

The fate of the Turkish Stream and the future of Turkey's energy supply security

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As Winston S. Churchill once said, “Safety and certainty in oil lie in variety and variety alone [...] on no one quality, on no one process, on no one country, on no one route and on no one field must we be dependent.” Being dependent on Russian natural gas with a 54.76 percent share of Turkish domestic consumption, Turkey should be thinking about this quote nowadays.

During the winter, Turkey occasionally suffers from gas deficiency. So far, Turkey has been dealing with this by cutting the industrial consumption levels, using its existing gas storage capacity and asking suppliers for additional gas.

Although it is unlikely for Turkey to have gas supply problems since it has long term, internationally binding contracts with its suppliers, any event that can lead to gas disruption could cause trouble for the country. In 2009, this happened because of a conflict between Russia and Ukraine, eventually leading Russia to push for the South Stream, and now the Turkish Stream, bypassing the conflict ridden Ukraine. However, the recent rising tensions not only endangered Turkish Stream but also raised the questions about uninterrupted supply at times of high gas demand in winter.

Although there are no short term solutions to gas flow interruptions, Turkey should be taking steps to reduce risks that are associated with its energy supply security. In order to do so, the country should pursue diversification of its supply instead of increasing its reliance on single supplier countries. There are a few ways to achieve diversification and reliance on Russian gas: boosting gas supply from alternative suppliers, either through building additional pipelines or LNG terminals, increasing the share of renewables in electricity generation and investing in energy efficiency.

Among these long term solutions to emerging risks of energy security, Turkey is already working towards diversification of its suppliers. For instance, TANAP is scheduled to carry Caspian natural gas to the Turkish and south European markets and starting from 2019, six billion cubic meters (bcm) of natural gas will flow. However, the Caspian is hardly an alternative to the 27 bcm imported from Russia. Other than the long term alternative projects to carry Turkmen, Northern Iraqi and Eastern Mediterranean gas to Turkey, another alternative is to build additional LNG terminals. Currently, Turkey only has two LNG terminals, lacking import capacity and infrastructure to deliver it in times of high demand.

Still, the aforementioned solutions can become meaningful only if Turkey achieves to liberalize its domestic gas market. Without liberalization of gas import (currently only around 20 percent) and unbundling of BOTAS, additional LNG terminals will not be viable for private companies to take part and Turkey will continue to experience gas shortages as well as instances of market inefficiency.

Russia aims to start pumping gas through the Turkish Stream by the end of 2017, yet given the current issues between the two countries, this might not be a realistic target. Regardless of the fate of the Turkish Stream, Turkey should start evaluating how it can alleviate its reliance on Russia instead of proposing to receive more gas through the Blue Stream and putting its energy into the Turkish Stream instead of pursuing supply. Diversification has been identified as an important component of energy policies of importing countries since Churchill's days and it is considered to be the most familiar principle of energy security.

Expert: Egypt's gas an option for Turkey in short-term

AA Energy Terminal, 14.10.2015



Egypt's natural gas could be an option for Turkey's gas demand in the short-term, Cyril Widdershoven, senior vice president of Research & Europe, Middle East and Africa Business Development of MEA Risks LLC in the U.S. told Anadolu Agency.

Speaking to Anadolu Agency's Energy News Terminal in an exclusive interview, Widdershoven spoke about potential additional natural gas resources in Turkey's region and geopolitical dynamics in Eurasia. "One potential option for Turkey within the next two or three years is Egypt. There is enough natural gas there," Widdershoven said.

"Most gas production in Egypt was put on hold because the government was not paying bills to international oil companies. Now they are up to date and could start production shortly to hit the market," he explained. Moreover, Italian energy company Eni discovered a natural gas field in Egypt's territorial waters on August 30. Although the discovery holds one of the biggest gas reserves in eastern Mediterranean, Widdershoven said it would take three to five years for production to begin.

However, the expert said geopolitics may hinder energy relations between Egypt and Turkey. "[Turkish President] Erdogan has been positive about the Muslim Brotherhood. That is not forgotten in Egypt. So, why would Egypt go to Turkey to export its gas? Egyptian gas would go to Europe because they have existing contracts. But, Turkey will not be willing to pay a higher price for it than its market value," he explained.

Eni's gas discovery in offshore Egypt was a major blow to Israel as it planned to sell its gas in the eastern Mediterranean to Egypt. Regardless, plans to export Israeli gas to Egypt are continuing because contracts have already been signed. However, Widdershoven said that Turkey could both buy Israeli gas for its domestic consumption, and also help the country to deliver it to Europe through its existing infrastructure.



“Israeli gas could be feasible, depending on issues that the Turkish government has with the Israeli government. The gas and infrastructure is there, but the question is if the parties are willing to talk?” Widdershoven said, noting the recent discord between Turkish President Recep Tayyip Erdogan and Israeli Prime Minister Benjamin Netanyahu. The expert also reiterated that the cost factor is of importance noting that offshore deep-water pipelines are expensive. At the same time, the Cyprus issue still plays a role too, as Israel and Cyprus want to cooperate in developing offshore gas.

Currently, Turkey buys gas from Russia, Azerbaijan and Iran. While Turkey may build closer relationships with Tehran to boost gas trade in the post-sanctions era, increased gas supplies from Azerbaijan and Russia via TANAP, which is under construction, along with the proposed Turkish Stream pipeline, respectively, would deliver additional gas to both Turkey and Europe. However, China and India’s rising energy demand may hinder Iranian gas finding its way to Europe, while concerns over the Turkish Stream make the future of the project unclear at the moment.

“China and India are increasingly becoming gas importing countries in the world. They are very interested in investing and building infrastructure so they own it and therefore can secure their energy demand for the next 20 years,” Widdershoven said. “It all depends on China. If China is going to put investment in the project, Iranian gas will not go to Europe. Economy in India is growing and they need oil and gas as well. If they sign contracts to build and finance pipelines, they too will get cheaper gas,” he added.

The expert highlighted that geopolitically, Turkey is more favorably placed than Europe for gas resources in the east, but he warned that “the position of Turkey is not always the position of Europe.” “For Europe, gas demand is on the decline due to increased energy efficiency and use of renewable energy like solar. The attractiveness of Europe for oil and gas exports is going to decline. European policies for oil and gas are also negative, since Europe wants to go green and to meet carbon emission targets,” he explained.

However, Widdershoven emphasized that Turkey and Europe are in the same position with respect to Russia, and their dependency on Russian oil and gas resources. “If the two countries do not change their position in two years, if they are not redefined, they will be in the hands of [Russian gas giant] Gazprom. Is that a threat? According to European politicians who say it isn’t in the last 25 years, no. Because they say Russia has never blocked gas supplies to Europe. But, what happened to Ukraine and Poland? If Putin decides it to be blocked, it will be blocked. For Turkey, that’s the same position. Russia is interested in Turkey because of Ukraine,” he explained.

Moscow is planning to stop its gas transit to Europe via Ukraine in 2019. Instead, Russian President Putin has proposed to build the Turkish Stream pipeline that would run through Turkey’s Thrace region to reach Greece and further into Europe. However, Turkey and Russia have yet to fully agree over the implementation of the project. Widdershoven stressed that both Turkey and Europe need to diversify their gas imports, but added that this is more difficult for Europe.

“There is no single energy strategy in Europe. By law, we are not allowed to, because it is anti-competition. Germany, France and Italy are pro-Russian. The Netherlands are a commercial partner too. Now Greeks and Hungarians are talking with Moscow. Poland wants to be anti-Russian. We need to have diversification of energy sources. That’s what the European energy strategy says. But, on the other hand we are building new infrastructure with Russia,” he explained.

On June 18, Russian Gazprom, Germany's E.ON, the Anglo-Dutch Shell and Austria's OMV signed a memorandum of understanding for the construction of The Nord Stream-2 project, which will add two additional pipelines to the original Nord Stream project. Iran is another potential country that Turkey may increase its energy imports from, while Widdershoven emphasized the issues surrounding oil and gas exports from Iran after the sanctions on the country are removed. "Due to Turkey's growing economy, its energy demand is on the rise. Turkey can get more gas from Iran, but the next five years are crucial," he said. "In Iran, technological challenges are high, infrastructure and pipelines are old, new investments will be under pressure due to the fact that most oil and gas projects are 100 percent are owned and operated by the Iranian government," the expert said.

Iran is preparing to introduce its new oil contract model, Iranian Petroleum Contract, in November in Tehran to attract foreign firms and investment into its hydrocarbon sector, but the country's legal problems remain as obstacles for the industry although Oil Minister Bijan Zangeneh said on Oct. 12 that they will be tackled in the post-sanctions era. "Legal issues have not been solved. For Turkey, dealing with Iran for oil and gas resources may also add to the existing issues," Widdershoven said. Ankara has voiced its concerns over Tehran's high gas prices on several occasions. The issue was taken to the International Court of Arbitration in 2005 and 2012.

Expert: Russia eyes Turkey as gas transit country not hub

AA Energy Terminal, 21.10.2015



Russia looks to Turkey as a natural gas transit country similar to the way it views Ukraine, and not as an energy hub, according to the Director of Economics at the Ankara-based Foundation for Political, Economic and Social Research (SETA).

Erdal Tanas Karagol who spoke at the panel of SETA said "Russia changed its point of view on Turkey as an energy hub. Turkey wants to be a hub but Russia wants Turkey to be a transit country. When we look at Russia's decisions on the Turkish Stream and its moves in Syria, we can understand how they see Turkey," Karagol said.

On Oct. 6, Russian energy giant Gazprom confirmed that it plans to construct only two lines of the originally announced four-phase Turkish Stream gas pipeline project. Previously Russian Energy Minister Alexander Novak told Anadolu Agency that Moscow will wait until after the general elections in Turkey which will be held on Nov. 1 to advance on the first two phases of the Turkish Stream project with a capacity of 31.5 billion cubic meters of natural gas. According to Karagol, natural gas security is very important for a country such as Turkey whose economy is constantly growing. "The conflict between Russia and Ukraine made energy supply security an important issue.

When we consider the EU countries' situation after this conflict, we see that being not only dependent on one country should be an issue considered for Turkey also," he said. Karagol said Turkey with its geographical advantage of having almost 60-70 percent of oil and gas resources surrounding the country, has until now carried its location as a burden.

"Now we have many possibilities. There is TANAP, Turkmen, Iraqi, Iranian and possible Cyprus gas. This time maybe it won't be a burden but there may be an advantage to being an energy hub," Karagol noted. Karagol asserted that Russia cannot give up and back down from the Turkish Stream because economically it needs the project. According to Karagol, every step that Moscow takes in instigating political conflicts will affect its economy and increase its isolation. "Political splits affect the economy and energy of Russia. Russia shouldn't forget that 60 percent of its export revenue comes from energy," he warned. He added that after the Turkey's general elections on Nov. 1, it is possible that Russia could have a change of heart to raise the capacity of the Turkish Stream gas pipeline project.

ELIA: Turkish Stream gas pipeline's future uncertain

Trend News Agency, 16.10.2015



The future of the Russian-backed Turkish Stream gas pipeline is currently uncertain, the US Energy Information Administration (EIA) said in its report. The Turkish Stream pipeline project was announced at the same time as the South Stream pipeline cancellation, the EIA noted.

"The proposed Turkish Stream pipeline, backed by Russia's majority state-owned natural gas company Gazprom, would have the same capacity to transport natural gas from Russia across the Black Sea, but it would make landfall in Turkey, which is not an EU member country, instead of Bulgaria, which is an EU member country," the EIA's report said.

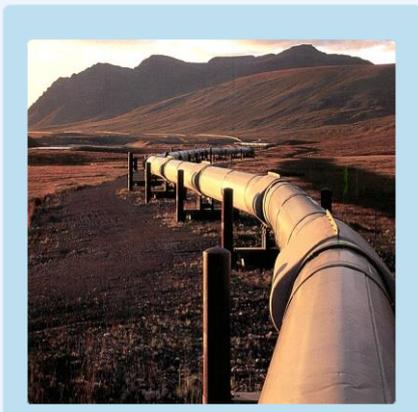
However, Russia and Turkey have been unable to reach a final agreement on the pipeline and, in July 2015, Gazprom canceled its contract with Saipem, the Italian company contracted to lay the first part of the pipeline, EIA added. The project for the 'Turkish Stream' involves the construction of four gas pipeline strings at a capacity of 15.75 billion cubic meters of gas each. The gas, which is to go via the first string, is completely meant for Turkish market, while the remaining volumes will be brought to Turkey's border with Greece, where a gas hub is planned to be located. In early August 2015, Gazprom was reported to have revised plans on construction of the 'Turkish Stream' and that it would give up the third and fourth strings of the pipeline. The reason was said to be the "absence of a key agreement on granting Ankara a discount on Russian gas."

EIA in its report also mentioned other potential pipelines, including a proposal to build a bidirectional pipeline called Eastring from Slovakia, through Hungary and Romania, connecting to Turkey through the existing Trans-Balkan pipeline. Future possibilities for moving natural gas to Turkey and Europe also involve natural gas exports from Iran and Iraq.

The lifting of sanctions on Iran would allow European countries to import gas from Iran, EIA said. "Although Iran already exports natural gas to Turkey, it has long had plans to export larger volumes of natural gas through Turkey to Europe. However, other hurdles would remain, including agreeing on a natural gas price and meeting Iran's growing domestic demands for natural gas, especially for enhanced oil recovery, power generation, and winter heating," EIA said.

Whether Turkish Stream still necessary - to be cleared soon?

Trend News Agency, 22.10.2015



The issue with regard to the necessity of implementing the 'Turkish Stream' project will be cleared up soon, Ali Riza Alaboyun, Turkey's Energy and Natural Resources Minister, said in an exclusive interview with Trend. He said an intergovernmental agreement between Russia and Turkey on the implementation of the 'Turkish Stream' will be reviewed after Turkey's parliamentary election, to be held November 1.

Alaboyun also noted that the project, as is known, was initiated by Russia, and under a memorandum of understanding signed between Gazprom and Botas, Gazprom was granted permission to conduct researches.

The minister also said that Turkey stands ready to cooperate under mutual trust and benefit. Alaboyun further said Turkey has always supported and will continue to support all the actions to make energy resources work for peace and security. He also said that for 28 years the Turkish market has been one of the most important markets for Russia. "Turkey has imported 315 billion cubic meters of gas from Russian since 1987 to the present day," said the minister. "Currently, 10 billion cubic meters of Russian gas is imported by Turkey's private sector, while the remaining 20 billion cubic meters is imported by the [state-owned] BOTAS."

He reminded that Turkey also has contracts on purchasing gas with Azerbaijan, Iran, Nigeria and Algeria. "Today, energy supply and energy security is one of the most important and strategic issues for every country," said Alaboyun. Accordingly, in order to avoid the risks in the energy sector, Turkey intends to diversity the supply sources of energy resources, he added. The Turkish Stream project envisages construction of a gas pipeline from Russia to Turkey through the Black Sea. It was supposed that the pipeline will consist of four branches with the capacity of 15.75 billion cubic meters of gas each.

“Given population and energy demand growth projections, it is hard to see that there will be anything other than significant gas-growth between now and 2040” Adeli said. Adeli’s statement is in line with the position of the Deputy Petroleum Minister Mansour Moazzami, who cautiously said that Teheran will give priority to export gas to neighbouring countries. Exports to Europe are expected to be dependent on Western companies’ investments in the country.

However, the presence of Eni, OMV and Total at the event showed European companies are interested in stepping into Iran, and committing to significant investments. On September 30, the Iranian cabinet approved the Petroleum Ministry’s draft for new international upstream oil and gas contracts by endorsing the documents known as Iran Petroleum Contract (IPC).

Israel’s energy minister in the US to attract new investors

Natural Gas Europe, 20.10.2015



Israeli Energy Minister Yuval Steinitz is visiting the US in what he described as “a road show” in order to mobilize new investors for energy exploration in Israel. “One of my goals is meeting with top level [executives] from energy companies in order to entice them to come to Israel, not only to develop natural gas fields but also to explore and discover new oil and gas fields,” Mr. Steinitz said to reporters.

Mr. Steinitz was scheduled to visit the headquarters of Noble Energy in order to assuage concerns over government policy and to reassure the company’s management that the natural gas framework will be approved in the near future.

Mr. Steinitz is interested in reducing the likelihood that Noble Energy will turn to international arbitration, a step that would delay the development of new natural gas export projects and worsen Israel’s energy security. Mr. Steinitz was also supposed to take part in an energy conference alongside US Secretary of Energy Ernest Moniz. “I am going to tell to the chiefs of the energy companies that there is not insignificant potential of discovering new gas fields... There are more Leviathans and Tamars awaiting to be discovered,” commented Mr. Steinitz.

“Sending gas to Europe doesn’t make commercial sense for Iran”

Trend News Agency, 19.10.2015



Sending gas to Europe doesn’t make commercial sense for Iran, says Matthew Bryza, former US assistant secretary for South Caucasus and former US ambassador to Azerbaijan. Speaking to Trend Oct. 19, Bryza, who is also the director of the Tallinn-based International Centre for Defense Studies, said there are countries all around Iran, such as UEA, Oman, and Kuwait, which need gas.

“There are other countries that would like to buy Iranian gas, and it is a lot cheaper, a lot easier, and you don’t need to build that infrastructure, you just send it to your neighbors,” he said.

Bryza says it is unlikely that Iran’s gas will go to Europe because economically it doesn’t make much sense. “There is not enough infrastructure now to get it [gas] to Turkey, and down to Europe, so there has to be a lot of investment in that infrastructure,” he said. Bryza also noted that if the demand in Europe goes up, if Iran produces gas beyond the volume consumed in its neighborhood, and if sanctions on the Islamic Republic are lifted, it is possible that Iran’s gas will go to Europe.

Speaking further about the prospects for implementation of the Trans-Caspian Gas Pipeline, he said the project is now more promising than it has ever been. “Azerbaijan is also supportive of the project,” Bryza said, adding that Europe is interested in the project, and so are the companies. Recalling that Malaysia’s Petronas is coming to Azerbaijan, Bryza said, “Petronas together with SOCAR [State Oil Company of Azerbaijan Republic] could play a part in realization of the Trans-Caspian Gas Pipeline.”

The Trans-Caspian Gas Pipeline is projected to deliver Turkmenistan’s energy resources to European market. The gas pipeline is intended to run through the bottom of the Caspian Sea to the coast of Azerbaijan. From there on, Turkmenistan’s hydrocarbons can reach Turkey, which shares a border with Europe. Trans-Caspian Gas Pipeline can be realized as part of a major project for the Southern Gas Corridor, which is meant to deliver the Caspian gas, in particular Azerbaijan’s gas, to Europe.

Top official: Azerbaijan stops gas intake from Gazprom

Natural Gas Europe, 21.10.2015



The deputy head of the State Oil Company of Azerbaijan Republic's (SOCAR) Gas Export Department has informed Natural Gas Europe that Russian gas export to Azerbaijan is being stopped. Kamal Abbasov said that Azerbaijan will halt Russian gas intake at 00:00 (or 19:00 GMT) on October 20th.

SOCAR's Magistral Gas Pipelines Department told Natural Gas Europe that Russia started delivery of 6 mcm per day (mcm/d) of gas to Azerbaijan on September 29th to be supplied to Azerbaijan Methanol Company. Abbasov said over the past 22 days less than 5 mcm/d of Russian gas was delivered to Azerbaijan. Total volume reached 100 mcm.

He did not provide further information on the reason behind the halt, saying that SOCAR is only responsible for providing technical service to transit gas. However, an Azerbaijani source anonymously told Natural Gas Europe that the dispute is over price stands behind suspending gas intake from Russia. Before Gazprom, SOCAR was delivering gas to AzMeCo at \$128 per 1000 cubic meters. Without mentioning any figures, the source said that the price of methanol has decreased significantly on international markets and the current Russian gas price is unprofitable for AzMeCo.

AzMeCo was inaugurated in July 2013. Since August 2014, AzMeCo has produced and exported 191 thousand tons of methanol. British Petroleum bought 80 percent of this volume at \$328 per ton. The plant is still working at half capacity, while the full production capacity of this plant is 720,000 tons per annum. It seems the Russian gas price of \$160 per 1000 cm is also unprofitable for AzMeCo. However, the average export price of Russian gas dropped to a minimum during 2015. From January to August 2015 average export price of Russian gas totaled \$240 per 1000 cubic meters, the statistical report of the Russian Customs Service reported last week. Income from gas export for 8 months decreased by 31% and totaled \$28.2 billion. Russia exported 117.5 billion cubic meters of gas (-5.4%) during this period.

Gazprom said previously that it would supply up to 2 billion cubic metres of gas per year to Azerbaijan with the possibility of extension. The report added that "the imports of Russian gas will meet the additional domestic natural gas needs of Azerbaijan due to economic growth." Russo-Azeri gas trade commenced in October 2000 when Azerbaijan started gas imports from Russian company Itera. Gazprom provided deliveries to Azerbaijan from 2004 to 2007. Azerbaijan stopped gas imports from Russia in the beginning of 2007, following the commencement of Shah Deniz Stage 1 project. SOCAR started gas export to Russia from 2010 to early 2015. Azerbaijani gas exports to Russia reached 1.37 bcm/a in 2013, but plunged to 0.206 bcm/a in 2014.

Iran courts Russia for oil cooperation, speaks of significant increase in oil exports

Natural Gas Europe, 21.10.2015



While Iran's Petroleum Minister Zangeneh and Alexander Novak, are discussing ways to strengthen bilateral cooperation, Iran confirmed its resolve to cooperate also with other countries, explaining the next summit of Gas Exporting Countries Forum will take place in Teheran on November 23.

"Russians know how to do business in Iran and we hope the visit will bear positive results," Deputy Petroleum Minister for Commerce and International Affairs Zamaninia told. Zamaninia spoke about oil, saying it aims at restoring balance in the market at 70 to 80 dollars per barrel, working together with OPEC countries.

On the other hand, Iran plans to increase its exports."An export increase of 500,000 barrels a day after removal of sanctions and a subsequent increase of another 500,000 barrels within six months are on the agenda based on the current capacity of crude production," Mansour Moazzami said. Iran also voiced its support to the Gas Exporting Countries Forum. "It is a technically advanced model which is designed to forecast market behavior based on the facts from 133 countries, their fields and wells," Secretary General of the Gas Exporting Countries Forum (GECF) Mohammad-Hossein Adeli said, referring to the new document to be presented on November 23.

The Trans-Caspian Pipeline - when or if?

Natural Gas Europe, 22.10.2015



The Trans-Caspian Pipeline Project (TCP) has been a much desired development. Primarily advocated by Azerbaijan and Turkmenistan, it has consistently enjoyed support from Turkey. The EU has also looked favourably on such a venture. It has been the Russians and the Iranians who have objected to the construction of a pipeline on the seabed.

Given the ongoing difficult relations between Russia and the European Union, the TCP idea has once more elevated itself into the higher echelons of the international energy agenda. The Trans-Caspian Pipeline Project (TCP) has been a much desired development.



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Ever since the break up of the USSR, the hydrocarbon-rich Caspian Sea and its coastline has whetted the appetites of many a European policy-makers as well as global energy companies. With the crisis in Ukraine, which first began almost a decade ago and intensified dramatically with the annexation of the Crimea and organized violence in the east of the country, the EU has been forced to focus on the Black Sea and beyond, both in terms of political stability as well as energy security.

Realizing that there is a great risk attached to the supply of energy throughout Ukraine, the EU has had to reevaluate its policy of energy diversification. The Ukrainian crisis has demonstrated the inadvisable decision to increase dependency from a single supplier – namely, Russia. The correct lesson to be learned from such a development is to increase the number of suppliers, thus lessening dependency on a single actor.

It is within this context that the EU has renewed its interest in the Southern Gas Corridor (SGC) in general and the TCP in particular. Transporting energy resources from the east of the Caspian to the west and into western Europe is not a new idea. It has been the source of debates and discussions for the better part of a quarter of a century. The late Turkmen President Niyazov was a fervent advocate but was ultimately denied the opportunity to witness the construction of such a pipeline.

The opponents of the pipeline have been clear from the start and remain so. Moscow has consistently voiced opposition, citing the legal status of the Caspian Sea as well as bringing forth qualms concerning environmental damage. Iran has also been a loyal ally in this critique, echoing the call to action for all littoral states possessing veto power concerning the construction of an underwater pipeline.

Azerbaijan, whilst continuing to enjoy the benefits accruing from the “contract of the century” in terms of supplying oil and gas to hungry consumers, has also voiced its support for constructing the TCP, thus adding the role of transit country to that of the direct supplier. This is a perfectly rational and logical development in terms of Azeri foreign policy as the starting gun has been fired in terms of the Trans Anatolian Pipeline (TANAP) as well as the Trans Adriatic Pipeline (TAP).

Therefore, the necessary infrastructural developments required to transport eastern Caspian energy resources are beginning to take shape, which naturally raises the prospect of increasing capacity. It is in this context that Azerbaijan, whilst committed to meeting the supply for the early stages of TANAP and TAP gas distributions, is willing to receive additional gas from Turkmenistan to forward to western European markets.

TANAP has been a formidable success for Azeri foreign policy in terms of constructing dependable and reliable infrastructure that is capable of transporting gas extracted from the western Caspian crossing Turkish territory onto the Greek border. Through TAP, this gas will be distributed to energy hungry EU member states, primarily in central and eastern Europe.



Both pipeline projects fit under the umbrella of the SGC idea espoused by Brussels, which in itself is a response to calls for greater energy security. Since its independence, Baku has adopted a wise and intelligent policy of allying with its most reliable neighbor – Turkey. With affinities for historical, ethnic, religious, cultural and societal affairs, Ankara has demonstrated its staunch support for Azerbaijan time and time again. Perhaps the bilateral relationship was best expressed by the late Azerbaijani President Heydar Aliyev when he referred to Turkey and Azerbaijan as “one nation, two states.” Regarding the TCP, Turkey has pushed for its completion, lobbying in favour of constructing the link that would tie Azerbaijan and Turkmenistan together.

Despite disputes relating to their respective borders concerning the Caspian Sea, both Azerbaijan and Turkmenistan have expressed support for the TCP project. In fact, as Turkmen President Berdymukhamedov recently emphasized, the pipeline project is receiving much international support. Given Turkmenistan’s major gas supply commitments to China, a western buyer would be quite welcome in terms of energy diversification. After all, it is much better to have two hungry clients than one. Furthermore, for many years Ashgabat has been conscientiously financing the construction of its domestic east to west gas pipeline, which will connect the gas extracted from its western regions to its Caspian coast.

Spending billions of dollars to transport enormous amounts of natural gas from the west of Ashgabat to the eastern banks of the Caspian makes no sense if this gas cannot be transported further west. Firstly, the Caspian coast is sparsely populated and, given that the total population of Turkmenistan hovers around five and a quarter million, there is nowhere near a sufficient domestic demand in this region to consume the gas. Secondly, none of the littoral states have expressed any interest in buying this gas. The situation leaves only one alternative: the gas must be transported westward to energy-poor markets such as Turkey and other EU member states.

Interestingly, the capacity of the domestic east-west pipeline constructed by Turkmenistan is exactly the same as the proposed TCP: 30bcm. This begs the question of who will make use of the gas delivered to the Caspian coast? Ashgabat has fulfilled its side of the bargain by transporting gas to its extreme western border, from which it needs to be connected to the TANAP or the Baku-Tbilisi-Erzurum gas pipeline.

Such plans and projections are very welcome in Baku, which is correctly identifying the signals emanating from Brussels that pay greater attention to and emphasize the SGC. The TCP, if and when it is finalized, would become part and parcel of the SGC, which ipso facto would increase the importance of Azerbaijan in terms of energy security in the eyes of Brussels.

Clearly the advocacy of the SGC is nothing but a plus for Azeri foreign policy. Baku, similar to any other energy supplier is looking for reliable long-term clients to sell to whilst the EU is trying to diminish its dependency on Russian natural gas, especially after the unfortunate developments in southern and eastern Ukraine. Therefore, the SGC is a potential match made in heaven between western Europe and the Caspian countries. One must also not forget to include Kazakhstan in this projection as Kazakh gas could also benefit from joining the TCP and connecting to the Baku-Tbilisi-Erzurum gas pipeline, which, incidentally, was one of the original ideas underpinning that particular venture. Naturally, TANAP offers both Kazakhstan, as well as Iran, energy opportunities.

The oil and gas flowing from Astana and Tehran could also, in time, be connected to TANAP and benefit from a direct export route to Western Europe. The TCP, whilst offering great opportunities for both suppliers and consumers, also faces tremendous difficulties. Iran's opposition may well lessen as sanctions are lowered and export opportunities for oil and gas heighten. Funding of a domestic energy infrastructure could change the harsh attitude of Tehran towards the TCP. The opposition, however, of a regional power in the guise of Russia must be taken seriously. Especially given the highly ambitious aims revealed by its recent Caspian naval strategy and the firing of rockets into Syria from the Caspian, Moscow is a power to be reckoned with.

One of the central problems associated with the TCP has been the low level of confidence inspired by the EU. For one, The Turkmen government has never been fully confident pertaining to the role adopted by the EU. The view from the Caspian is that EU's soft power is not a match for the existing Russian hard power. In order for the TCP to be completed, supporters must demonstrate smart power, instead. Only significant security actors on the global stage can provide such smart power. It is this dimension that casts a long shadow over an otherwise viable and profitable energy infrastructure venture.

Yusifzadeh: Azerbaijan preparing to develop new gas projects

Natural Gas Europe, 18.10.2015



Despite the commencement of Russia gas export to Azerbaijan, new statistics indicating a drop in Azerbaijan's gas production, as well as a planned petrochemical complex project requiring 12 billion cubic meters of gas feed, any concerns on Azerbaijan ability to delivered required quantities of gas to EU are out of question.

Khoshbakht Yusifzadeh, The First Vice-president of the State Oil Company of Azerbaijan Republic (SOCAR) for Geology, Geophysics and Field Development said that Azerbaijan has several new gas projects which will allow for significantly increased output.

Replying Natural Gas Europe's question in the sideline of a business forum co-organized by the Caspian European Club and SOCAR, Yusifzadeh said that "we continue drilling the third well in Umid gas field, commenced by SOCAR in 2010. "We are at a depth of 6000 meters, drilling works going through really hard geological conditions, this is appraisal well. In case a new layer be found, then installing a new platform in this field could be recognized , which means increasing of production (from this field) significantly", commented the top manager of SOCAR. Azerbaijan has re-started development of the Umid gas field with drilling of an appraisal well on March 19th. Reserves at Umid are estimated to be about 200 billion cubic meters (bcm), but geological surveys say the field is connected to Babek gas field, with twice than Umid's gas deposits.



SOCAR started gas production from Umid in September 2012, at 1.5 million cubic meters per day, but this volume decreased by more than 50 percent later due to what called the “complicated geological structure of field”. Yusifzadeh said that, 1 million cubic meters of gas per day is produced from two wells of Umid field.

Azerbaijan also preparing to develop Absheron gas field with 350 billion cubic meters of gas reserves. Absheron is the second big gas field after Shah Deniz. Currently, the second phase of Shah Deniz is under development to enable Baku to export 6 billion cubic meters of gas per annum (bcm/a) to Turkey as well as 10 bcm/a to EU by 2021. Yusifzadeh also said that a new block was found during a drilling work recently in the “Bulla-Deniz” gas field, adding 16 bcm to this field’s reserves (to reach 31 bcm).

SOCAR announced on August 6th that it started drilling a new gas well to a depth of 6,200 m on “Bulla Deniz” in Caspian Sea. The well will produce 0.8 mcm/d of gas. The Bulla-Deniz offshore field is located at 80 kilometers south of Baku, and it was opened in 1975. Over this period, over 61 bcm of gas has been produced at the field.

The State Statistics Committee (SSC) released a report on October 15th, saying that the country’s gas production decreased by 4.4 percent in January-September. Some 21.675 bcm of natural gas (including re-injected gas) was extracted during this period. However, according to the report, some 14.424 bcm of marketable gas was produced in 9 months, indicating a 4.2 percent increase year-to-year.

The country’s marketable gas output reached 18.827 bcm (including 14.99 bcm of natural gas and 3.837 bcm of associated gas) in 2014, 5.2 percent more than the previous year. The associated gas is produced from Azeri-Chirag-Guneshli oil fields and the statistics indicate that the share of associated gas in Azerbaijan’s total marketable gas decreased from 28 percent in 2010 to 20 percent in 2014. The reason is that Azerbaijan has re-injected more associated gas to these fields year to year to slow declining oil production level from these fields which are in their second half-life and face natural production decline.

EU-Bulgaria gas storage project guards against Russian gas cut

Ukraine Today, 19.10.2015



EU supporting projects to diversify gas supply and end dependence on Russian gas. Bulgaria is expanding an underground gas storage site to guard against supply disruptions. Bulgaria is exposed to possible gas supply cuts from Russia's Gazprom, which the Kremlin uses to leverage its geo-political ambitions.

“With this project we will increase our daily gas usage to 5 mcm, by increasing Chiren gas storage from 550 million to one billion cubic meters of gas. After we have done this we will be better prepared to discuss a gas distribution centre on Bulgarian territory,” Bulgarian Energy Minister Petkova said.

Bulgaria plans to almost double the capacity of the Chiren storage at a total cost of more than 200 million euros in a part-European Union funded project, aimed at reducing Sofia's dependence on Russian gas. Bulgaria says it is working with neighbours Greece, Romania, Turkey and Serbia to ensure in future the country is no longer completely reliant on Siberian gas.

Putting Gazprom's moves in perspective

Natural Gas Europe, 21.10.2015



Within the last month, Gazprom has again hit the headlines with three striking moves. First if all, it announced the construction of Nord Stream 2 to further supply the European market. Secondly, it signed several agreements with a number of international companies for upstream exploration.

Thirdly, it reframed the potential of Turkish Stream and advocates now a more gradual way forward. Such moves convey contradictory signals to European customers and analysts around the globe, but are often automatically interpreted as dynamic moves of an agile and omnipotent company with exorbitant leverage in energy diplomacy.

A more scrutinized analysis suggests otherwise and pinpoints to Gazprom's weaknesses and ensuing political communication strategy that aims principally at political survival. Both Nord Stream 2 and Turkish Stream are grounded on the need to create alternative routes for gas trade with Europe in order to bypass Ukraine.



Nevertheless, these schemes go against fundamental provisions of the EU single market and decreased gas demand in Europe. As a result, their feasibility is certainly doubtful, unless the EU competition legislation is interpreted much more leniently and demand for gas in Europe takes the uphill again. Energy security considerations thus do not seem to yield satisfactory explanations.

Part of the explanation lies in Gazprom's intent to create competition for its proposed schemes by means of pitting Nord Stream against Turkish Stream; this may indeed gain it better negotiating terms. Two far more important reasons, however, lurk in the background. Firstly, Gazprom's financial state is pretty worrisome. Gazprom has been hard hit the last years by a parallel fall in exports and gas prices that have yielded much lower revenues than before. On top of this, Western sanctions have significantly deteriorated its capacity to raise capital. As a result, recent agreements with foreign companies for mutual exploration projects are more a sign of weakness, rather than strength. The problematic record of this kind of agreements, not least in the giant Stokhman field, moreover, is no guarantee for their successful conclusion in the near future.

This brings us to the second, and by far more important, drive for Gazprom's moves, its political communication strategy. Gazprom's systematic failure to increase production and invest in new fields, as well as to manage the gas business more efficiently and move on time towards the rising Asian markets, has created the space for challenges by its domestic competitors and the Kremlin.

With its LNG export monopoly lifted since 2013, Gazprom is but forced to present itself as the still-dominant behemoth that runs Russia's gas business abroad. In particular, Rosneft has as of late risen as an imminent challenger of Gazprom. Together with the Independents (several private Russian energy companies), they have lobbied intensely for lifting Gazprom's export monopoly and aim to increase their share in the gas business and subsequent energy leverage.

Rosneft, together with no. 2 gas producer Novatek, earned the approval to create a LNG export terminal, aspire to lead the country's East Gas Strategy and apply further pressure with the aim to ensure improved access to Gazprom's domestic pipeline network. What is at stake is nothing less than the dismantling of the current Gazprom-dominated gas model; this infighting will determine the weight of each actor, the persistence of the rules of the game or the creation of new ones, pricing mechanisms and formulae, gas trade partners and the degree of competition in the gas market, both domestic and foreign.

Endemic corruption and personal ambitions and interests aside, Gazprom is trapped in its twin role as a special enterprise that on the one hand owes loyalty to the state and thus offers public goods (subsidized domestic prices to consumers, developmental services, not least to Russia's regions), which costs significantly in terms of business and entrepreneurial management, and on the other benefits from and depends on state loyalty for retaining its privileges and central, monopolistic role. These inherent contradictions have put Gazprom in a fallible position and form the background for making sense of its energy posture and strategy.

Georgia: Is Putin in the pipeline? Resistance to possible Gazprom deal grows

Eurasianet, 19.10.2015



Georgia could be on the cusp of a bargain with Gazprom, Russia's device for exports of natural gas and foreign policy, that many Georgians deem Faustian. The Georgian government's intention to increase its imports of Russian gas has been met with fervent resistance as a potential threat to the country's pro-Western track.

Seeking more gas from Gazprom amounts to Georgia bucking the trend among "developed countries" to reduce Gazprom's influence, declared former ombudsman Giorgi Tughushi, who served when Georgia's Russia suspicions were at their height, under ex-President Mikhail Saakashvili.

"This is tantamount to relinquishing our statehood," charged Tughushi, warning that Georgia should expect Russia's President Vladimir Putin "to come out of that pipeline." Talks with Gazprom have taken many aback, and, some locals believe, also neighboring Azerbaijan, which provides the bulk of Georgia's natural-gas supplies. Initially, a surprise September 25 meeting between Georgian Energy Minister Kakha Kaladze and Gazprom Chief Executive Officer Alexei Miller was put down to routine seasonal adjustments for gas transit to Armenia via Georgia. Later on, after Russia media reported plans for another meeting between Kaladze and Miller, the Georgian energy minister said that several Georgian corporate clients were interested in purchasing Russian gas. Other than the need to diversify, little explanation has been offered about why Azerbaijani gas wouldn't work for these unnamed corporate clients.

Amid concerns voiced by Azerbaijani media about Tbilisi reportedly rethinking its strategic cooperation with Baku vis-à-vis energy supplies, Georgian Prime Minister Irakli Gharibashvili flew to Baku on October 10 for an unannounced meeting with Azerbaijani President Ilham Aliyev. Gharibashvili later described as "absurd" claims that Azerbaijan's standing as a strategic partner for energy supplies was at risk.

But the news of another planned Gazprom-Georgia meeting, scheduled for "the near future," did little to placate such concerns. "I tend to pick idiocy over conspiracy as an explanation for [bizarre] development," Tamar Chergoleishvili, director of Tabula TV and an outspoken critic of the ruling Georgian Dream coalition, told rally participants. "It is tempting to put this down to boundless imbecility and political illiteracy," she said, arguing that the Gazprom move fits within the context of the government's policy of building economic bridges with Russia. In comments to Georgian Public Television the day before, however, Kaladze claimed that Azerbaijani officials at a regional business forum earlier in the week hadn't even mentioned the matter. He has presented the Gazprom discussions as part of a general desire to increase Georgia's attractions as an energy-transit hub, including for Iran.

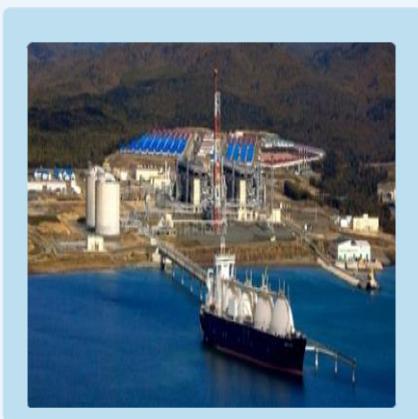
Azerbaijani President Ilham Aliyev and Georgian Foreign Minister Giorgi Kvirikashvili allegedly “exchanged views over coordination issues” related to Azerbaijan’s energy corridor via Georgia, Trend.az reported. Georgia’s own gas reserves are limited, with domestic production standing at some 16.5 cubic meters annually. The country gets much of its natural gas by skimming off a share from transits that go through its territory, mainly from Azerbaijan to Turkey and smaller volumes from Russia to Armenia. Georgia now intends to increase consumption of the Russian gas beyond its transit payoff of 10 percent of Gazprom’s shipments to Armenia, the Georgian energy ministry told EurasiaNet.org on September 30. Last year, that cut amounted to 200 million cubic meters or some 10 percent of the country’s total gas needs,

The ministry did not elaborate about reasons — either economic or the 4.4-percent drop in Azerbaijani gas-production levels as of this September, compared with the same nine-month period last year. Resistance to the government’s plans is partly led by groups tied to the largest opposition group, the United National Movement, but it also goes beyond partisan lines to include some members of Georgia’s intellectual elite. The concerns over the Gazprom talks comes amidst a drop in public support for integration with the European Union.

Much of the counteraction is expressed through Facebook, Georgia’s preferred forum of activism. More than 5,000 people indicated they would go to the October 17 rally, though the actual showing was relatively humble. Amidst a biting cold, one of the rally participants, Zurab Tatanashvili, an associate professor of social sciences at Tbilisi State University, noted the irony “if I catch cold at a rally against Gazprom.” “But I had to come here... because steps like these can take us back to being an obscure Russian dependency and do away with whatever chance of progress we have. “

Nord Stream 2 to be developed within EU rules

AA Energy Terminal, 21.10.2015



The Nord Stream 2 natural gas pipeline developed by Russia’s Gazprom and major European companies will proceed in accordance with EU rules, despite the Russian giant’s financial troubles, a senior energy expert said.

“We will see Nord stream 2 developed. Gazprom will develop it within EU rules,” John Roberts, energy security specialist at Methinks Ltd., said speaking at the Black Sea Offshore Conference in Bucharest. Gazprom owns 51 percent of the shares in the \$11 billion project that will deliver gas with a capacity of 55 billion cubic meters beneath the Baltic Sea through a 1,200 kilometer-route to Germany.

The project plans to bring gas to France, the U.K., the Netherlands and Denmark. Other companies in the project are Royal Dutch Shell, Germany’s E.On, Austria’s OMV and Germany’s Wintershall Holding, with a 10 percent stake each, while France’s ENGIE has a 9 percent share.

Roberts explained that these major European companies would not have a stake in the project if it was not viable or would not proceed. “They wouldn’t move, if they didn’t believe they would make money out of it,” he said. However, the project could be viewed as potentially breaching the EU’s competition rules following Gazprom’s anti-trust case regarding over pricing in its operations in eastern Europe which has yet to be finalized, but which could result in a fine of \$8 billion. Gazprom is experiencing financial difficulties due to the deterioration in Russia’s economy. Since last year, the ruble has almost halved in value against other currencies. “Gazprom’s earnings are \$108 billion for this year compared to \$145 billion in 2014. That’s not good for a major company in the Russian economy,” Roberts added.

Nord Stream 2: Wrong deal, wrong time?

Bloomberg, 12.10.2015



Nordstream 2 could play a major role in European supply - but it can only work as part of a bigger deal. Whoever came up with the latest Nordstream 2 proposal should be sent to the deepest darkest cell in the Lubyanka. At first sight Nordstream 2 appears to be a political masterstroke.

It divides Western Europeans, from Eastern Europeans, it separates the Americans from the Europeans and puts enormous pressure on the sanctions regime. Unfortunately in reality it is far from being a masterstroke. It is true that initially there is some division between the Europeans over Nordstream 2.

However, as the difficulties, legal, financial and political sink in the Europeans are going to coalesce against the proposal isolating the energy companies who initially agreed to participate and their German supporters. These difficulties are not small. The world is not the way it was in 2008. The first is the financing issue. Gazprom can no longer generate the cash to build its share of the pipeline from its own internal funds, nor in a \$50 a barrel world can its partners.

Gazprom and its partners are going to have to seek external financing. Leaving aside concerns on sanctions for a moment, who is going to finance a pipeline into a European gas market which has been declining in market size for several years in a row? Perhaps ultimately external finance can be obtained but only on very stiff terms and/or with some form of public support.

Second, the regulatory environment is much tougher. The third energy package is now in force in national law in all Member States. The third party access, unbundling and capacity reservations rules will apply in full. This means that Gazprom faces being unable to only 50% of the pipeline infrastructure to carry its gas to market significantly undermining the role of Nordstream 2 and its profitability. Exemption under Article 36 of the Gas Directive is difficult to achieve because like Southstream, and unlike the original conception of Nordstream 1, this is a purely diversionary pipeline. No additional gas is being provided that will add to supply or competition.



Third, the political context is much changed from 2008. A second major cut off in 2009, invasion, occupation and annexation of part of Ukraine in 2014 have undermined trust in Russian intentions far beyond the usual suspects in Tallinn and Warsaw. Many governments across the EU have backed the Commission's plans for interconnection projects across the European gas market to enhance supply security and diversity. Nordstream 2 looks like a project intended to undermine those plans and the billions of euro of investment they represent. Equally, there has been a huge political investment by EU governments and the US and Canada in supporting Ukraine. Nordstream 2 undermines Ukraine's supply security and strips it of valuable transit revenue streams at a time of acute economic distress. Why should Western states therefore give any support to Nordstream 2?

The fourth problem is the sanctions regime. How easy is it going to be persuade Western finance houses to finance the project for fear that sanctions will be applied? Even if generously we take the view that neither US nor EU sanctions impact on the Nordstream vehicle New European Pipeline AG what investors will be concerned that sanctions may be ratcheted up stranding their investment.

Fifthly, given the ongoing antitrust case in Brussels against Gazprom surely launching Nordstream 2 just as Gazprom was filing its commitment offer to the Commission was unwise? The danger here is that Nordstream 2 advertises the fact that Gazprom intends to increase its export capacity prima facie increasing its market power. Inevitably the Commission will now have to take this potential increase in market power into account in its assessment of the value of the commitments. Also when the commitments offered go out for assessment to the complainants in the case, included Lithuania, the complainants may well take the view that tougher commitments are required.

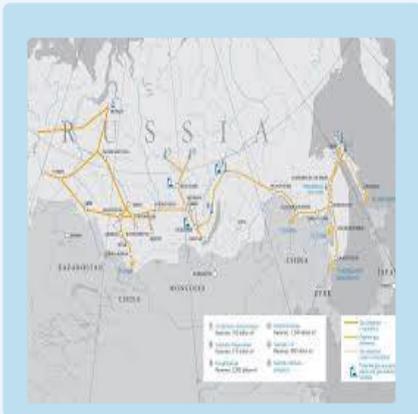
Given these financial, legal, political, sanctions and antitrust pressures, Nordstream 2 is likely to be at least delayed and the Western allies of Nordstream 2 isolated. In effect what Gazprom has done has provided a threat which provides a rallying point for the West. This will not help Gazprom or its allies.

The tragedy here is that Nordstream 2 could play a major role in a bigger deal to settle all outstanding disputes between the West and Russia. A deal providing a settlement on Ukraine and lifting sanctions could be underpinned by a major economic deal on the gas. Under such a deal Gazprom would adopt a high volume, low price model, seek western investment and a degree of liberalisation of its gas market. The Ukrainian transit would be repaired and used securing revenues to Ukraine. Nordstream 2 would be put in place to add additional capacity.

Meanwhile the EU would reform its energy markets to provide for a progressive switch from coal to gas cutting CO2 emissions and providing in the longer run for gas to be a back up fuel for an enlarged renewable base. The danger now is that this premature launch of Nordstream 2 will undermine the prospects for its future. The sense in Central and Eastern Europe that Nordstream 2 poses a threat to their security will make a deal on Ukraine and a broader economic deal much more difficult to achieve. Rather than lowering the political temperature Nordstream 2 is raising the political temperature. How is this reality supposed to help Gazprom, its commercial interests or that of its allies?

Merkel praises Russia as reliable gas supplier

AA Energy Terminal, 19.10.2015



Moscow is a reliable supplier of natural gas for Europe and Germany, according to German Chancellor Angela Merkel. Russian news agency Tass stated that Merkel said in a weekly video podcast that Germany is very glad that gas supplies to Ukraine in the winter package have been settled.

“Germany has other sources of natural gas but Russia in principle has shown itself as a reliable supplier of natural gas in the past,” Merkel said. Germany and Italy are Russia’s biggest gas consumers in the EU. Germany is Europe’s biggest gas user and importer of Russian gas. Berlin imports around 30 percent of its natural gas needs from Russia.

Germany is also waiting on the completion of the Nord Stream-2 project in 2019 to secure more gas supplies. The Nord Stream-2 project was announced on June 18, when Gazprom, E.ON, Shell and OMV signed a memorandum of understanding for the construction of the project, which will add two additional pipelines to the original Nord Stream project.

Sources: Financing for Russia’s Yamal LNG plant stalls

Reuters, 19.10.2015



Efforts to secure financing for Russia’s Yamal LNG plant have stalled, with the owners baulking at costly Chinese loans and Western sanctions hampering alternatives, two Russian banking sources said, warning the search could drag into.

The quest to bankroll the \$27 billion project ahead of a planned 2017 launch is seen as a test of Russia’s ability to secure foreign loans when the country’s access to capital markets is severely limited by Western sanctions. Novatek, Russia’s largest private gas producer is under U.S. sanctions, making it harder for it to find cash for an export project that envisages three LNG production lines with a capacity of 5.5 million tonnes a year each.



Novatek has a 50.1 percent stake in what will be only Russia's second LNG plant. France's Total and China's CNPC hold 20 percent each. And last month, Novatek agreed to sell a 9.9 percent stake to the China Silk Road Fund. Originally, Novatek, where a close ally of President Vladimir Putin, Gennady Timchenko, is a co-owner, had expected to raise up to \$20 billion from Chinese banks, with the first funds expected by the end of 2014. But two Russian banking sources, who declined to be named, told Reuters they saw little movement on a deal for now.

One of the sources said that Yamal LNG was not happy with earlier offers from the banks and had been forced to relaunch the bidding process. "Chinese money is expensive, so Novatek and Total would like European banks to take on the larger share of financing which is complicated by sanctions," the source said. He said it was unclear whether the loans would be provided by the end of the year. "There is no movement at the moment," another source said. "Of course, everything could be done in the course of one night ... but so far it looks unlikely that there will be anything before the year-end."

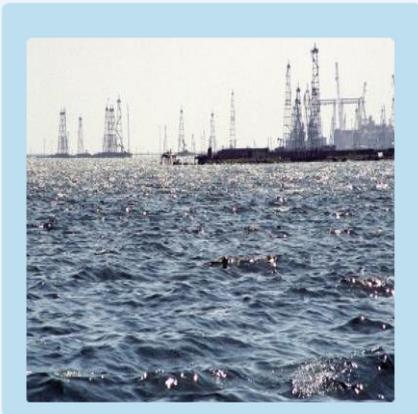
Novatek has shifted its own deadline for a deal several times. Leonid Mikhelson, the firm's CEO, said last month a deal was now expected in "a maximum" of four months' time with the amount cut to \$12 billion. Russia's state development bank VEB has pledged \$3 billion in banking guarantees, while the country's Sberbank and Gazprombank preliminarily agreed to provide \$3 billion and \$1 billion in loans, respectively. In written comments to Reuters, Sberbank said it still planned to provide the rouble equivalent of \$3 billion as part of a wider syndication loan.

"The process of arranging such financing is complex and assumes the participation of many lenders so it is hard to predict when it will be completed," Sberbank said. "The delay in announcing project financing for Yamal LNG also raises concerns about the project's timing and possible increased equity investment in the project," Goldman Sachs said in a research note on Monday. The banking sources did not say if delays in obtaining financing might affect the timing of the project's launch. Sberbank said it was not aware of any deviations from the original schedule.

A third banking source said he hoped everything would be ready on time, but said "there are a lot of difficulties (with financing) such as sanctions and the project's scale". Sberbank last week afforded Novatek a credit line capped at 50 billion roubles (\$805 million) which could be used for Yamal as well, the bank said in emailed comments. Novatek has secured 150 billion roubles from Russia's rainy-day National Wealth Fund and Total CEO Patrick Pouyanne said last week that financing for the Yamal LNG project was "on track". Novatek and VEB declined to comment. Gazprombank did not reply to a written request for a comment.

How Lithuania is kicking Russia to the curb

Forbes, 19.10.2015



It wasn't that long ago, yet it seems so foreign. In fact, Russia has become nothing but a bad memory in Lithuania. There's nothing Russian here except anti-Putin graffiti and a few Russian citizens investing here and there and carrying out their private lives in a country that, well, kind of hates them. If not them, then their government.

Walk the streets of Vilnius with a Lithuanian aged 30 to 70 and sad stories of Siberia abound. Russian soldiers telling grandpa and other forced laborers to go jump in a lake before getting back to work cutting down trees in the forest while dripping wet.

And not in the summer time either. Yeah, there is no love lost in Lithuania for the Russians. The former Soviet state, the largest of the Baltic trio, was the first to happily claim independence from the U.S.S.R., and is now the first to declare energy independence from them too. Anti-Putin graffiti spray painted on a wall in Old Town, Vilnius, Lithuania's capital city. Someone spray painted their unfavorable view of Europe on top of it. Anti-Putin graffiti spray painted on a wall in Old Town, Vilnius, Lithuania's capital city. Someone spray painted their unfavorable view of Europe on top of it.

Sort of. While Lithuania is still an importer of Russian natural gas, it is weaning itself fast and furious from what has become the bad boy of European gas markets: Gazprom. Poland might have come up with the idea first, back in 2006 to be exact. But their Baltic liquefied natural gas terminal isn't built yet. Lithuania couldn't build theirs quick enough. The floating LNG terminal known as – what else? – Independence is chilling in the Port of Klaipeda; a big boat on the Baltic Sea taking in gas from around the world. Everywhere, pretty much, except Russia.

"A few years ago, we paid the highest price in Europe for natural gas," Lithuanian energy minister Rokas Masiulis tells me. Of course, they were paying that to the Russian government through its state-run gas juggernaut, Gazprom. In the first quarter of 2014 it was the equivalent of 32.9 euros per megawatt hour. A year later, after the government got serious about LNG, it dropped 20%. By March 2015, it's fallen to around 25 euros. "One of the reasons for that is the LNG terminal in Klaipeda," he says. Gazprom was their single source of gas supplies. But not anymore.

Polish, Ukrainian Tsos complete feasibility study for interconnector

Natural Gas Europe, 19.10.2015



The Polish and Ukrainian TSO – Gaz-System and Ukrtransgaz - have completed the feasibility study for the interconnection integrating transmission systems of both countries.

‘Under the cooperation agreement signed between Gaz-System and Ukrtransgaz in December 2014, feasibility study will be used as basis for further decisions to develop cross-border transmission capacity between Poland and Ukraine’ reads a note released by Poland’s Gaz-System. The planned Gas Interconnection Poland–Ukraine includes construction of new gas pipeline between Hermanowice gas node on the Polish side and Bliche Volytsia on Ukrainian side.

The total length of the pipeline is around 112 km. ‘The Parties expect that the project can be completed in 2019/2020’ explains the Polish TSO. The new interconnection should allow for the increase of the export capacity of gas from Poland to Ukraine from 5 bcm/year to 8 bcm/year. Gaz System wrote it has already started the project in the Polish transmission system as part of the North–South Gas Corridor, involving the expansion of a transmission system in western, southern and eastern Poland.

Several regional players are holding negotiations in these days. ‘H.E. Peter Szijarto, Minister of Foreign Affairs and Trade of Hungary, will pay a working visit to Turkey on 20 October 2015’ the Turkish Government wrote in a separate communiqué. Latvia and Lithuania hammered out a Memorandum to work on integrating their gas markets, committing to provide participants with access to infrastructure. The Wall Street Journal wrote that the Nord Stream II consortium has started the process of hiring contractors.

Energy as the new security factor & the “Big three”

Natural Gas Europe, 19.10.2015



In a session “Power of Resources – Energy as the New Security Factor” at the 25th Economic Forum in Poland, Prof. Adnan Vatansever, King’s College London, provided a broad view on the nexus between energy and security, and spoke about what he said are the three countries that will be most important to the EU’s energy security in the future: Russia as the main supplier, Turkey as an important transit country, and the US as an increasingly important energy player.

Recognizing that Europe is not well endowed with oil and gas, Prof. Vatansever said this is often considered a vulnerability.

“But in international trade it matters how big you are as a buyer. If you look at the 28 countries of the European Union altogether you can see that as an importer it’s much more important any other place in the world, including the US, a very significant player in the international flow of oil and gas.” He offered that in 2014 the EU imported 15% more oil and gas than India and China combined; in 2040, he added, the IEA predicts that the EU will be importing about 40% more than than China and India together. “It shows how important the EU will remain regarding the international flow of energy,” he remarked. “In that context, I think initiatives such as creating a unified energy market – the Energy Union – are really crucial.”

Regarding Russia remaining a main supplier, Prof. Vatansever said: “A lot of Europe’s energy security discussions are based on this vulnerability based on dependence on Russian gas, especially. A lot of this focus has been displaced – on the potential for physical disruptions, such as the Kremlin deciding to cut the gas supply.” That, he said, is a low possibility with reputations at stake and serious consequences for Russia as well. According to him, the real vulnerabilities are how Russia prices the gas it sells (not based on transparency) to Europe and Russia’s pipeline diplomacy.

He observed of price, “You still see substantial differences from one country to another in Europe. For instance, Hungary’s getting a lot better deal than its neighbors – this is something that can’t be explained by market principles, and it’s pretty much a known fact that Moscow is basically rewarding countries with cheaper gas that are following pro Moscow foreign policy, and sometimes punishing others who are not following that policy.

“The European Union can do a lot by ensuring that every player in this huge market should play according to the same rules, according to market principles,” he continued. In the past 15 years, observed Prof. Vatansever, Europe-Russia gas relations has been about new pipeline projects: Nord Stream, South Stream, Turk Stream.



He commented: “This has been another tool that has been helpful for Moscow to establish clout among certain member states in the EU, and has been, to an extent, hampering the creation of a united energy policy. You see very different voices from various EU members, partly because of the prospects of a major pipeline crossing their territory, creating a different incentive for them on whether to follow EU-wide policy or a different one.”

There may not even be a need for new pipeline routes to Europe in the next 5-10 years, he explained, as more than half of capacity exists and based on current demand projections. In connection with transit country Turkey, Prof. Vatansever said Europe is already receiving increasing volumes of natural gas from the Caspian region, with more discoveries and resources that could go to Turkey and help Europe diversify its gas imports: from the Eastern Mediterranean, Iraq, Iran in the future.

“The big question that the EU is not asking is, can Turkey play that highly significant role as a transit country of increasing importance and help diversify Europe?” The answer, he said, depends on how things develop Turkey. “If the current trend of becoming an increasingly autocratic regime is maintained, I don’t see how this is going to happen. One may easily imagine that there may be increasing tensions between the EU and Turkey,” he explained, adding his belief that the country will eventually achieve secular democracy.

Prof. Vatansever gave his observations on another crucial country for Europe’s natural gas supply. “The US is a country that is not connected to the European markets. In different ways it has been supporting different policies of diversification of pipelines, but for the first time it is on a trajectory of emerging as an exporter of natural gas to Europe,” he observed. “This is quite significant for the future of Europe’s energy security.” Europe, he explained, has huge excess LNG capacity and can take LNG from various parts of the world. “Most of this capacity is just not at a place that would enhance diversification – in Spain, France, UK it does not really help in terms of reducing dependence on Russian gas.”

The solution, he said, is in progress, like in Lithuania and Poland, both of which have made great progress. “My only suggestion is that Central & Eastern Europe may need a lot more LNG capacity for the future in order to be more secure,” concluded Prof. Adnan Vatansever. The Baltic states are a role model for energy security and diversification, opined Ando Leppiman, Deputy Secretary General for Energy and Construction, Ministry of Economic Affairs and Communication, Estonia, who said his country wanted to end what he termed an “isolated state from the rest of the European energy systems.”

“We have to create the market and have to create the connections, but what we are lacking at the moment at the European Union level is that we are making ourselves too dependent on external supplies – this is really what we have tried to diminish in the Baltic states,” he said, adding that it is important to look forward in the context of the Energy Union. He added that Estonia is really looking forward to the interconnections that EU countries enjoy, although he admitted that the country was in a good state in terms of electricity connections. “By 2020, we’re going to have interconnection on gas between Estonia and Poland and Estonia and Lithuania; we are working quite hard to get another gas interconnection between Estonia and Finland to create physical possibilities for gas trade within Europe, the Baltic states, and even further north to Finland,” he reported.



Asked whether Europe's greater solidarity regarding energy security is in fact real, or whether countries have to face energy security threats on their own, Member of the Polish Parliament Piotr Naimski focused on the low cost of generating electric power from coal, a resource which he said Poland needs to take advantage of most effectively in a way that is the least adverse to the environment.

He offered, "This does not mean that we would like to give up coal for the sake of other energy resources – imports." For resources that Poland does not possess, Mr. Naimski pointed out that diversification of sources of supply is very important, as well as how they are supplied, but this fact was not apparent to European politicians 15 years or so ago. Regarding natural gas, he said: "We are close to the practical resolution of this problem: completion of the LNG terminal in Świnoujście will enable us to have gas supplied at commercial prices and not at the prices dictated by other states.

"At the same time, completion of this terminal will result in its becoming a gas hub operating in this part of Europe." Energy security, he added, is a domain of the European Union member states whose governments are responsible for it. "This means that each government needs tools to ensure and implement the requirements of energy security." Regarding the proposal of the EU's Energy Union, Mr. Naimski said it contains elements that can facilitate energy supply during crisis situations.

"The whole program of interconnectors for gas supply and energy supply are the tools for crisis situations. However, what is lacking is a mechanism for responding to crises, because governments need to be able to communicate quickly at the highest level when they face a crisis – unfortunately, there is not such a mechanism in operation yet." While the mechanism may be emerging, he observed that there's no political will or organization that could set it in motion.

Meanwhile, he noted that decarbonization of the European is the prevailing trend, "but of course this is in collision with the strategy of energy security and energy plans in Poland." Poland, he explained, is special in the European Union, because most of the country's energy came from coal, meaning that its EU partners should understand the specifics of the situation. Another member of the Polish parliament, who had granted some of the first shale gas concessions in Europe, Mr. Mariusz Jędrysek, Member, Parliament, Poland was asked about Poland's shale gas perspective in the wake of drilling results that had not met expectations, could their be a revival of shale gas exploration in Poland and could it change Europe's energy security?

Resources, he offered, are only part of the equation. He said: "When deciding on resources one forgets about risks: geological risk is huge. When one is considering resources you're thinking about billions of euros immediately, so the task of the country and the EU is to limit the non geologic risks; the non geological risks in Poland are much higher than the geological risks.

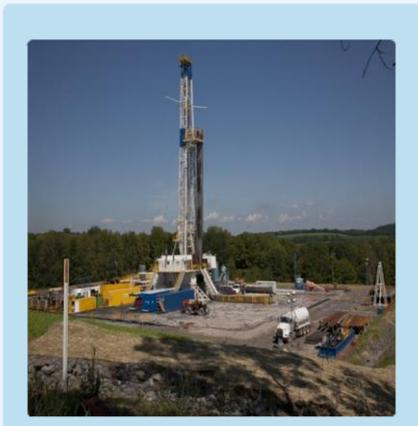
"Only political decisions can fix the situation," he opined. "The problem in Europe, as well as in Poland, is that there is too much politics in the system and not enough decision makers – not enough specialists. This is a crucial reason why, despite having huge deposits, we're losing everything – this is the reality."

Reflecting on France's energy security, Mr. Jean Eudes Moncomble, General Secretary, Conseil Français de l'énergie, France, recalled times when his country had shortages of electricity and petrol, the latter occurring due to workers' strikes. "So if we're thinking about geopolitics it is not the only dimension of energy security."

He also mentioned what he termed the risk that should be linked with the development of renewables, which he conceded would be a very important part of the energy mix in the future, but their development in places like Germany had a strong effect. He offered, "At some times in the year we have negative prices for electricity – it's very funny for an economist, but not good for investors." This meant there is a need, according to Mr. Moncomble, for a new way to view energy security.

OMV plans to sell 49% stake in Austrian downstream company

Natural Gas Europe, 19.10.2015



Austria's OMV has announced its intention to sell a stake of up to 49% in its wholly owned subsidiary Gas Connect Austria, as part of a plan to strengthen its cash flow and balance sheet. GCA is a company that operates and constructs natural gas high-pressure pipelines in Austria.

"As a first result of the ongoing review of our Downstream Gas asset portfolio, we decided to divest a minority stake in our regulated gas transportation business in Austria. In difficult oil price environment, we are taking appropriate measures to both optimize portfolio and strengthen Group's cash flow and balance sheet", Manfred Leitner commented.

OMV wrote that the transaction is expected to be signed in the course of 2016. The news confirms the increasing focus on Merger and Acquisition Operations outlined in a previous article. Total signed an agreement to sell a 15% interest in the Gina Krog field in Norway to Tellus Petroleum, a subsidiary of Sequa Petroleum NV. "As a result of a full comparative review of our global asset portfolio and in particular of our vast portfolio of opportunities in Norway, we have decided to further divest our participation in this project after the initial sale of an 8% interest in 2014. This sale is in line with our willingness to optimize the Group's allocation of capital," Arnaud Breuillac, President Exploration & Production, commented in a note.

Sanctioned in 2013, the Gina Krog project is currently under development in the Norwegian North Sea and is expected to start-up in 2017. Upon completion of the sale, Total will retain a 15% interest in Gina Krog alongside Statoil (58.7%, operator), Tellus Petroleum (15%), PGNiG Upstream International (8%) and Det norske oljeselskap ASA (3.3%).

UK set to becoming China's leading energy partner

AA Energy Terminal, 23.10.2015



The U.K. plans to become the leading Western partner of China, associate professor at China's Xi'an Jiaotong-Liverpool University said. The comment came after the U.K.'s Prime Minister David Cameron and Chinese President Xi Jinping's announcement that China will invest \$9.2 billion in a new nuclear power plant at Hickley Point.

"By allowing China to build and operate nuclear plants in the U.K., the island is expecting to become the best Western partner of China," Ahmet Goncu, an associate professor at China's Xi'an Jiaotong-Liverpool University told Anadolu Agency.

"Being verified by British nuclear authorities, Chinese nuclear technology will gain trust and marketing power for upcoming projects in other countries as well," Goncu added. Chinese nuclear companies, China General Nuclear Power Group and China National Nuclear Corporation plan a joint venture to combine technologies on China's third-generation nuclear reactor design, known as the Hualong One.

"The exact design of the reactors are not known," Goncu said and added "however, the Chinese have been investing heavily in research and development and are expected to come up with improved designs also for the huge Chinese domestic market, which has a target of a hundred nuclear power plants across China in the coming years to reduce dependence on coal."

"The economic partnership between two countries will strengthen political ties and also Chinese influence on the Western world to a new high level," he said. The deal that was signed between China and the U.K. during the Chinese president's four-day visit to the island total \$62 billion, according to a statement made by Cameron. Furthermore, BP and China National Petroleum Corporation (CNPC) signed a framework agreement on strategic cooperation covering potential shale gas exploration and production in the Sichuan Basin in addition to future fuel retailing ventures in China and other international partnerships, BP said in a written statement. BP also announced an agreement with state-owned China Huadian Corporation - the country's largest gas-fired power generator - under which BP will sell Huadian up to 1 million tonnes of liquefied natural gas (LNG) per year worth up to \$10 billion over the next 20 years.

Crude oil stocks in US rise four weeks in row

AA Energy Terminal, 22.10.2015



Crude oil inventories in the U.S. increased for the fourth consecutive week, the country's Energy Information Administration (EIA) data revealed. Commercial crude oil stocks in the country rose by 8 million barrels, or 1.7 percent, to reach 476.6 million barrels for the week ending Oct. 16, from 468.6 million barrels from the previous week ending Oct. 9, according to the EIA.

For the same period, strategic petroleum reserves in the country remained unchanged. This marked the fourth straight week crude oil inventories have increased since they fell for the week ending Sept. 18, according to the EIA data.

"The increase in oil stocks came despite a slight rebound in the volume of crude processed by U.S. refineries," London-based Capital Economics' U.S. Weekly Petroleum Status Report said Wednesday. "This may indicate that we have reached the nadir of the U.S. autumn maintenance season," said Thomas Pugh, a commodities economist at Capital Economics and author of the report.

"Refiners typically schedule maintenance in the late summer after demand has peaked," he reminded. Refineries are considered to have some of the largest demand for crude oil. When they are in maintenance, their demand falls, resulting in a buildup of crude oil inventories and a decrease in oil prices.

Indeed, the price of the global benchmark Brent crude oil fell below \$48 per barrel mark late Thursday, after the EIA announced weekly crude oil builds, but managed to climb as high as \$48.66 per barrel on Thursday. Meanwhile, crude oil imports of the U.S. rose by 156,000 barrels per day (bpd) to reach 7.47 million bpd for the week ending Oct. 16, from 7.31 million bpd the week ending Oct. 9. In addition, domestic oil production in the U.S. remained unchanged at 9.1 million bpd during the same period. Oil production in the country fell around 500,000 barrels per day on average, after reaching almost its highest level since the 1970s in April this year at 9.6 million bpd.

Due to low oil prices and with U.S. producers under pressure, the EIA expects domestic oil production to decline to an average of 8.86 million bpd in 2016, from 9.25 million bpd on average this year, according to its Short-Term Energy and Winter Fuels Outlook. "We still think the bigger picture is that falling oil production and increases in demand for oil products should put upward pressure on crude oil prices over the next year," Pugh said.

US: New Canadian government will not affect Keystone pipeline

AA Energy Terminal, 21.10.2015



The U.S. Secretary of State John Kerry said Tuesday that the new Canadian government will not change the U.S. State Department's decision on the Keystone XL pipeline.

Currently, the project, which plans to carry crude oil from Canada's tar sands to the U.S. refineries in the Gulf of Mexico, is under review from the United States State Department. Kerry signaled that a final decision about the pipeline would be taken soon. "The decision on Keystone is being based on the merits and on the countervailing balance of all the input that has come from a very exhaustive agency review," Kerry said.

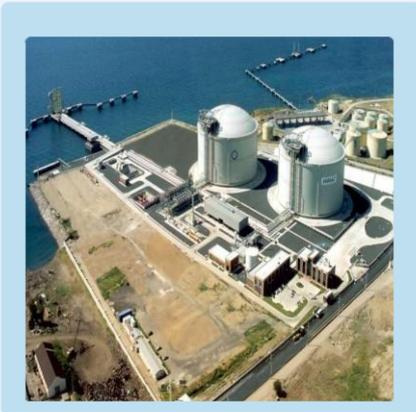
"I have said again and again that I want to get that [review on the pipeline] done as fast as possible, and it is very true I want to get it done," Kerry added. Justin Trudeau became the new prime minister of Canada on Monday when the Liberals put an end to the 10-year tenure of Prime Minister Stephen Harper and the Conservatives. Although Harper supported the construction of the Keystone XL pipeline, Trudeau has not yet been clear on his stance but said he will be more focused on environmental protection during his tenure.

The project was approved by the U.S. Congress on Feb. 11, and was vetoed by Obama on Feb. 24 due to environmental concerns. The White House has been less clear about the future of the project, and the new Canadian government's role in it. "It would be shortsighted to reduce the relationship between our two countries to just one issue," White House spokesman, Josh Earnest, said. However, he called for Canada to have a greater role in the U.S. President Barack Obama's efforts to fight against climate change.

"We believe that it's possible that there is more that Canada can do in this regard," Earnest said Tuesday. Obama considers the fight against global warming as a cornerstone for his legacy, and he called for world leaders to speed up progress against climate change at the end of August. The UN's international climate change conference in Paris will be held between Nov. 30 and Dec. 11. It aims to achieve a legally binding international agreement, although the 1997 Kyoto Protocol, which tried to reduce greenhouse emissions, was not ratified by all countries throughout the world.

US approves compressed natural gas oversea exports

AA Energy Terminal, 20.10.2015



The U.S. Energy Department announced Monday that it has issued a final authorization for a company to export domestically produced compressed natural gas (CNG) overseas. Emera CNG, LLC will be able to export CNG up to 8 million cubic feet per day of natural gas from its proposed facility at the Port of Palm Beach in the U.S. state of Florida.

The company will be able to export LNG to countries that the U.S. does not have a Free Trade Agreement (FTA) with for a period of 20 years. The U.S. Department of Energy has to authorize companies before they can export domestically produced natural gas to non-FTA countries.

The department has so far approved eight projects to export liquefied natural gas (LNG) from the U.S. to non-FTA nations. The earliest of them, Cheniere Energy's Sabine Pass project in the state of Louisiana, will begin LNG exports at the end of 2015 or the beginning of 2016. "The development of U.S. natural gas resources is having a transformative impact on the U.S. energy landscape, helping to improve our energy security while spurring economic development and job creation around the country," the energy department said in a statement. "This increase in domestic natural gas production is expected to continue, with the Energy Information Administration forecasting a record average production rate of 78.92 billion cubic feet (2.21 billion cubic meters) per day in 2015," it added.



Announcements & Reports

► *The New Economics of Oil*

Source : OIES

Weblink : <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/10/The-New-Economics-of-Oil.pdf>

► *The Dynamics of the Revenue Maximization–Market Share Trade-Off: Saudi Arabia’s Oil Policy in the 2014–2015 Price Fall*

Source : OIES

Weblink : <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/10/WPM-61.pdf>

► *Gas Interests in Nord Stream 2*

Source : PISM

Weblink : http://www.pism.pl/files/?id_plik=20680

► *Europe’s LNG Strategy in the Wider EU Gas Market*

Source : CEPS

Weblink : http://www.ceps.eu/system/files/PB333_Europe%20LNG%20Strategy.pdf

► *Prime Supplier Report*

Source : EIA

Weblink : http://www.pism.pl/files/?id_plik=20680

► *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/>



Upcoming Events

► *European Shale Gas & Oil Summit*

Date : 15 - 16 October 2015
Place : Manchester - UK
Website : www.shalegassummit.co.uk

► *Shale Gas Summit*

Date : 26 - 27 October 2015
Place : London - UK
Website : www.shalegassummit.co.uk

► *Gastech 2015*

Date : 28 – 29 - 30 October 2015
Place : Singapore
Website : <http://www.gastechsingapore.com/>

Supported by PETFORM

► *Abu Dhabi International Petroleum Exhibition & Conference*

Date : 09 - 12 November 2015
Place : Abu Dhabi - United Arab Emirates
Website : <http://www.adipec.com/>



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Exhibition & Conference

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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>



17th Annual
**CIS OIL AND GAS
TRANSPORTATION
CONGRESS**

► *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/>

► *Atlantic Council Energy & Economics Summit*

Date : 19 – 20 November 2015
Place : Istanbul - Turkey
Website : <http://www.acsummit.org/>

► *Project Financing in Oil and Gas Conference*

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