day of Kurdish and Kirkuk oil to Turkey’s southern port of Ceyhan, the only export outlet for Iraqi Kurdistan. The PKK attacks have drawn criticism from the president of the semi-autonomous enclave, Massud Barzani, and senior officials. “The continuous attacks and theft serve only to damage the economic viability and the security of the Kurdistan Region,” a statement from the energy ministry of Kurdistan Regional Government said, calling the attacks ‘senseless and irresponsible’**.**

Iran says piping gas to EU not economical

Press TV, *01.08.2015*

During The recent breakthrough in Vienna by Iran and the P5+1 group of countries over the country’s nuclear energy program triggered hopes that many of Iran’s energy projects that had been suspended due to sanctions could be revived. Among them included a project to pipe Iran’s natural gas to Europe.

However, they are now voicing skepticism over whether this is today any more feasible given the various complications involved. Alireza Kameli, the managing director of the NIGEC, has been quoted that piping natural gas to Europe is not economically justifiable under the present conditions.

Kameli has emphasized that neighboring states as well as Asian markets are today the prime target of Iran’s gas export plans. Exporting gas to nearby countries, the official said, is much more cost-effective than taking it to Europe through a pipeline of several thousand kilometers. “Besides, taking the pipeline through the territory of each host country will require paying transit fees among other technicalities involved,” Kameli has been quoted as saying by the Persian-language newspaper Afarinesh. “These will eventually reduce Iran’s profits from the whole scheme.” Iran had for years pursued plans to export natural gas to Europe. A tentative scheme that was developed in cooperation with Nabucco - a consortium led by Austria’s OMV – envisaged piping Iranian natural gas from the southern energy hub of Assaluyeh to Turkey and thereon to Europe. However, Nabucco eventually abandoned Iran in 2008 after complications grew the most important of which were US-engineered sanctions against the Iranian energy sector.

A parallel plan to export Iranian gas to Europe – again through Turkey – has been pursued by Switzerland's EGL, also known as Elektrizitaetsgesellschaft Laufenburg, Based on the EGL scheme, the Iranian natural gas would be taken to Greece and Albania through Turkey. It would thereon flow to Italy through a pipeline under the Adriatic Sea before reaching Switzerland. However, this scheme had a fate similar to that of Nabucco. Different parties involved in both projects have recently tried to revive them, specifically in light of Vienna developments. Even though doubts have been lately emerging over the feasibility of piping Iranian gas to Europe, officials in Tehran have not openly announced that this will be totally off the agenda. Analysts believe that Iran will continue to view Europe as a potential gas market but at the same time will wait for more modern supply mechanisms to reduce costs and increase profit margins. An example of such mechanism could include liquefying natural gas into LNG and shipping it overseas. Iran's access to the related technology for this is banned under the current regime of US-engineered sanctions and many are already hopping that the breakthrough in nuclear talks with P5+1 would lead to the lifting of sanctions on LNG technology to open the way for Iran's ambitious gas export plans.

Iran resumes gas exports to Turkey

Natural Gas Europe, *03.07.2015*

Iran resumed natural gas exports to Turkey after the pipeline connecting the two countries got repaired at the end of the week. 'Director of dispatching at NIGC, Manouchehr Taheri said natural gas export to Turkey resumed after the pipeline was repaired' NIGC wrote. The pipeline was attacked in Turkey's eastern province of Ağrı.

The local government blamed the PKK for the attack. After Russia, Iran is the second biggest natural gas supplier to Turkey. 'According to the report of the public relations of the NIGC, Iran is exporting 20 million cubic meters of gas to Turkey after the Turkish side expressed readiness for that.

According the 25-year agreement between the two countries, Iran is obliged to supply Turkey with annually 10 billion cubic meters of natural gas.'

The triangular relationship of Russia Iran and Turkey

Natural Gas Europe, *06.08.2015*

The recent agreement among world powers and Iran regarding the latter's nuclear program has numerous ramifications. One of them is the domino effect it has on strategic natural gas issues between Russia and Turkey. The likely introduction of Iranian gas into the European Union via Turkey is also a crucial consideration.

The head of Russia's National Energy Security Fund organization, Konstantin Simonov, commented "Turkey is seriously considering transferring westwards not only Russian gas but also from Iran, apart from its already established deals with the Azeris".

The Turkish Stream project is being held up with the Russian side blaming Turkey for obstructing the development. The Russian energy minister, Alexander Novak, announced that Gazprom and Turkey's BOTAS have agreed in principle to a 10.25% reduction in gas pricing for future deliveries made by Gazprom to BOTAS. Nonetheless, Moscow is also dragging its heals on announcing a formal agreement opting to wait for Ankara to conclude the Turkish Stream. In the meantime, Turkey has been fighting a two-fold military campaign against PKK Kurdish rebels and the Islamic State, while the security and political climate in the country gradually deteriorates, thus shifting the priorities of the Turkey's government. All available information suggests Turkey is being pressured by Washington not to proceed with the Turkish stream project even as diplomacy between Gazprom and the Turkish energy ministry takes place. Details are being worked out and observers anticipate a formal announcement being made at a meeting between Vladimir Putin and Recep Erdogan in late September. The main obstacle has little to do with technicalities or even Washington's opposition, but the stance of Iran regarding its own gas export preparations and how they fit into the Turkish Stream plan. Moscow is already in talks with Tehran about a potential security alliance that would see Iran supplied with high-tech weapons worth $10 billion. Russia also aims to increase imports of Iranian oil in exchange for industrial goods. In a play of high-level diplomacy, Russia is also attempting to build closer relations with Saudi Arabia. Should Iran decide to proceed with plans that will strategically clash with Russian goals, Russia may then formalize recent agreements made with Riyadh that stipulate construction of nuclear reactors in the country and a supply of weaponry.

The Greek Embassy in Baku recently drafted a memo that researched the opportunities of importing Iranian gas. However, Greek diplomats relayed that no such imports should be expected before 2023, taking into consideration the TANAP-TAP system of pipelines will be used. On the other hand, Iranian LNG may flow into international markets as soon as 2020, but it will mostly be directed to non-European markets. This export route is costly and would involve Western multinationals such as Shell. Iran has made previous plans to supply the Pakistan-Indian markets and also Iraq, Syria and Lebanon. That along with the need for Iran to upgrade its infrastructure and increase domestic gas consumption is another factor to be taken into consideration.

Most importantly though, tacit approval by the United States for Iran to supply the EU with gas would rouse opposition by Saudi Arabia and Israel, due to the perceived increase of Tehran's role in the region and decreasing American guarantees to them. Therefore, in the short term anyway, Iranian exports to Europe are not viable. The domino effect of the above scenarios may lead to the materialization of the North Stream 2 pipeline project, agreed to recently between Russia and EU gas companies. Shell has expressed a strong interest in participating in the project and its CEO, Ben van Beurden, made recent comments to the Russian TASS press agency confirming this. In June, Gazprom, Shell, E.ON, OMV and Wintershall announced North Stream 2 in June. The project is an upgrade of the route with as much as 55bcm capacity per annum, comparable to the first Nord Stream pipeline. If the proposal goes ahead, Turk Stream would become irrelevant since the bulk of Russian gas delivered to major EU markets would be shifted to North Stream 2. In economic terms, even given the likelihood of Iranian finding its way into Turkey, the Russian northern route would probably prove cheaper and more reliable since it would traverse a secure geopolitical region such as Baltic Sea, instead of the Kurdish regions, Middle East, and the Balkans. The cost of the pipeline infrastructure would also be much less than if a new route were constructed from Tehran to Vienna for instance. In a nutshell, the gas policies in the region between Central Europe, Black Sea, and the Middle East have become more complicated, and even exciting, with the Iranian breakthrough. Turkey will play a vital role as to which direction future pipelines will proceed.

Noble Energy optimistic about prospects in East Med

Natural Gas Europe, *03.08.2015*

Noble Energy wrote that the Israeli government will soon ratify a regulatory framework for natural gas development in the country, adding that the company remains committed to operations in the Eastern Mediterranean. 'In the Eastern Mediterranean, Israel natural gas sales volumes averaged 217 MMcfe/d, equivalent to the second quarter of last year, reflecting mild seasonal weather demand in the second quarter of 2015' reads a note released.

In the second quarter, Israel remained the second geographical area in the company's portfolio for natural gas sales volumes, which remained on 2014 levels.

Despite the lack of significant progresses, the company sounded optimistic about its prospects in the region. "We have also worked with the government of Israel on establishing a regulatory framework for natural gas development, which is progressing toward final approval" David L. Stover, Noble Energy's Chairman, President and CEO, commented. The American company said that it is working with Israel's Delek Group to begin regional gas marketing of the Aphrodite resources, while performing pre-FEED work for a potential development connecting the field to Egypt.

Last week, Israel's Prime minister Benjamin Netanyahu visited Cyprus where he met with President Nicos Anastasiades. The two leaders agreed on strengthening energy ties and merging infrastructures to reach the European markets.

Shah Deniz gas production suspended, BTC pipeline explodes

Natural Gas Europe, *04.08.2015*

BP, operator of Azerbaijan's offshore Shah Deniz gas field announced that the production from the Shah Deniz platform was suspended and will last approximately 20 days. "In accordance with the plan, production from the Shah Deniz platform will be suspended for about 20 days to enable efficient maintenance, inspection and project work to be undertaken," BP said in a statement.

"The shut-down is also included in the annual production forecast. "Azerbaijan exported 62% of produced gas from SDS 1 during the last year however figures were projected to reach 70% in 2015.

D1's gas production would be 9.8 bcm for the current year. BP announced on May 13th that gas production volume from this field was 2.6 billion cubic meters (bcm) in first quarter of 2015 (1Q15). The figure was 2.32 bcm in 1Q14. Shah Deniz gas reserves are estimated at 1.2 trillion cubic meters. The contract for development of the field was signed on June 4, 1996. The shareholders are BP, operator (28.8%), AzSD (10%), SGC Upstream (6.7%), Petronas (15.5%), Lukoil (10%), NICO (10%) and TPAO (19%). Shah Deniz Stage 2, or Full Field Development (FFD) is also a giant project that will add a further 16 bcm of gas production to SD1's gas production by late 2018. A day after BP's announcement, Turkey announced that an unexplained explosion has hit the Baku-Tbilisi-Kars-Erzurum gas pipeline in eastern Turkey. A provincial governor has told Anadolu Agency on August 4th the blast happened in the early hours of Tuesday morning at a section of the pipeline located in the Sarikamis district of Kars province; gas flow was cut in Yagbasan village for safety reasons. "An investigation is underway into the explosion and the necessary measures have been taken," Ozdemir said. The Kirkuk-Ceyhan oil pipeline was attacked in southeastern Sirnak province, in an incident blamed on Kurdistan Workers' Party militants. The bombing took place 18 kilometers inside the Cizre district of Sirnak province, next to Turkey's border with Iraq. On the other hand, an explosion hit the Iran-Turkey natural gas pipeline in the eastern Turkish province of Ağrı.

SOCAR still eyes DESFA but with a 66% equity stake

Natural Gas Europe, *06.08.2015*

“A Talks on the sale of DESFA, Greece’s natural gas grid operator, to Azeri state-owned SOCAR, will re-start in August while further developments remain uncertain. The newly appointed Greek Minister for Production Reconstruction, Environment and Energy Panos Skourletis announced that he will soon meet with SOCAR officials to discuss the deal.

According to reports, he said that SOCAR “seems to be maintaining their interest” in DESFA, despite developments since the summer of 2013, when the state-run company submitted a €400 million offer to acquire a 66% equity share in it.

The EC Directorate-General for Competition launched an in-depth investigation on the matter last November, then later in January, 2015, four days ahead of Greece’s snap elections suspended its deadline on the check. SOCAR boss Rovang Abdullayev confirmed recently that the company still is interested in acquiring a DESFA stake. “It is not our problem, it is a problem between Greece and EU regulating authorities. We won a tender and have been waiting [European Commission approval]….,” he said in televised interview with a local broadcasting company. After leftist Syriza-led coalition came to power in January, now former energy minister Panayiotis Lafazanis said the new government opposes the DESFA sale. It seems that the Greek government’s position on energy networks privatization remains the same - to keep it under state control, which implies a 51% stake in DESFA. However, the deal cannot stay in current position forever. The deadline has been approaching for SOCAR’s letter of guarantee that expires in August. The Azeri company will either apply for a further extension of indemnity letter concerning the agreement’s completion that was signed two years ago or abandon it. According to reports, the Greek government is willing to sell SOCAR for only a 49% share of the gas network operator instead of the earlier agreed up 66%. Greece’s energy news portal energypress.eu suggested the possible scenario that involves a two-step process. It was suggested for SOCAR to acquire a 66% stake in DESFA with the later selling back of a 17% equity share. However, SOCAR officials do not agree with idea of getting less DESFA shares than it was originally agreed.

SOCAR won a tender for the purchase of 66% stake in the Greek company and expects to purchase a specified number of shares, commented SOCAR’s Rovnag Abdulayev on the idea. Other high ranking officials from the company that prefer to stay anonymous were even more specific saying that from the beginning the idea was to become a decision maker for the company. “We were entered into bidding for DESFA considering a controlling package. Nothing change for us,” the other sources said. It is not only gas pipeline network but Revythousa LNG import terminal that SOCAR interested to operate considering a future gas export expansion to Europe.

“The major stake in Greece gas network operator means also major investments and even bigger responsibilities. We have experience in development gas transmission system in Georgia,” said other SOCAR sources. There are rumours on a possible joining of the Greek company to the Trans Adriatic Pipeline (TAP) that will help to deliver Azeri gas to Europe in exchange of a SOCAR stake acquisition in DESFA. Earlier Rovnag Abdullayev said that Greek companies expressed their interests to join TAP with Norway’s Statoil considering selling its 20%. “The market price for 20 percent in TAP is estimated in €400. The same amount is nominated for privatization of 66% stake in DESFA,” the industry sources said. SOCAR declined to comment.

Gazprom does not give up Ukraine

Natural Gas Europe, *01.08.2015*

The head of Gazprom Alexei Miller argued in June during a press conference that the third and fourth lines of Nord Stream will be laid by 2019 as part of the project Nord Stream 2. The construction of the gas pipeline Power of Siberia began on Chinese territory.

According to Alexander Medvedev, Deputy Chairman of Gazprom, the construction of the latter will take four years. By the end of the decade, Russians are planning to complete the construction of the pipeline Turkish Stream. It is all supposed to allow them, as the Russians claim, to give up gas transit through Ukraine entirely.

The capacity of four lines of Nord Stream is 110 billion cubic metres. Power of Siberia is to pump 38 billion cubic metres annually. Turkish Stream’s capacity is to reach 63 billion cubic metres per year. Altai Gas Pipeline, which was renamed to Power of Siberia 2, has a potential transit capacity of 30 billion cubic metres annually. Gazprom assumes that in 2015 the gas export from Russia may be 165-167 billion cubic metres from which 153-155 billion cubic metres would be provided to Europe. Natural gas is to ensure an output increase from the Bovanenkovo deposit, among others. In 2015, the output will be 48 billion cubic metres, in 2016 – 51 billion and in 2017 – 63.3 billion cubic metres. Based on the assumption that Gazprom really wants to give up the transit of gas through Ukraine, it will need alternative routes for transmitting gas to the Urengoy–Pomary–Uzhgorod pipeline, which supplies gas to Slovakia, the Czech Republic and the Balkans. Its capacity is 115 billion cubic metres annually, from which 15 billion cubic metres may be used for reverse supplies to Ukraine. Ukrainians would like to receive as much as 30 billion cubic metres, but these changes are blocked by Gazprom, which has the supplier codes for the main pipeline. Without them, it is impossible to identify how much and who takes what gas, as well as the allocation of the virtual capacity and therefore the start-up of the reverse. While giving up Ukraine, Gazprom would have to resign from this main line, because Poland did not agree to the Yamal 2 line, a gas bypass line from the Yamal Pipeline southwards to Slovakia.

Therefore, the only option would be the maximal use of the whole capacity of Nord Stream. To distribute these 110 billion cubic metres in Europe, it is necessary to obtain the European Commission's approval for releasing the Nord Stream branches – NEL and OPAL (20 and 35 billion cubic metres annually) and using the new corridors as the modernised reverse on the Yamal Pipeline and/or Bernau-Szczecin Pipeline. However, these lines would have to contend with Gaz-System, which decides on the admission of capacity in the Polish gas transmission network. This commission will not be interested in a new source of Russian gas supply, which additionally will undermine the profitability of the Liquefied Natural Gas (LNG) terminal in Świnoujście. The problem would be a situation in which the biggest customers of the PGNiG (Polish Petroleum and Gas Mining, Polish state-controlled oil and natural gas company)would leave for a supplier who would provide them Russian gas not from Yamal, but from Nord Stream, and for a more attractive price. It is unknown how Gaz-System would behave if state-owned companies like Azoty Group requested access to Polish pipelines for gas from Germany. So far, however, such a scenario is only hypothetical, because the question of Bernau-Szczecin pipeline is waiting until the elections. Besides, its designers declare that gas from Russia is to be only a fraction of the supply provided by this connection.

Gazprom's situation may be improved only by separatism of energy companies from Europe, which may make Nord Stream real through the agreement for participation in the project or proposal for its extensions increasing the profitability as a branch to Great Britain or Poland. Such developments will be blocked by the European Commission, which puts pressure on the diversification value of gas projects. It supports only those projects which may provide alternative sources and not a supply route. This is probably the reason why during the meeting of Gazprom shareholders, director Alexei Miller said that his company may negotiate with Ukraine, maintaining transit through its territory after 2019 in spite of Putin's words that, by that year, Russia will entirely abstain from the transit of gas through Ukrainian territory. "Gazprom does not refuse to negotiate gas transit through Ukraine after 2019, but it is not satisfied with the terms and conditions proposed by Kyiv," stated Miller, referring to the proposal of increasing the transit duty made by the Ukrainians. To ensure a better position in Ukraine, it will take advantage of the opposition of some Ukrainian oligarchs towards the third energy package. After Austria rejected the extradition of Dmytro Firtash to the US, he has been lobbying in European energy companies, searching for methods of avoiding the changes in the European energy sector. These efforts may hinder acquiring a European investor in the Ukrainian gas transmission system and warehouses which would finally guarantee supply stability in this route. Modernisation without capital will not succeed, but in return for influence in the sector, Gazprom itself might pay for it, which perhaps would be even cheaper than the construction of new gas pipelines through the Baltic Sea and the Black Sea. According to the Russian estimations from June, Russia has sent 704 million cubic metres of natural gas to Donbas since February 19th. As a result of that, Gazprom demands 212 million dollars of payment. The separate charging of delivery costs to the self-proclaimed people's republics in the east of Ukraine itself is an element of the game for the destabilisation of Ukraine.

The increasing due payments for gas is another tool which may be neutralised only by further instalments of aid from the European Union and the US. There is a similar situation with the debt incurred by President Viktor Yanukovich. Only further help from the West will protect Kyiv from Russia's win in this bidding. It is most likely that Gazprom's primary plan in Ukraine is to keep transit through its territory and take control of its pipelines. Projects of other pipelines are to be implemented in case they are needed. Gazprom itself admits though that this plan is going to increase gas sales in Europe, no matter if its Chinese investments are successful or not. Whether or not it will be able to give up Ukraine in its framework depends on Europe's reaction. OMV, E.ON and Shell have enrolled in a list of co-operators in accomplishing this plan. The companies that propose Eastring or other variations on supplying gas from Turkish Stream to Central Europe may also be added to this list. What the negotiators from West, where a compromise is always a superior solution, is the fact that uncompromising stand of the EU would be the best way of getting concessions from the Russian side.

Shell to strengthen Russian hand through Gazprom asset swap

Bloomberg, *03.08.2015*

Royal Dutch Shell Plc will swap a stake in one of its international energy assets for part of Gazprom PJSC's Sakhalin-3 project as Europe's biggest oil company extends ties with Russia.The companies are discussing which asset would be offered to Gazprom, Shell Chief Executive Officer Ben Van Beurden said last week in London. For Shell, the prize is greater involvement in the world's biggest gas reserves.

"Russia sits on 25 percent of the world's gas reserves and is very, very close to markets that we are very familiar with," Van Beurden said, on the company's earnings presentation.

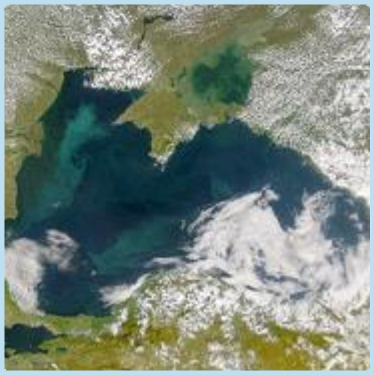
Shell is also pushing "to see how we can work with Gazprom internationally."Shell, BP Plc and Total SA are seeking more access to Russia as the country's low-cost output and proximity to Asian markets outweigh sanctions amid a slump in crude prices. While producers slash spending and mothball projects as oil slides, they need to add reserves to sustain future output. Russia has the fifth-biggest oil deposits and costs that are as much as two-thirds below the global average for Shell"There are less and less world class assets that can be operated at such a low price environment," Simon Leathers, director of accounting firm BDO International U.K. Merger & Acquisitions, said in a phone interview. "That's where Russia represents such as opportunity."

OAO Gazprom Neft, the oil-producing unit of Gazprom that operates primarily in Russia, last year produced a barrel of oil equivalent for $5.66. That compares with costs of $14.74 a barrel for Shell and $9.41 for BP, according to data compiled by Bloomberg. Shell's oil and gas production has dropped in 10 of the last 12 years. Russia accounted for about 5 percent of the producer's 3.08 million-barrels-a-day output in 2014, according to its annual report. The company said that it's preparing for a "prolonged downturn" in the oil market by cutting 6,500 jobs this year and reducing capital investment by $7 billion.Shell and Russia's gas-pipeline monopoly plan to swap assets in a deal that may happen in a year, Gazprom CEO Alexey Miller said June 26 in Moscow. Officials at Gazprom's press service couldn't immediately comment the plan to swap assets with Shell. The Hague-based Shell is also pushing to expand Russia's only LNG plant linked to the Sakhalin-2 oil and gas project in the Far East of the country, Van Beurden said. Shell owns a 27.5 percent stake in export-oriented Sakhalin-2.

"We've been working with Gazprom for quite a few years to understand how we can take the project further," Van Beurden said. Supplies from Sakhalin-2 make up about 9 percent of the gas needs of Japan, the world's biggest LNG buyer, he said. Gazprom, Shell, E.ON SE and OMV AG also agreed in June to build two gas pipelines under the Baltic Sea to Germany, with a annual capacity of 55 billion cubic meters a year. Russia is attracting other big western oil companies even as U.S. and European sanctions limit certain types of investment. BP holds 20 percent of OAO Rosneft and in June, the British company agreed to invest in Rosneft's Siberian fields. Total is raising funds for a Russian gas export project. Exxon Mobil Corp. and Rosneft jointly bid for licenses in Mozambique, the Russian company said. One day later, the U.S. tightened sanctions against Russia, adding the son of a billionaire ally of President Vladimir Putin and a sovereign wealth fund in what it said was a fight against efforts to circumvent the restrictions. The U.S. and the European Union have existing sanctions following Russia's annexation of Crimea. The sanctions have put restrictions on exploration for shale, Arctic and deep-water oil. The sanctions do not bar companies from drilling in onshore fields or investing in gas-export projects.

The energy security dilemma of Turkish Stream

Natural Gas Europe, *03.08.2015*



President Vladimir Putin's bombshell decision to suspend the South Stream gas pipeline, which was to link Russia to Southeastern Europe, and replace it with a new project under the tentative name of Turkish Stream has caused more than a few raised eyebrows in Brussels.

Fears that Turkish Stream will block the EU-backed Southern Gas Corridor, and undermine EU energy security might be far-fetched and conceptually fallacious. Yet the real problem with the proposed new pipeline is that it is part of an energy security dilemma in which the EU and Russia have been trapped.

The construction of Turkish Stream is not written in stone, and it will come as no surprise if the project is eventually scrapped. This would not be the first energy transportation network to be highly publicized by Moscow but never implemented. Besides, the economic viability of the pipeline has been questionable as it remains unclear who will finance the project, how the gas will be transported in Europe, and what purchase contracts will be signed. But even if Turkish Stream is concluded, allegations that it poses a direct threat to the EU's energy security strategy can be contested. Turkish Stream should be regarded as an alternative route for the transportation of Russian gas, which will remain a basic element of the European energy mix for the foreseeable future. Despite striving for increased diversification of its energy supplies, the EU is nowhere near meeting its target of 100 percent energy independence from Russian gas. Robin Dunnigan, the U.S. deputy assistant secretary for energy diplomacy, has suggested that while energy diversification should be pursued, Russia could remain a primary supplier of natural gas to Europe. More recently, Mario Mehren, chief executive of the German oil and gas producer Wintershall, which has close contacts with Gazprom, argued that European energy security is only possible with Russia since Russia is an integral part of Western Europe's energy provision.

What is more, given the EU energy landscape and the capacity of the existing pipeline network, there is ample room for both Turkish Stream and the Southern Gas Corridor. In 2013, Russian energy giant Gazprom supplied the EU with 82 billion cubic meters (bcm) of gas through Ukraine. Bluff or not, according to Alexey Miller, the boss of Gazprom, the firm will suspend gas deliveries to Europe through this route by 2019. As a result, the EU needs to secure an alternative and safer transportation route for this quantity of gas. The suggested Turkish Stream pipeline, if concluded, will bring 47 bcm of gas annually, while the foreseeable capacity of the Southern Gas Corridor does not exceed 20 bcm annually. Even if the total capacity of the Southern Gas Corridor reaches 60 bcm per year in the future, as has been suggested, the excess capacity will cover projected needs as European dependence on gas imports is expected to rise in the coming decades from 64 percent of total gas demand now to above 80 percent. On top of this, the Turkish Stream project cannot dent Brussels's zeal for diversifying its energy supplies. Quantities corresponding to the full current capacity of the Trans Adriatic Pipeline, a Southern Gas Corridor project, have already been sold for the next twenty-five years.

The EU did not oppose the Nord Stream pipeline and former German chancellor Gerhard Schröder's Germany First policy, which connected Russia gas fields to the German energy market. More recently, a number of European energy firms, including Shell, inked a deal with Gazprom to add two lines to Nord Stream. Yet the news did not even hit the headlines. So why is the EU so hostile toward the Turkish Stream project? For one thing, the problem lies in the nature of the EU-Russia energy security relationship, which has the characteristics of a security dilemma. Neither side can improve its energy security without undermining the security of the other. Contrary to what the proponents of liberalism would expect, closer ties in energy trade have not eased economic and political frictions between the two actors. Instead, energy dependence between the EU and Russia has increased mistrust and conflicts between them. Now, energy security relations have become an issue of national security for both sides. Europe has been increasingly worried about overdependence on Russian gas. Fears that Moscow might use energy as a political weapon to blackmail Europe have been exacerbated since the 2006 and 2009 gas disputes between Ukraine and Russia. The EU's response to those episodes included promoting the Southern Gas Corridor, which Russia considers part of a Western strategy to undermine the Russian economy and penetrate Russia's sphere of influence.

Thus, for Moscow, Turkish Stream is a policy option that would secure Russia's European market share, which is of vital importance for the Russian economy. After all, Russia exports 70 percent of its gas to Europe, and closing Russia out of the EU energy market would be a major threat to Moscow's economic survival. Responding to the Russian plans, Brussels regards Turkish Stream as an attempt to thwart the Southern Gas Corridor—hence the EU's objection to Greek plans to back the project. What makes Turkish Stream different from Nord Stream is the strategy of the Greek government vis-à-vis the project. Contrary to Germany, which has been focusing merely on the energy and economic merits of the Nord Stream pipeline, Greece has been using Turkish Stream as a bargaining chip in the ongoing negotiations with Greece's international creditors. The gradual rapprochement between Athens and Moscow has been followed by a series of reports, Greek government nonpapers, and statements by Greek officials implying that Turkish Stream would bring valuable economic and geopolitical trade-offs. In April 2015, officials in Athens claimed that the revenues from transit fees would reach €3–5 billion ($3–6 billion), an amount that does not correspond to the economics of the project. In parallel with consultations on Turkish Stream, Athens has repeatedly questioned the EU's sanctions imposed on Russia for its actions in eastern Ukraine. Allegations of a Greek foreign policy shift toward Russia have intensified since the former Greek energy minister Panagiotis Lafazanis stated that Greece does not belong to any sphere of influence, and that the government will pursue an independent energy security policy. As a result, Greek policies, together with Russian and European misinterpretations, have pushed Moscow and Brussels into a downward spiral with the characteristics of a security dilemma. It is in the interests of all sides to find a way to exit this trap.

Commission vs Gazprom: Time to do a deal?

Natural Gas Europe, *01.08.2015*

Alexander Medvedev met with Margrethe Vestager for the first time to discuss the antitrust case launched against the company. Following this meeting Mr Medvedev made it clear that he hoped that the case could be 'amicably settled'. There are indeed compelling reasons for Gazprom to do a deal.

First market developments are rendering Gazprom's existing business model irrelevant and it is that business model which is being substantially challenged in the antitrust case. The consequences of an actual published EU competition decision against the company would be devastating in terms of reputation and scale of liability.

Both these factors provide compelling incentives for Gazprom to file draft Commitments to the Commission to provide a basis for a deal. At first sight it looks like doing any such a deal would be very difficult to do. The Commission's Directorate-General for Competition launched raids on Gazprom offices across the EU, and those of its corporate allies in September 2011. In September 2012 it formally opened an investigation into Gazprom focussing on attempts to foreclose markets, denial of access to competitors to competing pipelines and excessive pricing. Negotiations were commenced with the Commission from December 2013 to June 2014. These negotiations did not result in an offer of commitments from Gazprom to settle the case. After Commissioner Vestager took over in November 2014 she reviewed the case and filed antitrust charges against Gazprom in a document known as the 'statement of objections'. Gazprom now has until mid-September to file a defensive reply to the statement of objections. As if to make the situation worse aside from the issues under dispute in the antitrust case, Gazprom has been seeking to stop the reverse flow of gas to Ukraine from the European Union.

In particular, it has sort to block reverse flows of gas on the Brotherhood pipeline from Slovakia through to Ukraine. This attempts to stop reverse gas flows at the very least conflicts with the spirit of a operating in a single gas market, and arguably appears to be a breach of both EU energy liberalisation and antitrust rules. To make matters even worse, the antitrust dispute has been overlaid with the Ukrainian-Russian conflict. Former Competition Commissioner Almunia in fact suspended the antitrust case in June 2014 over concerns that the case could inflame the situation. The major concern since Commissioner Vestager reviewed the case and filed the statement of objections with Gazprom is that the radicalisation of the Russian state since the beginning of the Ukraine crisis will make it impossible for a deal to be secured. Gazprom which is majority owned by the Russian state, and required by law to obtain Kremlin consent for any settlement, will find it impossible to obtain such consent. Despite the darkening clouds of conflict and war and the dispute over the antitrust case itself there is a compelling case to now settle.

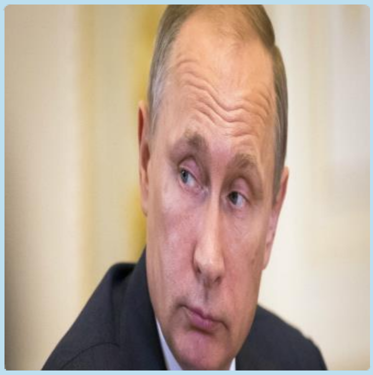
First, the European market in which Gazprom has operated for the past 20 years is being transformed. Gazprom used to have comfortable long term supply arrangements with numerous vertically integrated dominant domestic incumbents. The long term supply contracts were usually for all or most of the incumbents import needs, with significant take or pay clauses, destination clauses and with prices set round the oil price. Now already in North Western Europe we have an increasingly open deep and liquid gas market with gas to gas competition traded on open hubs. As a result of the 2009 Ukraine-Russian gas crisis, when gas supplies to Europe were cut for two weeks, and the more recent concerns over supply security due to the Ukraine conflict the EU and the Member States are seeking to expand the North West European gas model to the whole of the European Union. The three underpinning factors which make the North West European model work, full application of the third energy package; physical interconnection between national markets and new sources of supply is being extended to the rest of the Union via the 'Energy Union' programme. A further compelling factor is the increasing irrelevance of oil price indexation, something Gazprom has defended tooth and nail so far.

However, the fall of oil prices from $112 a barrel in June 2014 to approximately $53 a barrel in July 2015 suggests high oil prices are in trouble. This is compounded by falling Chinese demand, continuing shale oil production in the United States, combined with the prospect of increasing flows of Iraqi and Iranian oil onto global markets. These factors are likely to keep prices from rising any time soon. Worse still there is a flood of LNG entering global markets from Australia, Papua New Guinea, and shortly from the United States, where approximately 60bcm of capacity is being developed (more than half of what Gazprom is likely to sell into EU markets in 2015). Europe is likely to face, whatever Gazprom does, lower prices and much greater gas liquidity from more diverse sources than ever before. Clearly Gazprom as a potentially low cost producer, with vast gas reserves and being proximate to the European market, could benefit significantly from access to an open, deep liquid single European gas market. However, what Gazprom will not be able to do in future is to undertake the traditional practices alleged to have been undertaken by the Commission in the antitrust case, including, excessive pricing; attempts to operate differential territorial pricing schemes or attempts to foreclose markets. Secondly, if no settlement is reached with the Commission, Gazprom faces being handed down a public prohibition decision. Media commentators focus on the prospect of a fine of up to 10% of worldwide turnover which would put a fine at between $12 to $15 billion.

Any fine would be much smaller, around $500-$1500 million. It is not however the fine that is really the problem for Gazprom. There are in fact three very serious problems with a prohibition decision for Gazprom. First, is the reputational disaster from a public prohibition decision, which may well make the company far more politically allergic than it already is. This reputational issue has so far been underestimated in any analysis of the case and could result in an even more rapid reduction in demand for Russian gas than hitherto. Second, any public prohibition decision could provide the basis for bringing civil damages claims in national EU courts against Gazprom by energy companies and energy intensive users and possibly class actions by consumers and small businesses all of whom would allege illegal overcharging on antitrust grounds. Given that the claims would in most countries date back to at least 2004 the scale of liability could be immense. The third issue relates not to Central and Eastern European, and Baltic markets where the Commission is investigating, but Western Europe. Gazprom still has a number of major long term supply contracts with clients in Western Europe. Each of those contracts has price review clauses which will be triggered when a significant market event occurs affecting price. A prohibition decision which affected pricing in Central and Eastern Europe would particularly because of an increasingly integrated European market also affect Western Europe, triggering a further round of (inevitably downward) price reviews. Gazprom cannot go back to the traditional closed national markets and national incumbents of old it did business with. They are slowly but surely being replaced with an integrated single European gas market. It would be much better for Gazprom to recognise the increasingly integrated market realities of the European gas market and practical legal realities of the antitrust case and do a deal.

Putin's energy diplomacy is getting the cold shoulder

Foreign Policy, *06.08.2015*



Russian President Vladimir Putin has been trying his own pivot to Asia, hoping that his country's vast natural gas holdings could cement a new relationship with China while making it easier to bypass his quarrelsome neighbors in Europe. Unfortunately for the Russian strongman, things aren't going so well.

Over the past year alone, Putin has inked a massive, $400 billion natural gas deal and a strategic partnership with Beijing. Russia also hoped to build a second Siberian pipeline to China that could give Moscow the ability to play off European energy customers against those in Asia.

Putin also doubled down on Europe: When European Union officials blocked one $40 billion gas pipeline across the Black Sea, he simply dreamed up a new one through Turkey. That could be his key to finally bypassing troublesome Ukraine as a transit country for natural gas, tightening control over energy exports to Europe, and showering largesse on friends and allies. Case in point: When Greece came cap in hand to Moscow this summer, Putin promised to finance another $2 billion pipeline spur to tie into the Turkey project and cement ties with Greece's left-wing government. But from Ankara to the Altai Mountains, Putin's pipe dreams appear to be in disarray.But from Ankara to the Altai Mountains, Putin's pipe dreams appear to be in disarray. China, realizing it doesn't need as much energy as it thought, has gotten cold feet on the second gas deal. Turkey and Russia still can't reach an agreement on the so-called "Turkish Stream" project and have put off further talks until the fall.

Other ambitious Russian projects, from liquefied natural gas terminals in the Far East to a gas line unifying Korea, are going nowhere, even as Russia keeps proposing more and more big energy projects. And in a telling about-face, Russia has now abruptly decided that it cannot simply bypass Ukraine and must keep pumping gas to Europe across the territory of its wary neighbor for decades to come. "Putin's energy strategy is in shambles. Nothing seems to work: No 'Streams,' no bypasses, no China," said Ilian Vassilev, a former Bulgarian ambassador in Russia and now an energy consultant. But even as Russian projects move further and further away from apparent completion, more and more are announced. The latest is a planned expansion of the so-called Nord Stream pipeline that fuels Europe via the Baltic Sea. But that pipeline wouldn't be necessary if Ukraine is still shipping gas, or if the Turkish project ever happens. "You get the feeling that the Russians have lost the plot a little bit, throwing up all these projects, some of which are of dubious economic value," said Ed Chow, an energy expert at the Center for Strategic and International Studies who has recently written about Russia's proliferating pipelines.

“Is it because they want to give the appearance of being in control when things are actually spinning out of control?” There are many reasons why Russia’s energy plans seem to be stumbling, but fundamentally it is because the country’s grandiose visions are colliding with reality. Global energy markets have been transformed in just the past year: Demand for oil and natural gas is weak, and prices have collapsed. A huge buyer’s market is bad news for a country reliant on energy exports for half its budget; the IMF said this week that cheap oil and sanctions will shrink Russia’s economy by 3.4 percent this year. The economic straitjacket brought about by Western sanctions on many big Russian firms, especially in the energy sector, chokes off financing and makes hugely ambitious projects even tougher to pull off, especially in the unrealistically short time frames Russia keeps proposing. And Russia has to grapple with all those challenges while juggling not just bottom-line economics, like any energy-producing country, but also Putin’s ever-shifting strategic calculus. And there are other albatrosses for Russian energy firms: Contractors close to the Kremlin can make a killing providing equipment for projects, even if they never come to fruition, said Mikhail Korchemkin, the managing director of East European Gas Analysis, an energy consultancy. He noted Russian press reports that estimate Gazprom spent about $40 billion on unnecessary projects. The changing energy markets have hit Russia hard.

New sources of supply of natural gas, from the United States and other places, have been eroding Moscow’s market dominance. The U.S. natural gas boom has weakened Russia’s hold on the European market even though the United States has yet to export a molecule there, simply by adding more gas to a well-supplied market. U.S. officials, including President Barack Obama, Secretary of State John Kerry, and many Republican lawmakers, have sought to use prospective U.S. gas exports to Europe as a way to weaken Russia’s hold. The United States also seeks to bolster Europe’s own ability to get energy from places other than Russia. State Department officials declined to comment for this story. Other new energy suppliers, such as Australia, also have set their sights on the Asian market, which Russia was slow to tackle seriously, giving Russia’s prospective customers a lot more bargaining power. Due to those market changes, especially the ripple effects of the U.S. gas boom, Vassilev, the former ambassador, said he expects Russian gas exports to become more like plain old oil exports, which aren’t used as a geopolitical weapon because oil is such a large, liquid market. “Russian gas will be traded like Russian oil and very much deprived of its elite strategic foreign-policy status,” he said. The shift in Russia’s prospects in China alone over the past year has been chilling.The shift in Russia’s prospects in China alone over the past year has been chilling. When, after a decade of haggling, Moscow and Beijing finally inked their mammoth gas deal in May 2014, the outlook for Chinese energy demand was still robust. The economy was growing fast, and Beijing stressed the need to find cleaner sources of fuel. But a year later, the Chinese economy has slammed on the brakes. Growth has slipped, and more importantly the rebalancing of the Chinese economy away from energy-guzzling heavy industry to leaner service sectors has walloped the demand outlook there. Energy consumption is growing at the lowest levels of the century so far. If China was already driving a hard bargain on price with Russia before the slowdown, it is now in a position to simply walk away from unnecessary projects. Chinese energy firms quietly suspended the second Siberian gas project, known as the Altai pipeline or Power of Siberia-2.

The tough market environment is also muddying the outlook for Turkish Stream. When Putin announced the pipeline project last December, he hailed a “strategic partnership” with Turkey. Yet the two sides still haven’t reached an agreement on something as basic as the price that Turkey will pay for Russian gas. Turkish and Russian officials have spent the summer in a duel of declarations over the actual status of the project. What’s more, while the two sides may eventually build a limited pipeline to supply the Turkish domestic market, the notion of a huge Russian route to fuel Europe via Turkey is looking questionable. The same legal and regulatory problems that doomed Russia’s original pipeline plan (known as “South Stream”) still hold true today; unless and until Russian firms comply with European Union competition law, new Russian pipelines can’t land in European territory. That dims any idea of a Russian-financed pipeline inside Greece to link Europe to Turkey. Moreover, Russia’s natural gas behemoth, Gazprom, doesn’t seem to have the financial muscle to build all these huge projects on its own. Thanks to weak demand in Europe, the company’s main market, plus all the strife in Ukraine, Gazprom’s profits fell last year by almost 90 percent. Whether it’s Turkish Stream, or the Greek spur, or the Altai route from western Siberia into the far provinces of China, those energy projects require plenty of upfront spending with no immediate return on investment. That is where Putin’s strategic visions keep colliding with marketplace realities. “You are transporting the same gas in a lot of cases, but across a new pipe that has to be built over longer distances to market,” Chow said. “Even though it may be strategically desirable, it doesn’t make you money, it costs you money.” That’s one reason Russia has suddenly backed away from its stated goal of ending natural gas transits across Ukraine by 2019. For months, and as recently as early June, Russian leaders and energy officials warned Europe it would have to find another way to get Russian gas, because Moscow doesn’t want to ship it through Kiev anymore. Then Russia’s tune abruptly changed, after Putin apparently realized that there is no way the country can plan, finance, and physically build thousands of miles of pipelines needed to supplant the network already in Ukraine. Gazprom boss Alexey Miller said in late June he would reopen talks with Ukraine over future gas transit after the current contract expires.

Sussing out the ceilings over Russian gas prices

Platts, *31.07.2015*

Almost a decade on from the first Ukraine-Russia natural gas crisis of January 2006, Europe faces another winter with the threat of disrupted supplies through Ukraine hanging over it. The region’s security of gas supply has improved significantly, but it remains vulnerable, not least where dependence on Russian gas has grown as a result of lower import volumes from North Africa.

The stubborn facts are that Europe has a structural gas deficit and the only new source of supply is LNG. From Russia’s perspective, its markets have evolved into three distinct zones.

First, captive markets. These are the former Soviet Union and to a large extent south Eastern Europe, but increasingly excluding the Baltic states and Ukraine. In this zone, Russia can dictate pricing terms, has a high degree of control over transmission capacity and a high level of demand security. Nonetheless, prospects for market growth are limited. Second are hostile markets. In Eastern Europe, including the Baltic states and Ukraine, growing interconnectivity with Western Europe and the ability to import LNG threatens Russia’s market share. Increasingly, buyers in Eastern Europe have options to use alternative supply routes and different pricing mechanisms. This is an area of potential demand growth, but one in which Russia faces increasing competition and political hostility. And third are competitive markets in Western Europe. Acrimonious European Union-Russian energy relations represent a serious threat to further Russian penetration of Western European gas markets, but this is counter-balanced by national self-interest and the confidence engendered by the construction of the NordStream pipeline that takes Russian gas directly to Germany. The hostility of Eastern European states means Russia is now more dependent on Western Europe than before the Ukraine crisis. According to data from EU gas regulator ENTSOG, between 2010 and 2015, 42 Bcm of new interconnection capacity was added within Eastern Europe and between Central and Western Europe. There has also been significant investment in bi-directional flow; capacity labelled as bi-directional amounts to 146.6 Bcm, up 49.8 Bcm from 2010, with about another 71 Bcm having some reverse flow capability and/or virtual backhaul capacity. A lot of pipelines with virtual backhaul capacity have been upgraded to have physical reverse flow capability.Gazprom announced that it will proceed in with Nord Stream 2 phase together with E.ON, Shell and OMV, in addition to this BASF is a possible partner.

The extent of change is quite dramatic in some countries. In 2010, Poland had 1.1 Bcm/year gas import capacity from Germany. Now it has 7.6 Bcm/year of non-Russian or Ukrainian import capacity and in October expects to commission its first LNG terminal on the Baltic Coast. Lithuania’s first LNG terminal was commissioned in December. By 2020, Poland should have 22 Bcm/year of non-Russian or Ukrainian import capacity with new and expanded gas links to the Czech Republic, Slovakia, Lithuania and Ukraine. The new infrastructure creates options that limit the price differentials between countries. These differentials are in effect a function of each country’s relative captivity with regard to Russian gas imports in terms of infrastructure, and the relative state of their political relations with Moscow. But whether those options are fully exercised will ultimately be determined by price. There are three elements of competition: European hub prices; pipeline imports from outside the EU, where oil indexation is being eroded but remains a significant element; and LNG, where again oil indexation continues to play a significant role. Platts data shows that there has been a remarkable convergence in gas prices in Northwest Europe over the past year and it is likely that both European hub prices and the price of LNG in the Atlantic basin will increasingly represent a ceiling for the price of Russian gas imports into Eastern Europe. As the LNG market is expected to remain soft, buyers should have the leverage to force contractual change on Gazprom. Likely developments are the extension of hub pricing, shorter contracts and greater flexibility on volume. Ironically, Russia’s rerouting of its gas exports through NordStream creates a commercial rationale for the use of west to east and north to south gas supply infrastructure in Eastern Europe – the same infrastructure that is being built to reduce dependence on Russian gas imports.

The long-term nature of pipeline supply contracts, slow progress in gas market liberalization, and, in particular, the dominant position of incumbents means that change will be gradual, but conditions are ripe for the extension of gas-to-gas competition into Eastern Europe, even if much of the new flows are re-routed gas of Russian origin. Permanent change has and is taking pace that is more fundamental than the temporary effects of a soft market.

Five major challenges facing Russia's gas giant Gazprom

Global Risk Insights, *03.08.2015*

The leadership of Gazprom — the state-owned company which in the past has accounted for about one-fifth of Russia's budget revenues—is upbeat about the energy giant's prospects, formally pursuing a range of ambitious projects. Yet, these projects conceal a struggling gas giant. From the proposed Turkish Stream pipeline to a planned expansion of Nord Stream and the construction of the Power of Siberia pipeline.

There are indications, however, that the state-owned company is struggling. The energy giant's natural gas production fell by 12.9% in the first half of 2015.

While the company's exports dropped by 8%, according to a report by Russian investment bank Sberbank CIB. In July, the company unexpectedly cancelled its contract with Italy's Saipem for the construction of a pipeline under the Black Sea, raising concerns regarding Gazprom's commitment to completing the planned Turkish Stream pipeline project on schedule. There are clear reasons for the company's difficulties. Gazprom currently faces five major risks and challenges.

Gazprom's natural gas prices are indexed to the price of oil, with a lag of about six to nine months. The company's net profits fell 86% in 2014, due in part to a plunge in the value of the ruble. Falling natural gas prices will continue reducing Gazprom's revenues. The crisis in Ukraine has accelerated the process of diversification away from Russian natural gas. Norway has already overtaken Gazprom as the top supplier of natural gas to Western Europe. EU funding for energy infrastructure projects, as well as the planned Energy Union, will further integrate the European natural gas market, reduce the dependency of Central European countries on Russian energy imports, and undermine Gazprom's leverage in negotiations with EU clients. Construction of the eastern section of the Power of Siberia pipeline, which is set to bring 38 billion cubic meters of Russian natural gas to China, officially began in June. Still, the signing of an agreement regarding the Altai pipeline, which would bring 30 billion cubic meters of natural gas from western Siberia to Northwest China, has reportedly been postponed. As natural gas prices decline and Gazprom's European market share decreases.

Gazprom holds a monopoly on natural gas pipeline exports from Russia. The company's rivals, however, have long pressed for the monopoly to be broken up. In a letter to Russia's Energy Ministry, Rosneft urged Russian authorities to break Gazprom's pipeline export monopoly and split the company into two parts. While Rosneft itself is in a weak position, Gazprom's growing challenges could reduce the company's ability to defend its interests in Moscow. In September 2014, the US imposed sanctions on Gazprom Neft and Gazprombank, both subsidiaries of Gazprom. Gazprom Neft cannot access US exploration technology or receive assistance for Arctic offshore, deep water and shale projects, while both Gazprom Neft and Gazprombank cannot quality for long-term financing from US banks. At the same time, the EU also sanctioned the two companies. Moreover, in June 2015, Canada imposed sanctions on Gazprom itself. Despite financial assistance from the Russian government, these sanctions will have a negative impact on Gazprom's production and financing capabilities in the long-term.

Europe should look beyond Ukraine's short-term gas supply

Fair Observer, *03.08.2015*

The EU looks to strengthen Ukraine's energy security, but Brussels forgets to put its house in order first. When the European Commission's Maros Sefcovic met with representatives of gas companies, all eyes were on Ukraine.

The meeting to discuss the country's gas supplies and storage capacities comes on the heels of June's discussions which failed to produce any agreement on natural gas prices between Moscow and Kiev. The meeting underscores the wider economic and political disputes that involve Europe's access to energy markets, transnational pipelines and its own dependence on Russia's extensive oil and gas resources.

Ukraine claims the Gazprom pricing was unfair and sought a far deeper discount than the $40 offered by Russia, whose officials insist that the $100 rebate Ukraine wants would put natural gas at below-market prices influenced by the current downturn in global energy markets (natural gas prices follow oil prices in lockstep). Ukrainian Energy Minister Volodymyr Demchyshyn countered that the price failed to reflect the lower transit costs for Ukraine than for other Russian gas client nations, and that Ukraine's access to European energy is less costly. As a result of the failed talks, Gazprom halted exports to Ukraine on July 1 for the fifth time in a decade. This does not mean a repeat of the 2009 cold and gasless winter is in the works. Luckily, Kiev had 12.5 billion cubic meters (bcm) of gas reserves as of July 17, with nearly 40% of its underground storage tanks full. The European Commission tabled a plan for European energy companies to pump gas into storage, according to Yuriy Vitrenko, a spokesman for Ukraine's Naftogaz. Additionally, Kiev announced on July 27 that it plans to boost gas imports from Europe by 20 million cubic meters (mcm), starting from August 1.

The plan is simple: Come winter, Ukraine must have enough gas to pull through without Russian help. Faced with the specter of always depending on the whims of a curmudgeon Russian neighbor, analysts have pointed out that Ukraine should instead look for gas sources elsewhere. Indeed, the Kiev government seems to be stuck with the misguided mentality that Russia and Russia alone could only supply the country with natural gas. According to Alexandros Koronakis, director of New Europe, a solution is readily apparent, as “before 2010, Dmitry Firtash, co-owner of RosUkrEnergo, guaranteed the lowest gas prices in the country’s history by mixing cheaper Turkmen gas and Russian gas.” The agreement was cast aside when Yulia Tymoshenko signed a ten-year deal with Gazprom that served as the springboard for Kiev’s almost $30 billion in debt to the Russian giant. Buying Turkmen gas would also strengthen Ashgabat’s own energy diversification strategy. Bruce Pannier, a correspondent for RFE/RL, argued that Turkmenistan’s reliance on a single export market (China) would be strategically dangerous over the medium-term and that the country must find ways to sell its gas to Europe. “Before 2004, the Russian-Ukrainian natural gas spat was simply part of business as usual,” wrote Peter Zeihan for Stratfor, back in 2009. But that business as usual has long since been upended by Ukraine’s subsequent political alignments with the West and the continued military conflict at the Russian border.

Gazprom has vowed to shift transit routes away from Ukraine by 2019. Russia’s plan to extend alternative pipelines through Greece is the latest proposal that would join Nord Stream, Yamal and other routes that send gas to Germany and the West, all the while bypassing Ukraine. This so-called Turkish Stream route is expected to deliver 63 bcm of Russian gas and is scheduled to come online as soon as December 2016. The proposal was met with immediate resistance from European Union (EU) and NATO leaders, who have discouraged alignment between Moscow and Athens and have urged Greek leaders to choose a Western-backed pipeline that crosses Azerbaijan instead. The present dynamics of the relationship are altered by Ukraine’s access to alternative energy sources, including Hungary, Poland and Slovakia. But these “reverse flow” contracts remain disputed by Russia and are currently under legal review. In some cases, Russian pressure on these countries has heavily influences their terms—Hungary suspended gas exports to Ukraine. Russia’s role is also altered by Ukrainian energy consumption patterns, which dropped by 14% in 2014 when compared with 2013, primarily due to interruptions in industrial operations. But Ukraine’s production capacities have shifted, too. Russia’s annexation of Crimea meant the loss of the Chernomorneftegaz facility, which was expected to produce 3 bcm of natural gas by 2015 and position Ukraine at the forefront of production in the Black Sea region. The conflict in eastern Ukraine will remain the central issue for Moscow and the West long after a signed gas contract, as the geopolitical strategies for transporting natural gas to European markets overshadow the region. As for the EU, the pursuit of alternatives to Russian natural gas remains a priority of its energy security strategy that was launched in 2014. The European Commission’s “stress test” of 38 countries in 2014 measured its capacity to respond in the event of Russian natural gas supply disruptions, and it remains an integral piece of Europe’s plans to ensure that the impact of Moscow’s energy policies is mitigated for the West. The recent meeting between Sefcovic and European energy executives was focused on the short-term effects of Ukraine’s natural gas impasse with Russia, but that is by no means where the concerns of the EU end.

Will gas become divisive point between Russia and Turkmenistan?

Azernews, *03.08.2015*

Turkmenistan's President Gurbanguly Berdimuhammadov had a phone conversation with his Russian counterpart Vladimir Putin at the initiative of the Russian side. The presidents had this conversation against the backdrop of strained relations between gas concerns of the two countries.

Turkmenistan's government said that during the phone conversation, the president expressed confidence in the prospects for boosting the mutually beneficial cooperation. Trade and economic spheres, transport and communications, urban development, agro-industrial complex and other areas were named as the important vectors of cooperation.

Gas sphere was one of the strategic areas of partnership between Turkmenistan and Russia until recently. Turkmenistan transports its gas to Russia via the Central Asia-Center gas pipeline that was constructed during the Soviet period and monopolized by Russia's Gazprom company. Turkmenistan's Ministry of Oil and Gas Industry and Mineral Resources said in mid-July that Gazprom Export LLC (100-percent subsidiary of Russia's Gazprom company) doesn't pay the remaining money for the actually delivered Turkmen natural gas, without explaining the reason.

Later, the world media reported citing the sources close to Gazprom that the company has filed a lawsuit in Stockholm Court against Turkmenistan's Turkmengaz company demanding to revise the prices in the gas supply contract. Gazprom said in early 2015 that it will purchase only 4 billion cubic meters of gas from Turkmenistan and was going to challenge the terms of the contract in the Stockholm arbitration. The gas monopoly attributed reduction in gas purchases to the fact that demand for Russian gas in Europe and in Ukraine had shrunk, said Forbes. Due to declining gas export prices in Europe, linked to the constantly falling oil prices, the previously set price for Turkmen gas at $240 per 1,000 cubic meters appeared unsatisfactory to the Russian side. Having failed to negotiate lower prices, Gazprom unilaterally shifted to payments at European export breakeven price in January, said Forbes. "Gas payments in the first five months of this year have been carried out by Gazprom under this scheme."

Gazprom was the largest purchaser of Turkmenistan's natural gas (up to 42 billion cubic meters) till 2009. At the time, Gazprom had a desire to buy Turkmen gas, since it was receiving this gas at low prices and got great dividends from reselling it to CIS and European countries. Gradually, starting from 2009, Turkmenistan also started to sell natural gas at lower prices. However, in April 2009, Gazprom Export LLC sharply reduced the purchase of Turkmen natural gas that led to the explosion of the pipeline, according to Ashgabat. The supply of Turkmen gas was suspended till early 2010. Despite the contracted annual volumes of 70-80 billion cubic meters, firstly, the volumes were decreased to 10-11 billion cubic meters per year throughout five years. The annual volumes dropped by 2.5 times in 2015 and stood at 4 billion cubic meters.

Turkmenistan's government today drew the attention to the fact that during the conversation, Berdimuhammadov and Putin mainly focused on discussing the process of implementation of the earlier reached agreements aimed at deepening the partnership based on the principles of equality, trust and mutual respect.

Engie in talks with Gazprom over Nord Stream expansion

Natural Gas Europe, *04.08.2015*

The number of companies possibly joining the Nord Stream II project has increased over the last hours, as France's ENGIE is reportedly in talks with Russia's Gazprom. According to several reports, the pipeline connecting Russia to Germany under the Baltic Sea could have a strong private backing despite the possible opposition of the European Commission.

Reuters confirmed the rumour, explaining that two sources familiar with the matter said that the negotiations are proceeding. Wintershall, a unit of chemicals group BASF, signed a Memorandum of Intent with Gazprom for the expansion of the Nord Stream II natural gas pipeline.

Russian gas exports jump as Europe stockpiles cheap fuel

Reuters, *03.08.2015*

The Russian gas sales to Europe jumped to an all-time high in July, as European customers capitalised on a steep fall in prices. Gazprom's gas prices are pegged to oil with a six-month lag, which means its customers are currently paying the equivalent of $45-$50 per barrel seen in January 2015 when oil prices crashed following a decision by OPEC not to reduce output.

The jump in exports will help Gazprom to endure one of the worst years in history. Gazprom lost its position as western Europe's top gas supplier to Norway earlier this year and its production risks collapsing to an all-time low.

Gazprom's sales at home have been hit by Russia's flagging economy, crippled by Western sanctions over the Ukraine conflict and a drop in the price of oil. On the export market, Gazprom is facing sluggish demand in Europe due to a weak economy. Its only hope that the trend would be reversed is linked to low gas prices. It said it had exported 14.29 billion cubic metres of gas to Europe and Turkey. "This is an all-time high level for July and a biggest monthly level for the last year and a half. Exports in July 2015 are comparable to supplies during peak heating season demand during autumn and winter months," Gazprom said. Gazprom, which normally accounts for around 8 percent of Russian GDP, is also hoping to boost gas sales later in the year when it holds its first ever auction in September to sell additional gas to northwest Europe. The company has been hit by a pricing dispute with Ukraine, which is battling pro-Moscow insurgency in its eastern regions. Ukraine stopped buying Russian gas starting from July 1 after EU-brokered talks collapsed without a deal on how much Kiev should pay for its supplies.

Why Gazprom's earnings are down

Russia Beyond the Headlines, *05.08.2015*

Russia's natural gas giant Gazprom has reported its worst ever half-year financial results. Figures for the first six months of 2015 show that production has fallen by 13.1 percent to 209 billion cubic meters and gas exports by 12.9 percent to 88.5 billion cubic meters.

The numbers were noted in a monitoring report prepared by the Russian Ministry of Economic Development for the first six months of 2015. According to the ministry, by the end of the year Gazprom's production will fall by 7.2 percent to 414 billion cubic meters of gas - the lowest in the company's history.

The figures come at a time when Gazprom cannot sell additional gas due to falls in consumption in its key markets. Russian experts believe that the negative results are due to mistakes in the company's strategy, although by the end of the year the situation may improve. "Gazprom's top managers have made systematic mistakes in their forecasts of the gas consumer market in the EU and the Pacific Region," says Vasily Yakimkin, a professor of finance and banking at Kremlin-linked economic institute, RANEPA. Ilya Balakirev, a chief analyst at UFS IC, says many factors are at play, some of which could have been predicted and controlled. "This includes the situation in Ukraine and America's 'shale revolution', but in reality, in one way or another, the problem deals with miscalculations in Gazprom's strategic planning, which persistently increased production capacities without considering the demand," explains Balakirev. Dmitri Baranov, of Finam Management, says these indicators are related only to the first six months of 2015 and the situation may change in the second half of the year.

Balakirev says in Gazprom's defense, that its planning models work in periods of decades rather than months, which means that local dips in demand should not be seen as critical. Gazprom hopes that there will be growth in demand in Europe and there are grounds for such expectations: demand began to increase in the first quarter of 2015 for the first time in two years. According to Eurostat, the consumption of gas in the EU, which for seven quarters straight had been decreasing, grew by 12 percent year-on-year. Yakimkin believes a tough economic policy and the consolidation of assets offers the gas monopoly a way ahead. In particular, Gazprom must develop others directions for its LNG (liquefied natural gas) and conquer Asian markets since Europe is a diminishing market. “In the medium to long term there are two ways out for the company: to radically modify its general business strategy or enter new markets by launching new pipeline and processing projects,” says Balakirev, adding that this is what Gazprom is doing: its new projects include the Turkish Stream along the Black Sea seabed to Turkey and the Power of Siberia to China. Yakimkin believes that in the future Gazprom will probably lose its monopoly on exporting gas from Russia. Moreover, the Ministry of Economy believes that the 2015 results show that Gazprom's share in the production of gas in Russia will decrease to 66 percent compared to 69.5 percent last year and 74.5 percent in 2012. Gazprom's competitor, state-owned Rosneft, has proposed completely liberalizing gas exports by 2025. It has written to the Energy Ministry suggesting that from 2016 independent producers be permitted to export gas from Russia to overseas markets.

Why Moscow wants Iran deal and Congress vote doesn't matter

i24 News, *05.08.2015*

One of the reasons why sanctions against Iran will be lifted whether or not US pulls out of the nuclear deal is that the other signatories (Russia, China, EU) have an economic interest in lifting those sanctions. This economic interest includes natural gas. There was no reason for Russia to let Iran re-renter the natural gas market. A closer look at the geopolitics of energy makes sense of Russia's endgame.

The EU imports about one third of its natural gas from Russia. This relative dependency limits the EU's leverage over Russia and, therefore, Europe's ability to rein in Vladimir Putin's rampant annexation of eastern Ukraine.

Since Iran has one of the world's largest natural gas reserves, it could potentially help diversify Europe's imports. Yet it might take a decade for Iran to turn into a major natural gas supplier (not least because Iran has a high domestic demand that is likely to increase). Putin, of course, understands that Iran might become a major competitor in this field, but he appears to assess that bringing back Iran into the natural gas market may help Russia create a cartel that will artificially inflate the price of natural gas. Doing so would serve Russia's economic interests. Russia, Iran and Qatar hold about 57% of the world's natural gas reserves.

They therefore constitute a de-facto oligopoly within the Gas Exporting Countries Forum (GECF), an intergovernmental organization of 11 of the world's leading natural gas producers (Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Qatar, Russia, Trinidad and Tobago, and Venezuela). GECF countries control not only 70% of the world's natural gas reserves, but also 38% of the world's pipeline trade. With the emergence of the United States as a major natural gas producer (thanks to fracking technology), and because of the US-Russia rivalry over pipeline routing in the Caspian Sea and the Caucasus, Russia wants to keep the upper hand in the natural gas market. Having Iran on board, in that regard, makes sense.

Russia is at odds not only with the US but also with the EU over natural gas pipelines. In order to reduce its dependency on Russian natural gas, the EU is planning the construction of the so-called Nabucco pipeline, which would connect it to Azerbaijan and Georgia via Turkey (thus bypassing Russia from the south). In December 2014, Putin announced his intention to build the so-called Turkish Stream pipeline, which would deliver natural gas directly from Russia to Turkey (via the Black Sea). Since the establishment of GECF in 2001, there has been speculation that Russia and Iran intend to create a natural gas cartel similar to the OPEC oil cartel. In May 2006, Alexander Medvedev, the deputy chairman of Gazprom (Russia's natural gas giant), warned that Russia might create "an alliance of gas suppliers that will be more influential than OPEC." In February 2007, CNN reported that Russia and Iran were discussing the establishment of a natural gas cartel. So the reentry of Iran into the international natural gas market does serve Russia's interests. Then there are the economic interests of China, which is planning on building a natural gas pipeline from Iran to Pakistan. The US had previously threatened Pakistan with sanctions if it went ahead with this project. With the new nuclear deal with Iran, the US can no longer make such threats – whether or not it remains a party to the agreement or not. Those who think that building a two-thirds majority in the US Congress would derail the deal with Iran are deluding themselves.

Poland's PGNiG to start oil and gas exploration in Germany

Reuters, *04.08.2015*

Poland's biggest gas distributor PGNiG will start oil and gas exploration in eastern Germany, as part of a bigger plan to boost production assets outside Poland, PGNiG said. The first of two planned wells is expected to be completed this year, said PGNiG, which will work with the German unit of Canadian firm Central European Petroleum (CEP) on the project.

PGNiG will spend more than 10 million euros ($10.95 million) on the project by mid-2016. Some 36 percent of the projects' revenues will go to PGNiG, 39 percent to CEP and 25 percent to Austria's Rohol-Aufsuchungs Aktiengesellschaft (RAG).

PGNiG compared the potential of the German deposit to one of its biggest deposits in western Poland - Lubiatow-Miedzychod-Grotow - which was initially estimated at around 7 million tonnes of oil. In the first half of this year PGNiG's crude oil output was 704,000 tonnes, with half coming from its deposits outside Poland.

Ukraine asks Belarus to "explore" Lithuanian LNG import possibilities

Natural Gas Europe, *06.08.2015*

Ukraine has addressed Belarus, asking it to "explore" possibilities of Lithuanian LNG transit through its territory. As much as the idea with the Belarusian gas network owned by Russia's Gazprom may seem preposterous now, it could get traction in the future if the current troubles of Gazprom lead to an overhaul of the Russian gas market by the Russian Government.

"Russia has largely completed power market liberalization and there is a push to pursue it with gas market. Gazprom's worsening situation is triggering calls for change," Vidmantas Jankauskas, a Lithuanian gas expert said.

Ukraine's endeavour for Lithuanian LNG was reaffirmed last week by Michael Bno-Ayriyan, the Head of the European Integration Department at the Ukrainian Ministry of Energy and Coal Mining (MECI). In his Twitter account, the Ukrainian official tweeted the following after the intergovernmental sitting of Ukraine and Belarus' Commission Trade and Economic Collaboration: "We have registered our intentions of gas transit from the Baltic States through the territory of Belarus to Ukraine. We are talking about the liquefied natural gas terminal in the Lithuanian seaport of Klaipeda." The Ukrainian official, however, pointed to the "complexity" of such a project as the Belarusian gas transportation system belongs to Russian gas holding Gazprom. Replying to Natural Gas Europe's query, MECI's Communications Department confirmed that such a question was "indeed" on the agenda of the aforementioned sitting.

"Ukrainian side has emphasized that Ukraine seeks to unite its and Belarus' efforts in reaching energy independence and that it is interested in diversification of natural gas supplies as well as the transportation of gas through the Belarusian territory should Ukraine and Lithuania agreed on a respective contract. Ukraine would like to explore all possibilities of gas transit from the Lithuanian territory using the Belarusian gas transportation system," the reply reads. It also says the Ukrainian and Belarusian officials have signed a protocol on cooperation, including energy sector. Previously, the ministerial e-mail draws attention, Ukraine expressed its interest in "studying the Lithuanian experience in the implementation of the Klaipeda LNG project" in a sitting in the beginning of June held by two countries' intergovernmental Commission on Trade, Economic and Scientific - Technical Cooperation.

Ukraine is also “interested” in participation of the construction of a gas pipeline between Lithuania and Poland, known as GIPL, the MECI reply says. According to it, Lithuania “welcomed” the Ukrainian bid and encouraged Ukraine to participate in international tenders to pick up a contractor for the construction. Lithuania is to announce such a tender in 2016. If such a pipeline is ever built, Ukraine would expect to tap Lithuanian gas infrastructure for Klaipeda LNG imports to Ukraine. Ukraine has inclined it also wants to build own gas interconnector with Poland. For that, Naftogaz Ukrainy plans to attract financial resources from the European Union, the director for business development at the state holding, Yuriy Vitrenko, said recently. “If we are talking about a new interconnection point with Poland, it is more logical to talk about this with Europe rather than China. The interconnection point should have a pipe on the other side as well. We asked for the corresponding program of the European Union, which allows us to receive EU funding,” he was quoted as saying by Ukrainian media.

Asked by Natural Gas Europe about the possibility of Lithuanian LNG export to Ukraine, Mantas Dubauskas, the advisor of the Lithuanian Energy Minister, told that if (gas) export from Lithuania to Ukraine would not be possible, sides “would have done nothing at all in that direction.” “Now the efforts in that regard are being done both by Lithuania and Ukraine, which has been now for quite some time seeking to decrease the reliance on the gas supply from Russia. The possibility of LNG purchase from Klaipeda LNG terminal is one of the available measures to lessen the dependency,” the advisor underlined. “To make it happen,” said Mikhail Krutikhin, a stakeholder in Russia’s RusEnergy, a consultancy firm, and an energy sector expert, “Ukraine and Belarus have to agree on laying out a gas pipeline between the countries. This would obviously be too expensive for Ukraine now. In addition, there are the political hurdles for that for the moment that can hardly go away any time soon. Even if they are removed someday, gas from such a pipeline will be really expensive. Ukraine, quite impoverished now, cannot afford it.” Besides, he noted, Lithuania and Belarus should agree on the gas transportation through the existing pipeline. “Or perhaps a new pipeline offshoot would be required,” the expert pondered. He, however, believes that the prospects of liquefied natural gas are “very good” worldwide. “To my estimation, in six or seven years, 60 percent of all the gas on global markets will come in the form of LNG. I see the United States as the front runner in the bid,” the expert said.

The US has already agreed on US LNG exports with Spain and the United Kingdom.”The deliveries are about to start in two years or so and then they are set to grow, undoubtedly,” Krutikhin noted. Speaking of the Lithuanian LNG facility, he reiterated its future is hinged on the price it can offer. “Wholesale LNG purchases can be done at quite an attractive, pretty low price on the international markets now. And the price is set to edge down globally with the LNG terminals completed in Australia and South Africa,” the Russian expert believes. “The long-term outlook of the Lithuanian LNG terminal, price-wise, would be better if Lithuania managed to agree on LNG exports with neighboring Latvia. He sees Lithuania sending the floating storage and regasification jetty to the Latvian capital Riga to fill with the gas repositories at the Inchukalns underground gas storage facility. But Latvijas Gaze, Latvia’s gas distributor, has decided to opt for Gazprom gas for now. The Russian company owns a 34 percent stake in the Latvian company, but it might be forced to sell it when Latvia starts implementing the EU’s Third Energy Package, which foresees unbundling energy suppliers from network operators.

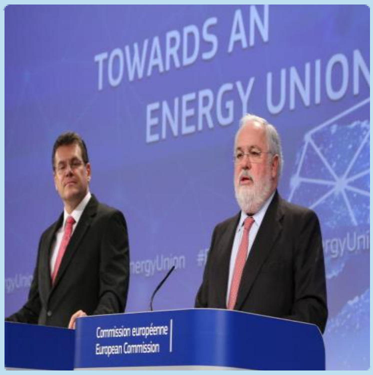
“Lithuania and Latvia, which are two Baltic and EU neighbors, must find an agreement on a more diversified use of the jetty. It is in the core interest of the project,” the expert concluded. Meanwhile, Vidmantas Jankauskas, a Lithuanian energy expert, believes the political hurdles for Lithuanian gas transit to Ukraine through the existing gas infrastructure may be removed sooner than later. “Gazprom has been in hot water lately. The company suffers from record high loss and is criticized for the weaker clout on the politics. Besides, it is embroiled in a row with Rosneft, the other Russian energy market giant. There are also some other gas players in the Russian market that would like to take advantage of the Gazprom troubles and see the market more diversified. Changes in the Russian gas market may be inevitable to stave off the further downturn,” the expert reasoned. The Russian gas exporter’s net income has shrunk reportedly to 159 billion rubles ($3 billion) in 2014 from 1.14 trillion rubles the previous year. The results reflect lower demand in Europe due to a milder last winter and increased supplies of liquefied natural gas, which all weigh on the prices. According to the expert, Ukraine’s consideration of Lithuanian LNG exports point to the country’s determination to further diminish the reliance on Gazprom gas. “The country has in fact already made significant cuts on Russian gas imports and depends on the reverse gas flow increasingly,” Jankauskas notes.

However, from the political standpoint, Lithuanian LNG exports to Ukraine through the Gazprom-controlled Belarusian gas network are impossible at the stage, the expert agrees.”Obviously, the existing infrastructure would be needed if such an agreement (on Lithuanian LNG export) were ever hammered out. Laying out a separate pipeline for that is out of the question because of the immense costs,” Jankauskas emphasized. The removing of the political hurdles (for Lithuanian LNG export) might come sooner or later, he believes nevertheless. “Look, when it comes to liberalization of electricity market, Russia has largely completed it. Belarus, for example, mulls unbundling its generation from the network management by 2018, which is also what the European Union wants (Seen as the last authoritarian country in Europe, Belarus, however, participates in the EU Eastern Partnership Programme, aiming to bring former Soviet bloc countries closer to the EU). So you see the processes are going despite the regimes. Liberalization of gas market in the countries might be just a matter of time,” the Lithuanian expert believes.

Ukraine’s Energy Ministry has announced last week of its determination to de-politicize natural gas sector in a bid for major energy reform. Speaking of the Ministry’s activities for the first half of the year, Bno-Ayriyan, of MECI, pointed out to the increasing the country’s gas reserve by 10 times, reducing gas supplies from Russia to 10 billion cubic meters, and receiving foreign aid exceeding 800 million euros. “We managed to get the ‘winter gas package’ discount as well as a discount for the second quarter of 2015, which, among other things, resulted from the fact that we have secured diversified natural gas supplies,” Bno-Ayriyan is quoted as saying in a statement by the Ukrainian Ministry. He noted in it that the gas dispute resolution process has proceeded from a Ukraine-Russia dialog to a Ukraine-EU-Russia dimension. In addition, the volume of gas reserves has increased in Ukraine by 5 billion cubic meters over the past six months, the Ukrainian official noted. Talking on the issue of setbacks, he pointed to the failure to strike a deal on the “summer gas package,” and launching the “great reversal” project in cooperation with European countries – in particular with Slovakia, as well as addressing the issue of financing energy procurement for the fall and winter.

Europe’s thorny energy diplomacy

Euractiv, *06.08.2015*



It is neither acceptable nor possible for European countries to achieve energy security on the back of a fossil fuel strategy that will undermine democracy, human rights, and climate security, writes Luca Bergamaschi, is a Researcher at environmental organisation E3G.

European foreign ministers launched the new EU Energy Diplomacy Action Plan. It is a welcome first step towards ensuring that energy plans are coherent with EU foreign policy objectives and core European values. However, the first priority of this plan remains focused on opening up new gas import routes and accessing new gas fields.

Such a diversification plan fails to consider the worsening security risks that energy producing countries face: new form of extremism, conflicts, social and economic instability, and the impacts of climate change. Algeria, for example, is considered as one strategic alternative to Russian supplies. However, serious doubts have been raised over whether Algeria would be able to increase and even maintain its gas exports to Europe. Jerome Ferrier, President of the International Gas Union, recently highlighted Algeria’s “unstable politics, higher domestic demand and insufficient capital” as major constraints to drive investment in costly new exploration and production. Current projections shows that Algeria will likely consume everything it extracts by 2030, becoming a net energy importer soon after. Additionally, unprecedented environmental protests are disrupting the country’s multibillion-dollar shale programme, increasing political instability across an already unstable North African region. As tensions across fossil fuel producing countries increase, even maintaining existing energy supplies will be a significant challenge. The advances of Islamic State (IS) in Libya and Tunisia, threatening the oil and gas complex of Mellitah, prompted the Italian Government to prepare a detailed military plan to protect key energy infrastructure. This included Greenstream, the longest gas pipeline into Europe departing from Mellitah. Four italian construction workers were kidnapped near the compound, located 30 km west from Sabratha, home to the IS base that trained the Sousse attacker and the two gunmen responsible for the slaughter at the Tunis Bardo museum. This shows why energy diplomacy simply cannot treat energy security in isolation to broader foreign policy challenges. A more integrated approach is urgently needed as a large swathe of Europe’s neighbourhood becomes trapped in a downward spiral of instability, facing worsening energy, resource and climate stresses. Some states and societies, such as Syria, Iraq and Libya, are breaking down at dizzying speeds while others, such as Tunisia, Egypt and the Sahel region, face mounting pressures.

This is forcing thousands of refugees to cross the Mediterranean to Europe's shores every week, and turning their people, especially young people, towards new forms of extremism. Volatile fossil fuel prices will further increase political instability in energy producing countries. These countries heavily rely on fossil fuel revenues to balance their national budgets and a low oil price means state revenues for Middle Eastern and North African exporters are expected to plummet some $380 billion this year. This will prompt cuts in domestic subsidies for energy, food, and basic welfare needs, exacerbating social grievances among young people already hit by high unemployment rates. Europe's attempt to deliver stability and security by opening up new fossil fuel supply routes brings its own problems too. Fossil fuel cooperation reduces Europe's diplomatic leverage to intervene in unstable situations and support democratic transitions in energy exporting countries. For instance, we cannot demand an end to human rights abuses in Azerbaijan when at the same time we are relying on them to open up the Southern Gas Corridor, a set of new fossil fuel pipelines to bring gas from Central Asia to Europe. On the other hand, fossil fuel cooperation masks the real economic, social and resource challenges producing countries face in an increasing warming planet. Middle East and North Africa countries are already facing major constraints on growth due to energy, water and food pressures. They are vulnerable to volatile food and energy prices, and climate impacts hitting key industries, such as tourism and agriculture, as well as lowering water supplies. Climate change is expected to be one of the key drivers of displacement and conflicts over the next 10 to 20 years, and has already been identified as a critical factor in contributing to the Syrian uprising and thus fuelling the refugee crisis of recent years.

EU foreign ministers could make a much better choice to long-term energy security while simultaneously tackling the climate threat. Internally accelerating the transition to a zero-carbon economy gives European governments, regions and citizens much more control over their energy needs, and provides greater leverage to help stabilise Europe's neighbours. Placing energy efficiency, clean energy deployment, electricity interconnections, and the digital revolution at the heart of Europe's relations should become Europe's number one energy security priority. If the EU meets its existing energy efficiency targets, Europe will not need the new gas supplies and infrastructure that the EU Commission is planning for. For its external relations, Europe needs to prioritise similar high-impact investments that can support resilience to future economic, security and resource shocks in the Middle East and North Africa, the Sahel region, Ukraine and Turkey. The shifting economics of clean energy technology is opening up new opportunities for Europe's businesses and neighbours. For example, promoting investment in efficient lighting, air conditioning, desalination and sustainable agriculture technologies is going to be the best way of addressing the most pressing issues facing these countries, while building local supply chains that offer a brighter future to their young populations. The lesson to take is clear: it is neither acceptable nor possible for European countries to achieve energy security on the back of a fossil fuel strategy that will undermine democracy, human rights, and climate security. Emerging security threats fundamentally change the character of energy relationships, while global cooperation to tackle climate change will support new incentives and investment flows. These will allow us promote alternative technologies in the energy efficiency and clean technology sectors. European countries need to demonstrate that they can work together to meet their energy objectives in a sustainable way without striking destabilising deals which will only further threaten our mutual security.

UK opposition to shale confirms UKCS centrality

Natural Gas Europe, *04.08.2015*

In a moment the industry eyes a y-o-y growth in UK Continental Shelf production, British public support for shale gas further fell to its lowest ever level, indicating that the UK could provisionally forget a shale rush and focus on offshore operations.

Public opinion gradually shifted from relative support to relative opposition over the last 19 months. 'When asked whether they support or oppose extracting shale gas, almost half of the public neither supported nor opposed it (46%). Amongst those that did offer an opinion, slightly more opposed (28%) extraction of shale than supported it (21%).

This is a reversal of the findings when these questions were first asked at wave 8, when 27% supported it against 21% that opposed' reads the report. The survey also indicates that public awareness of fracking remained stable over the same period, with 75% of the public aware of the process. The UK Department of Energy also wrote that awareness and opposition are correlated. 'There is more opposition than support amongst those who know a lot about it (54% vs. 32%), know a little about it (35% vs. 27%), and those who are aware of it but don't really know what it is (23% vs. 13%). The only group to be more supportive are those that haven't heard of fracking, of whom 12% support it and 7% oppose it.' Environmentalists intervened in the debate, commenting the results. "The government's own survey shows ministers' priorities on energy are at the polar opposite of what the British public wants" Daisy Sands, Greenpeace UK head of energy, said. Meanwhile, on Monday, Oil & Gas UK released a report saying that UKCS production increased 2.5% in the first half of 2015. "Recent provisional figures from the Department for Energy (DECC) suggest that oil and gas production from the UK Continental Shelf (UKCS) over the first six months of this year could be 2.5 per cent higher than the same period last year. It's still early days, but initial indications suggest that production could increase this year for the first time in fifteen years" Deirdre Michie, chief executive at Oil & Gas UK, commented in a separate press release.

Shingles: Should we be fracked for India? Europe? Alleged foreign policy interests?

Roanoke, *06.08.2015*

This commentary is in response to Roanoke Times editorial "Why do exports matter?" The example they use stems from the revelation that a portion of the fracked gas to be transported by the proposed MVP pipeline is destined for India.

The wisdom of Senator Tim Kaine's efforts to fast track the product to Europe is the more pertinent question. Europe depends on Russian methane gas shipped through Ukraine. Russia has threatened to withhold the gas over the crises in Ukraine. It appears to be the rationale for sponsoring legislation to fast track the exportation of LNG to Europe.

That gas would be supplied in part by the MVP. But is it necessary to frack the Virginias for Europe? Europe's shale gas deposits are estimated to be about four-fifths of the U.S., but only two European countries are actively pursuing them — Poland and the UK (which dropped its moratorium on fracking in 2013). Ten other nations — Germany (which is considering a partial lifting), France, Bulgaria, Northern Ireland, Scotland, Wales, the Czech Republic, Romania, Luxembourg and the Netherlands — have banned, or have moratoriums on, hydraulic fracking. They share the same concerns of American opponents: drinking water, earthquakes, climate disruption, unspoiled natural landscapes, endangered species, transportation infrastructure, and public safety. Perhaps Europeans believe they do not need to frack themselves. A number of countries on the continent are making great strides toward fossil fuel energy independence by transitioning to renewable energy. (See The Great Transition: Shifting from Fossil Fuels to Solar and Wind Energy by Lester R. Brown, 2015). For examples, Germany generated 74 percent of its electricity from renewables in early May of this year. Denmark was getting 39 percent of its energy from wind farms in 2014. It's goal is 50 percent by 2020. Scotland's target for the same year is 100 percent.

Are such goals beyond our reach? "The U.S. Department of Energy estimates that the shallow waters off the East Coast are capable of hosting 530,000 megawatts of wind generating capacity, enough to satisfy 40 percent of the country's electricity needs" (Brown). It is estimated that U.S. solar PV costs will be at grid parity in 19 states by 2020. However, giant European energy companies, Norway's Statoil and France's Total, are heavily invested in fracturing U.S. shale. Here is the answer to the Roanoke Times' question of whether it matters that fracked gas transported by MVP is for export. Given worldwide concerns about the harm caused by the manufacturing, transportation, storage and burning of fracked gas, and the increasing availability and competitiveness of alternative fuels, it is morally and politically wrong to ask people in one locale or region to be exploited, despoiled and have their property rights violated in order to provide dirty fuels to residents elsewhere, especially beyond their own country.

The problem of shipping gas across borders is pertinent even within the United States. Why? Because renewables can be provided at the local level, avoiding the vast infrastructure necessary for centralized coal and gas fired electricity plants, which are exorbitantly expensive and highly vulnerable to terrorism. The moral wrong and political folly of exploiting people of one area to benefit those in another is most obvious when exporting abroad. There is no second Marshall Plan — no stated policy that Americans must sacrifice themselves to save either Europe or India. They both have sufficient fossil fuel resources to meet their own energy needs should they deem the self-sacrifice necessary. However, European nations have chosen to wean themselves off fossil fuels and to import American LNG as a "bridge fuel." Given that choice, it is morally repugnant to ask Americans to sacrifice for them. It is politically shortsighted for our elected representatives to impose intolerable burdens on Virginians to export fossil fuels to countries that are not willing to bare the societal, environmental, economic and libertarian costs themselves. A popular revolt against fracking and its pipelines is building across this nation. There will be a reckoning; a political tsunami is on the horizon. Twenty-first century renewable energies are already making fossil fuels obsolete. Why not export West Virginia fracked gas through Virginia to India? India currently has sufficient coal and it is rapidly transitioning to renewables. It has a solar target of 100,000 megawatts by 2022. What is the U.S. target? Virginia's?

Poland's PGNiG says talks with Gazprom on gas prices advanced

Reuters, *06.08.2015*

The CEO of Poland's state-controlled gas distributor PGNiG said that talks with Russia's Gazprom on imported gas prices were "very advanced." PGNiG said it had filed for arbitration with the Stockholm Arbitration Tribunal in a dispute over the gas price formula with its biggest gas supplier, looking to change the pricing of its long-term contract in the face of falling oil and gas prices.

Much of the gas PGNiG sells in Poland comes from Gazprom. In the first half of 2015, the company imported 4.05 bcm of gas from Russia. Poland consumes around 16 bcm of gas annually.

PGNiG said that seeking arbitration in the dispute did not rule out continued negotiations. "I can say that the talks are very advanced," Mariusz Zawisza told reporters. PGNiG and Gazprom reached a price agreement despite an ongoing case in the arbitration court, signing an annex to their long term gas supplies contract in which Gazprom accepted a change in the gas price formula resulting in a price cut.

Sound oil signs gas sales agreement for Italian concession with shell

Natural Gas Europe, *06.08.2015*

Sound Oil announced the signature of a gas sales agreement for the Casa Tonetto production concession, which includes the Nervesa gas field, with Shell Energy Italia, the local arm of Shell Energy Europe.

The Mediterranean focused upstream gas company said it will manage its risk/reward balance. "I am very pleased to report the signature of the gas sales agreement increases exposure to Italian gas market and represents the first relationship with the Shell'' J.Parsons, the CEO, commented. The Agreement follows the recent Casa Tonetto production concession award and includes a pricing mechanism.

Last month, the company received the award of the Casa Tonetto production concession (which includes the Nervesa discovery) in Italy from the Italian Ministry of Economic Development.

The energy-security nexus in south-east Europe

Natural Gas Europe, *03.08.2015*

Energy was one of the tools the European Union's founding fathers used to initiate the reconciliation of the old continent. Energy remains one of the most pressing challenges for both the EU and its candidate countries. Looking back at energy security developments in the past decade, it seems that Europe has been able to overcome much of the East-West divide.

But the North-South gap remains, especially when one considers energy investments and infrastructure. This is probably one of the hidden fragilities of Europe's energy set-up.

As recent crises in Europe’s Eastern and Southern neighborhoods have consistently confirmed, energy security has become one of the most important geopolitical parameters of influence for third actors in south-east Europe. It is against this background that on 20th July the Council of EU welcomed the EU Energy Diplomacy Action Plan proposed jointly by the High Representative and the Commission. This Action Plan seeks to initiate new synergies with EU partners and facilitate the diversification of energy connections and providers. The Council Conclusions on EU Energy Diplomacy rightly point out that “diplomatic support should focus on the Southern Gas Corridor and the strategic potential of the Eastern-Mediterranean region”. Indeed, as the Nabucco and South Stream sagas have taught us, virtual pipelines can create uncertainty, disappointment and geopolitical stress among regional, European and global actors. Furthermore, the euro-crisis also needs to be factored in when it comes to the way countries react to the regional energy security conundrum. In this muddled context, the Trans-Adriatic Pipeline (TAP) currently remains the only tangible project of the wider South Corridor. TAP’s first stage of construction started only few weeks ago in Albania and with its completion the country will be in a position to become an energy hub, enabling the supply of neighboring countries through the much needed Ionian Adriatic Pipeline (IAP), a missing piece in south-east Europe’s energy security toolkit. These pipelines will considerably diversify South-east Europe’s energy supply whilst helping to avoid high prices and unpleasant events such as the epic standoffs Eastern Europe has been witnessing over the past decade.

The fact that the EU is currently focusing on the consolidation of the European energy market and sees the SEE countries as important partners in this process, is certainly a further step in the right direction. Moreover, the Action Plan of Energy Diplomacy underlines the necessity of taking advantage of existing financial instruments, such as the Instrument for Pre-Accession Assistance, to support energy diversification policies and the transformation of the energy systems. But this is not enough. In order to increase energy security in the region we need to make better use of the existing energy potentials. To put it differently, what is desperately needed at this point is to connect the energy islands in this corner of Europe. Better energy connecivity will allow the countries of the region to integrate over longer distances and enhance their capability to face the supply shocks. Yet the existing projects of interconnection are not enough to get towards a favorable Energy-Security nexus in south-east Europe. In 2014, the European Security Strategy and the Stress Tests indicated that countries in south-east Europe remain exposed to energy crisis and the poor infrastructure of the sector. Therefore, more is needed to be done in this context. German Chancellor Angela Merkel gathered up the Prime Ministers of the Western Balkans in Berlin in an attempt to revitalise the region’s cooperation and EU integration agenda. The so called Berlin process has since produced positive results, as it has turned the region’s attention towards flagship regional infrastructure projects. As the Western Balkan countries are bracing themselves for their next summit to be held in Vienna this August, it is crucial that the EU’s strategy for the region encompasses the energy security dimension, in order to encourage foreign private investment and better channel of EU funds towards the development of south-east Europe’s poor energy infrastructure.

EU candidate countries in south-east Europe need joint investment projects in renewable energy, cross-border interconnectors, more significant use of hydropower, and most importantly – alignment with EU energy legislation, in particular with the EU Third Energy Package. In a challenging geopolitical landscape, it is high time for the EU to elaborate a bold and comprehensive energy security concept for south-east Europe. This will help to ensure a good investment climate for European companies in the region and bring back healthy competition against corruptive practices that usually tend to favor the involvement of third actors. Indeed, connecting the energy islands in south-east Europe will help to build a true region in both economic and security terms, a region that can act as a strategic partner for the EU in the broader energy security nexus. Last, but not least, such a bold approach will further consolidate the regional cooperation and the EU integration agenda of the Western Balkans, following the successful example of the six founding member states of the European Union.

Oil & gas UK shows leadership for UKCS activities

Natural Gas Europe, *06.08.2015*

Oil & Gas UK launched a new category for the sector's ninth annual awards evening, indicating that the industry is trying to join forces to cope with the current low price environment and trigger an increase in exploration in UK waters. The Oil & Gas UK Awards 2015, sponsored by Shell U.K. Limited, will take place at Aberdeen's Exhibition and Conference Centre.

"Industry as a whole is putting a great deal of effort into improving its performance – and I look forward to hearing just some of those examples of excellence on the night" Oil & Gas UK's chief executive, Deirdre Michie, commented.

Judges will be looking for nominations from companies of all sizes that are currently active on the UKCS and have demonstrated strong leadership in pioneering successful new ways of working in the region which can be shared and adopted across the industry. "We are seeing a real commitment from operators and service companies to find new, more efficient ways of working that can be sustained over the long term and help create a positive future for the industry" Andy Samuel, chief executive, Oil and Gas Authority added. According to the organisation, the decision follows on from a move last year to change the structure of its awards categories, with the two company awards: the Oil & Gas UK Award for Investment in People and the Oil & Gas UK Award for Business Innovation; split into two categories for large and smaller companies. The organisation released a report saying that UKCS production increased 2.5% in the first half of 2015.

Poland gas focused FX Energy puts up for sale sign

Natural Gas Europe, *06.08.2015*

US based FX Energy, Inc. has commenced a process to explore a possible sale of the Company or other transaction. FX's main exploration and production activity is focused on Poland's Permian Basin where the gas-bearing Rotliegend sandstone is a direct analog to the Southern Gas Basin offshore England.

Its primary assets is in the Fences license, where PGNiG is the owner and operator of the concession and FX owns 49% of the working interest. FX Energy recently announced that it had started drilling Miloslaw-4K conventional well, one of the largest conventional prospects it has drilled with PGNiG.

New shale gas bid as appeal set to be made

Black Pool Gazette, *06.08.2015*

The battle over fracking which has engulfed the Fylde coast now looks set to spread to Nottinghamshire after an energy company applied for permission to explore the potential for shale gas. Lancashire County Council refused permission for two fracking sites, where gas exploration company Cuadrilla was hoping to drill four wells.

IGas has revealed it wants to drill 12 bore holes on land close to the boundary with South Yorkshire. This followed an application to Nottinghamshire County Council for permission to start exploratory tests at the same site which was submitted.

The boreholes would be used to determine existing groundwater conditions. Any bid for hydraulic fracturing at the sites would be subject to separate applications. Lancashire rejected Cuadrilla's plans to frack at Preston New Road, Little Plumpton, and Roseacre Wood, near Elswick, after mammoth hearings at County Hall. Supporters of shale gas say the industry could provide thousands of jobs both on site and in the supply chain. And business leaders were concerned energy firms may look outside Lancashire as a result of the county council's decisions. Cuadrilla says it plans to appeal against the decisions on both sites. An inspector will eventually be appointed to chair a planning inquiry.

Kidnapping shows Egypt’s fragilities despite Cairo’s efforts

Natural Gas Europe, *06.08.2015*

Ardiseis Egypt, a subsidiary of French firm CGG, reported that one of its staff had been kidnapped while traveling to Cairo. “Ardiseis Egypt acknowledges that he is the hostage appearing on the video released today by the Sinai Province of IS,” the company said in a note. An online video supposedly released by IS’ Egypt affiliate confirmed the news.

The Croatian hostage said the group would kill him in 48 hours if Muslim women in Egyptian jails were not freed. “Croatia’s Foreign Minister Vesna Pusic will, following consultations with her Egyptian counterpart, travel to Cairo,”

Egypt has unveiled a major expansion of the Suez Canal, which deepens the main waterway and provides ships with a 35km (22 mile) channel parallel to it. The two news show how the central government in Cairo is trying to increase cooperation with the oil and gas industry, but equally proves that instability in the region could be on the rise.

Turkmenistan prepares large gas breakthrough in Europe

Trend, *03.08.2015*

The Turkmenistan implements large-scale preparation for diversification of gas supplies, in particular in the European direction. It will be necessary to create the missing Trans-Caspian segment for that and use the opportunities of the Southern Gas Corridor initiated by Azerbaijan.

Finally, Ashgabat decided to do what Europe has been waiting many years for - to begin to supply gas, which will be able to compensate for most of the Russian gas that the West has many problems with. The East-West gas pipeline, which is under construction in Turkmenistan with a length of more than 800 kilometers and a capacity of 30 bcm a year.

The East-West pipeline will bring together major gas reserves, create conditions for the export of Turkmen fuel to the world markets in either direction, the newspaper “Neutral Turkmenistan” wrote earlier. In other words, today, Ashgabat builds the infrastructure that will carry gas from the richest gas fields, through the territory of the country to the coast of the Caspian Sea. It is clear that the next step of the construction of gas infrastructure will become the construction of the Trans-Caspian gas pipeline, which will become a part of the Southern Gas Corridor to Europe, which will combine in itself the Azerbaijani and Turkmen gas. The West has long been waiting for this step, lobbying for the idea of the Trans-Caspian Pipeline as a part of the Southern Gas Corridor, hoping to take away the convenient instrument of pressure on Europe, that is, Russian gas from the Kremlin’s hands. However, previously, Turkmenistan wasn’t ready for an open confrontation with Russia and to start major gas deliveries to the West. Meanwhile, selling almost all of its gas to China, Ashgabat found highly risky, as both the single customer, and the single seller meant constant dependence. And today, Ashgabat has an opportunity to get away from that dependence on the buyer, and to diversify its supplies to the West. The gas cooperation between Russia and Turkmenistan, which has in recent years undergone a major change, once again convinced Ashgabat of the need for speedy diversification of its supplies. Recently, the Turkmen government’s website has said Russia’s Gazprom became an “insolvent partner” and hasn’t paid its gas debts since early 2015, due to the continuing global economic crisis and economic sanctions imposed by Western countries. Previously, Ashgabat preferred to sell its gas to Europe through Russia, which allowed it to maintain good relations with Moscow, however, Russia has significantly reduced gas purchases from Turkmenistan in recent years. It was purchasing over 40 billion cubic meters of gas per year in 2007-2008, but Deputy Chairman of the Management Committee of Russian company Gazprom, Alexander Medvedev said that the company will buy only 4 billion cubic meters. All these factors pushed Turkmenistan to cease this disadvantageous cooperation and get direct access to western markets, which will be possible with long-awaited construction of Trans-Caspian Pipeline that will deliver blue fuel to the west through the bottom of the Caspian Sea. All the more so, the corresponding infrastructure – the Southern Gas Corridor – will be created in coming years.

Japan leaps to boost energy role in Azerbaijan, Central Asia

Natural Gas Europe, *06.08.2015*

The world’s third biggest economy has had accelerated talks with Azerbaijan and Central Asian countries to increase its stake in local energy projects. Delegations from Azerbaijan and Turkmenistan visited Japan last week, while Tokyo and Tashkent announced they are keen to boost economic ties. Japan ranks second after the United States in terms of outflow foreign direct investment (FDI).

Statistics show Japan’s FDI stood at roughly $119 billion in 2014, down from $135 billion in 2013. Even so, Japan unveiled a plan in May to increase funding for Asian infrastructure projects.

Japan plans to contribute $100 billion over 5 years to the new Chinese-led Asian Infrastructure Investment Bank (AIIB). Azerbaijan and Central Asian countries are keen to attract these new investment funds. An Azeri delegation headed by Rovnag Abdullayev, CEO of State Oil Company of Azerbaijan Republic (SOCAR), travelled to Japan this week. During a July 18th interview with Azerbaijan's ANS TV, Abdullayev revealed that Baku has been in talks with Japanese banks regarding an $8 billion loan to fund its Oil and Gas Processing and Petrochemical Complex (OGPC) project. The proposal has a processing capacity of 12 billion cubic metres of gas and is capable of producing 800,000 metric tons of petrochemicals annually. Abdullayev added that Japanese companies will purchase a stake in the project. SOCAR sources recently told Natural Gas Europe that foreign investors can establish joint ventures with the company with respect to OGPC, but SOCAR wants to maintain at least a 51% share in the project. During his visit to Tokyo, Abdullayev met with officials from the Japan International Cooperation Agency as well as the Japan Bank for International Cooperation, which has taken part in the financing of Turkey's Star refinery. SOCAR is building the $5.5 billion refinery to supply feedstock to petrochemicals maker Petkim. Hiroshi Watanabe, CEO and Governor of the Japan Bank for International Cooperation, met with SOCAR officials at a recent Asian Development Bank conference, held in Baku in May. Abdullayev also met with the directors of Itochu Corporation and Mitsui Group, and visited Japanese energy engineering giant JGC Corporation. Mitsui built the North-1 thermal power plant in Azerbaijan 14 years ago, and is preparing to break ground on the North-2 power plant by the end of 2015. The production capacity of each plant is 400 MW.

Japanese Prime Minister Shinzo Abe met with Baimyrat Hojamuhamedov, Deputy Chairman of the Cabinet of Ministers of Turkmenistan. According to a Turkmen government communiqué, the meeting focused on attracting Japanese investment, modernizing the oil and gas industry in Turkmenistan, and diversifying supply routes for Turkmen gas.Previously, Turkmen President Gurbanguly Berdimuhamedov visited Tokyo in 2013 in hopes of securing a $10 billion energy-related investment package. The meeting saw Turkmengaz, Turkmenhimiya, and Turkmenoil sign agreements with Japan's Nippon, Sojitz, Sumitomo, Chiyoda, JGC, ITOCHU, TOYO, Mitsui, Tsukishima, Mitsubishi, and Kawasaki.Construction of a Turkmen natural gas chemical complex for producing polyethylene and polypropylene began last year in the Caspian coastal region of Kiyanly. The $3.4 billion project is being developed jointly with TOYO Engineering and a consortium of companies including South Korea's LG International Corporation and Hyundai Engineering Corporation Ltd. According to AKIpress, the annual production capacity of the complex is 386,000 metric tons of polyethylene and 81,000 metric tons of polypropylene. Japan's Kawasaki and Turkey's Rönesans Holding are also investing in another Turkmen plant to process natural gas into gasoline.

Uzbek Foreign Minister Abdulaziz Kamilov met with Japan's Parliamentary Vice-Minister for Foreign Affairs, Kentaro Sonoura, in Tashkent. During the meeting, both sides signed several investment and loan agreements in addition to various technical assistance projects worth $3.8 billion. Japan has invested $2.5 billion in the country so far, an increase from the $1.8 billion invested in 2012. Prior to the Tashkent meeting, a delegation headed by Uzbekistan's first Deputy Prime Minister and Minister of Finance, Rustam Azimov, took part in the 12th session of the Uzbek-Japanese Committee on economic cooperation held in Tokyo in January.

U.S. gas exports: The pipe dream

Natural Gas Europe, *03.08.2015*

The Obama Administration is often accused of being sluggish in granting permits for projects to ship LNG to countries that do not have a free trade agreement with the U.S. Critics claim it has thus denied the U.S. a historical opportunity to become a leading natural gas exporter on par with Russia and Qatar.

Whether ten approvals out of forty applications in four years is sluggish or not is a matter of perspective. But the debate on the pace of approvals has masked a much more important fact: American gas is no longer desired abroad, no matter how many permits are granted, and certainly not in Asia – the fastest growing market for gas.

Here is why: LNG prices in Asia are linked to oil prices; when oil prices were high Asian economies were forced to pay exorbitant prices for their imported gas. In the case of Japan where the Fukushima incident led to the shutdown of 54 nuclear reactors, at one point LNG prices reached almost $20 per one million British thermal units (mmbtu). During that time the North American fracking revolution unleashed a huge amount of gas into the market, creating a fantastic opportunity for the U.S. gas industry to capture the arbitrage between Asian and North American prices and export daily billions of cubic feet to foreign destinations. So promising was the LNG play that a 2014 report by Citi Group projected that the U.S. would become the world's leading LNG exporter by as early as 2020. But ironically the same fracking miracle that flooded the North American market with surplus natural gas also led to a spike in oil production and contributed to the fall in global oil prices. Since oil and gas prices are linked the collapse in oil prices led to an even sharper decline in LNG prices.

LNG spot prices in Asia have recently fallen below $7/mmbtu, a level nearly one third of last year's peak. While at the well head U.S. gas price –below $3/mmbtu – is among the cheapest in the world, when slapped with liquefaction and tolling costs the price could reach $9/mmbtu, no longer competitive in many markets including Asia. The slowdown in China's growth, the European recession, the restarts of Japanese nuclear power plants, the rise in Australian LNG exports, the new gas pipelines China and Russia are planning to build in Siberia and the specter of Iranian gas entering the market once the sanctions are lifted all mean that in the foreseeable future America's gas may not be attractive for most buyers. With the dream of becoming a major player in the Asian market quickly fading the U.S. should consider alternative uses for its gas. America's immediate neighborhood, the Caribbean basin and Central American markets, could be the first markets for America's gas. Many of those countries - Granada, Jamaica, Barbados, Nicaragua and Cuba to name a few - still generate large portions of their electricity from oil products and their economies are susceptible to occasional oil shocks.

The same is true for Puerto Rico which is effectively bankrupt and could benefit greatly from switching its power sector from oil to natural gas. But most of those markets are too small and too poor to justify the construction of LNG receiving terminals where LNG is re-gasified into dry gas that can power electricity turbines. For such regional markets the gas can be delivered in the form of low pressure Compressed Natural Gas (CNG) on board dedicated vessels. This way the gas can simply be shipped in its gaseous form without having to go through a costly and energy intensive conversion into liquid and then back into gas. Moving gas in CNG vessels would offer the U.S. gas producers new nearby markets while sparing the customers the need to invest billions of dollars in LNG infrastructure. The second potential market for America's gas is the transportation sector. While a large amount of gas is used for power generation, with important economic and environmental benefits, only one percent of U.S. natural gas is used as automotive fuel. This is a real folly. Even at the currently depressed crude prices North American natural gas is still three times cheaper than oil on an energy content basis. But despite the cheap price of our gas, the U.S. is home to only about 150,000 of the world's roughly 18 million natural gas vehicles. In China, where natural gas prices are 3-4 times higher, gas is used much more widely in vehicles. A new report by the United States Energy Security Council reveals that though China's overall vehicle fleet is half the size of America's it has ten times more natural gas vehicles and twice as many natural gas refueling stations than the U.S. Furthermore, China is in the process of converting its vehicle fleet to run on methanol, an alcohol fuel that can be made from natural gas as well as coal and biomass. Indeed, though poor in gas China seems to be utilizing the resource better than the gas-rich U.S.The answer to the North American gas glut isn't building multi-billion dollar LNG terminals along U.S. coasts with the hope of exporting gas to distant markets where it is no longer wanted. Promoting innovative approaches to exporting gas to our neighbors in configurations other than LNG and advancing fiscally conservative solutions to opening the transportation sector to natural gas-derived fuels are the only ways for U.S. natural gas producers to ensure that if they continue to drill for more gas there will be takers.

Announcements & Reports

► *Natural Gas Weekly Update*

Source : EIA
Weblink : http://www.eia.gov/naturalgas/weekly/

► *This Week in Petroleum*

Source : EIA
Weblink : http://www.eia.gov/petroleum/weekly/

► *MOMR July 2015*

Source : OPEC
Weblink : http://www.opec.org/opec_web/en/publications/338.htm

Upcoming Events

► *7th South Russia International Oil & Gas Exhibition*

Date : 02 – 04 September 2015
Place : Krasnodar – Russia
Website : http://www.oilgas-expo.su/en-GB

► *22nd Annual India Oil & Gas Review Summit and International Exhibition*

Date : 09 – 10 September 2015
Place : Mumbai – India
Website : http://www.oilgas-events.com/india-oil-gas

► *The Energy Event 15*

Date : 15 – 16 September 2015
Place : Birmingham – United Kingdom
Website : http://www.theenergyevent.com/Content/MAIN-SF-W2L-enquiry-form

► *3rd East Mediterranean Gas Conference*

Date : 22 – 23 September 2015
Place : Paphos – Greek Cyprus
Website : http://www.oilgas-events.com/East-Med-Oil-Gas

► *LNG Global Congress*

Date : 23 - 24 September 2015
Place : London - UK
Website : http://www.lnggc.com/?xtssot=0

► *23rd Kazakhstan International Oil & Gas Exhibition and Conference*

Date : 06 – 09 October 2015
Place : Almaty – Kazkhstan
Website : http://www.kioge.kz/en/conference/about-conference

► *Shale Gas Environmental Summit*

Date : 26 - 27 October 2015
Place : London - UK
Website : http://www.smi-online.co.uk/energy/uk/shale-gas-environmental-summit

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► *Abu Dhabi International Petroleum Exhibition & Conference*

Date : 10 – 13 November 2015
Place : Abu Dhabi - United Arab Emirates
Website : http://www.adipec.com/

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► *CIS Oil and Gas Transportation Congress* ***(in Turkey)***

Date : 11 – 12 November 2015
Place : Istanbul - Turkey
Website : http://www.theenergyexchange.co.uk/event/cis-oil-and-gas-transportation-congress-2014/attend

► *20th Turkmenistan Oil and Gas Conference*

Date : 17 - 19 November 2015
Place : Ashgabat – Turkmenistan
Website : http://www.oilgasturkmenistan.com/

► *Israel's 2nd Annual International Oil & Gas Conference*

Date : 17 - 19 November 2015
Place : Tel Aviv - Israel
Website : http://www.universaloilgas.com/

► *European Autumn Gas Conference*

Date : 17 - 19 November 2015
Place : Geneva - Switzerland
Website : http://www.theeagc.com/

► *Project Financing in Oil and Gas Conference*

Date : 23 - 24 November 2015
Place : London - UK
Website : http://www.smi-online.co.uk/