Oil & Gas Bulletin
▸11.12.2015

KPMG: If Russia cuts Turkey's gas, no outages will arise

AA Energy Terminal, *10.12.2015*

Even if Russia cuts natural gas supplies to Turkey, there will be no major blackouts in the country, according to KPMG,. KPMG Turkey said in a report that Turkey generated 38 percent of its electricity from natural gas in 2015 while 54 percent of natural gas imports came from Russia.

The company said it considered weather conditions, quantity of electricity generation from natural gas, capacities of coal plants in reporting a worst case scenario. The report said as of Nov. 1, 2015, Turkey has 1,407 power plants which has 72,455 megawatts of installed capacity, 29 percent of which come from plants which run on natural gas.

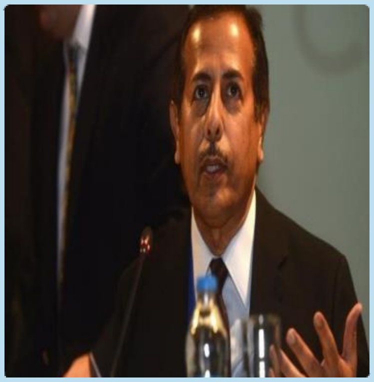
"In the worst case scenario, this means that if Russia cuts natural gas supplies to Turkey, firstly some of the natural gas power plants will be disabled. In this case electricity prices may increase due to lower capacity of electricity production. In this situation Turkey can use less efficient natural gas power plants," the company said.

According to the company's analysis, some local technical disruptions could occur in the electricity distribution network, however, the company asserted that this would be limited and would not result in a massive black out as seen on March 31, 2015.

Turkey experienced electricity outages in many regions, including the capital Ankara and biggest city, Istanbul, due to problems that began at 10.36 A.M. in the transmission lines. Qatar sent at least 9 LNG spot cargoes of 1.2 billion cubic meters over the last years, while Turkey receives around four bcm of Algerian and 1.2 bcm of Nigerian LNG cargoes.

Qatar can meet Turkey's unforeseen LNG demand

AA Energy Terminal, *27.11.2015*



Qatar can meet Turkey's urgent and unforeseen energy requirements specifically with LNG, Sheikh Mohamed A. Althani, former minister of economy and trade of Qatar told.

He drew attention to the memorandum of understanding signed for long term LNG trade between the two countries. As a result of potential difficulties arising from natural gas trade between Turkey and Russia due to Russian warplanes' infringement on Turkey's airspace and Russia's latest intervention in Syria, alternative sources, as in the agreement with Qatar, are crucial to ensure the country's security of supply.

Turkey imports about 55 percent of its natural gas needs from Russia and 18 percent from Iran. Iran decreased its natural gas transfer to Turkey from an average daily output of 28 million cubic meters down to 13-14 million cubic meters.

"Qatar is a flexible supplier and can adjust its supplies, divert it from one region to another," Althani underlined, and added that Qatar has already established infrastructure and invested in big LNG production so the country can compete in the market.

Turkey has two LNG terminals - in Marmara Ereglisi located to the west of Istanbul, which is not running at full capacity, and in Aliaga located in Izmir, the western extremity of Anatolia which is fully operational. "It's too early to ascertain how much LNG can be exported to Turkey," he said highlighting that time is needed to find these details out.

Altani said that the agreements between the two countries are evidence of Qatar's support for Turkey not only in energy but also in other fields. Qatar sent at least 9 LNG spot cargoes of 1.2 bcm over the last years, while Turkey recieves around 4 bcm of Algerian and 1.2 bcm of Nigerian LNG cargoes.

KRG exports 18 million barrels of oil in November

AA Energy Terminal, *19.11.2015*

Exported oil to Ceyhan Port in southern Turkey was produced in wells in Kurdish region and Kirkuk. KRG exported 18 million barrels of oil from Kirkuk and the Kurdish region via the Kirkuk-Ceyhan oil pipeline in November alone to the Ceyhan port in southern Turkey, KRG's ministry of natural resources announced on its website.

The Kirkuk–Ceyhan oil pipeline is a 970 kilometer-long pipeline and Iraq's largest crude oil export line. The Ceyhan port is the final destination of the pipeline while it also acts as a transportation hub for oil and natural gas for the Middle East, Central Asia and Russia.

The report revealed that around 13 million barrels of oil were drilled from the wells in the Kurdish region and 5 million were extracted from wells in Kirkuk. "This corresponds to 600,000 barrels of oil per day," the report stated. Meanwhile, the report also highlighted that exports drastically decreased over a two day period when the pipeline was sabotaged.

Iran's mismanagement leaves north of country without gas

AA Energy Terminal, *10.12.2015*

Iran's historical gas problems are not just down to sanctions, but to the mismanagement of the domestic gas market, Marco Giuli, a policy analyst from the European Policy Centre said.

Iran's domestic gas consumption has almost doubled from 80 bcm in 2002 to 150-160 bcm in 2014, according to the CIA World Fact Book. According to Giuli, through Iran's subsidy regime, abnormal levels of domestic consumption are encouraged, a fact which generally affects the country's exports to Turkey over the winter season. Iran decreased its natural gas transfer to Turkey from an average daily output of 28 mcm down to 13-14 mcm.

Iranian officials said the situation is due to heavy winter weather conditions. Due to the weather, Iran's gas consumption increased and technical difficulties with transfer of gas also impacted the flow. Turkey ranks first in Iran's gas exports with around 10 billion cubic meters of natural gas per annum.

Turkey imported 49.2 billion cubic meters (bcm) of natural gas in 2014, 18 percent of which came from Iran. Turkey consumes around 140 million cubic meters of gas daily, while this volume increases to 180-200 million cubic meters during the winter season.

"Iran seems willing to exploit the end of the sanctions to boost investment in its grid and allow the gas fields in the south to contribute to demand from the north," Giuli said. He asserted that as a result of Iran's policy to boost domestic gas production to meet its own domestic needs, exports from Turkmenistan are set to decline. Iran imports around 6-7 billion cubic meters of natural gas from Turkmenistan to supply its northern provinces.

According to Giuli, it is unclear whether Iran can quickly boost its gas production, as the preference now is for the quick recovery of oil production rather than gas. However, he added that the ambition for gas for the short to medium term will be to become a regional provider, supplying Iraq, Afghanistan, and Pakistan and use this leverage to expand its influence in the region.

"It is unlikely that Iran will become a gas supplier to Europe in the short term. The world is on the verge of a supply glut, prices in Europe are set to decline, and transit through Turkey is less and less safe due to the recurrence of the confrontation between the Turkish Army and Kurdish forces linked to the PKK. The Tabriz-Ankara pipeline was targeted by attacks," Giuli said.

The PKK has fought for an independent Kurdish state since 1984, and its terrorist attacks have claimed around 36,000 lives in Turkey. Turkey, the U.S. and the European Union list the PKK as a terrorist organization. According to a report released by Caspian Strategy Institute in Turkey, Iran's natural gas production is in a line with the country's consumption. However, the country does not have sufficient quantities for export due to its high domestic consumption.

Iran produced around 173 billion cubic meters of natural gas in 2014, according to BP's Statistical Review of World Energy 2015. Iranian households consume 34 percent of the country's natural gas, 28 percent is used for electricity production, 25 percent in industry, 5 percent for the transport sector and 8 percent in other fields.

Tehran aims to nearly double its gas production in the coming years, if sanctions on the country are removed next year. Iran also sends natural gas to Armenia and Nakhchivan Autonomous Republic near Azerbaijan.

BOTAS: Iran's gas to Turkey will return to normal asap

AA Energy Terminal, *23.11.2015*

Despite the decrease in natural gas flow by 50 percent from Iran to Turkey Turkey's BOTAS' International Limited company reassured that the decrease is down merely to weather conditions.

Iran decreased its natural gas transfer to Turkey from an average daily output of 28 million cubic meters down to 13-14 mcm. "Iranian officials said the situation is down to heavy winter weather conditions. Due to the weather, Iran's gas consumption increased and technical difficulties with transfer of gas also impacted the flow," BOTAS said, and assured that deliveries will return to normal levels within the shortest time.

A decrease in the natural gas flow from Iran to Turkey is quite normal and occurs every year with Iran, experts, who wish to remain anonymous, told Anadolu Agency. Experts put the lowering of gas transfers down to cold weather which saw temperatures plummet in Iran's capital Tehran from 13-15 degress celsius to 6-7 degress celsius.

"The cold snap in Iran increased its natural gas consumption and this is the reason Iran decreased its gas transfers to Turkey. It's not right when you consider the contract between Iran and Turkey, however Iran does this," experts said.

Turkey imported 49.2 billion cubic meters (bcm) of natural gas in 2014, 18 percent of which came from Iran. Turkey consumes around 140 million cubic meters of gas daily, while this volume increases to 180-200 million cubic meters during the winter season. Turkey also imports gas from Russia and Azerbaijan, as well as LNG from Algeria and Nigeria.

Turkey's energy security starts at home

Natural Gas Europe, *09.12.2015*

Turkey's latest charm offensive in Qatar and Azerbaijan was meant to reassure the population at home that even if Russia were to halt gas supplies following the latest political standoff, Turkey would emerge unscathed.

Alas, that may not be the case! Any projects that may have been discussed now could take off in at least three to five years, but certainly not this winter when Turkey shivers at the prospect of being left in the cold. There are three reasons why Turkey will have to hope for goodwill and mild temperatures for now. Firstly, Turkey's demand is concentrated in its northwestern Marmara region.

Despite this concentration of consumption, the region is fed primarily by Russian gas via the Western Line, which transits Ukraine, Romania and Bulgaria before entering Turkey. There are also two LNG terminals and a storage facility, but altogether they are not sufficient on their own to respond to a spike in demand if Russian gas via the Western Line were cut.

Non-Russian pipeline imports from Iran or Azerbaijan, on the other hand, cannot be easily pumped west because of technical constraints in the system. This means that Turkey's Marmara region remains vulnerable to reductions or total cuts even if pipeline imports were maximized elsewhere.

Secondly, and linked to the infrastructure constraints, although LNG could offer an immediate and easy solution, Turkey cannot import more cargoes than its limited receiving capacity. It is possible that the Turkish president, Recep Tayyip Erdogan may have negotiated some additional cargoes for delivery this winter during his visit in Qatar last week, although the information has not been officially confirmed.

Assuming that he did, the cargoes would be sufficient if Turkey enjoys a mild winter, similar to the last one. However, if Russian imports are cut and temperatures drop consistently for at least a week, the situation could become difficult. It is commendable that president Erdogan should have discussed with Qatari investors the possibility of expanding Turkey's LNG import and storage infrastructure.

However, what guarantee does Turkey have that the Qataris would indeed consider putting their money into a gas project if the Turkish government talks about reducing the share of natural gas in the total energy mix, while expanding that of coal or renewables? After all, gas-fired generation in Turkey has had a difficult year and many companies are facing mounting debt.

Thirdly, Turkey has turned to Azerbaijan and will probably extend the charm offensive to Turkmenistan and Kazakhstan for extra Caspian volumes. On closer inspection Azerbaijan itself is struggling to meet its own gas demand and had reportedly indicated it was looking to switch some of its gas-fired generation to fuel oil in order to free up volumes.

Azerbaijan needs investment to start production at other offshore gas fields, but the cash is hard to come by given current oil prices. Furthermore, Azerbaijan also needs investments in its own networks to curb any transmission losses.

Regionally, Turkey has ramped up its imports from Azerbaijan in recent months. Thanks to an upgrade to a compressor station in eastern Turkey, the country has been able to increase its imports from Azerbaijan since last year, off-taking volumes almost within its contractual limits of 6.6 billion cubic metres/year.

This meant that an increase in Turkish imports has left neighbouring Georgia, which had been almost entirely supplied by Azerbaijan since 2006 to discuss the resumption of Russian imports. Whether Azeri gas volumes from the second phase of the Shah Deniz platform will indeed reach Turkey before 2018 as stated by the Turkish Prime Minister Ahmet Davutoglu during his visit last week remains to be seen. For now, however, there is no indication that any additional Caspian gas volumes would be shipped west to Turkey.

As much as Turkey is blessed with an exceptional geographical position, right at the heart of an incredibly rich part of the world, it is also cursed with an unfortunate neighbourhood. The solitude of Turkey is not a myth that many academics have sought to dispel. It is a reality that can be seen here and now.

However, one ought to disagree with the fatalistic view expressed in the Turkish press that ‘Turks are accustomed to suffering.” Turkey’s recent history may have been painful, but that is no benchmark to mould Turkey’s future on. Neither Turkey, nor Turks must suffer, particularly when there are intelligent solutions within reach.

Although it is highly unlikely that Russia would reduce or cut the gas to Turkey this winter, being completely aware that Turkey is an important source of revenue, if supplies are curtailed nonetheless, Turkey could retaliate by obstructing Russian oil tankers seeking to enter or exit the Straits. Admittedly, such an escalation would be dangerous, but it would be a reminder that Turkey is not completely vulnerable.

Domestically, the current situation should be a wake-up call against complacency. The Turkish natural gas sector has to be reformed, but in a way that would guarantee Turkey’s security in the long-term.

Pretending to implement reform while retaining a wasteful and completely unnecessary cross-subsidies system, leaving the incumbent BOTAS to struggle without creating a vigorous company spearheaded by young and ambitious talent and refusing to allow the private sector to take an active part in this market would simply make matters worse.

Cross-subsidies should be removed immediately since they are the root cause of Turkey’s gas market ills. It is not fair to subsidise both the rich and the poor. Reform in the Turkish gas sector needs to go hand-in-hand with welfare reform. Turkey must identify the section of the population that is most at risk and create a special welfare pot to look after those who cannot afford to pay for their electricity and gas consumption. Those who can pay, must pay, and not look to the state for handouts.

Turks are intelligent people who will understand that in time of need, there is no remedy but to sacrifice some comforts. Turkey must also amend its gas law to allow the introduction of Floating Storage and Regasification Units (FSRUs), which, as their name indicates, can fulfill the dual role of receiving LNG and storing it.

FSRUs could perhaps offer the most immediate solution to Turkey's gas market challenges. In recent months both Egypt and Lithuania have been able to secure FSRUs. In Egypt's case they will help the country to plug rising demand. In Lithuania's case, the aptly named Independence brings an alternative to Russian gas.

Finally, diversification, a term that has been bandied about almost too much, does not mean to replace molecules of Russian gas with molecules of Azerbaijani, Iraqi or Iranian gas. Real diversification means changing the practices that have so far proved harmful to Turkey.

Ukraine appears to have understood that the only way to break its dependence on Russian gas was to open up its market and western borders to trade. Such alternatives ensure not only that Ukraine will be better placed in its price negotiations with Russia, but also in terms of securing gas.

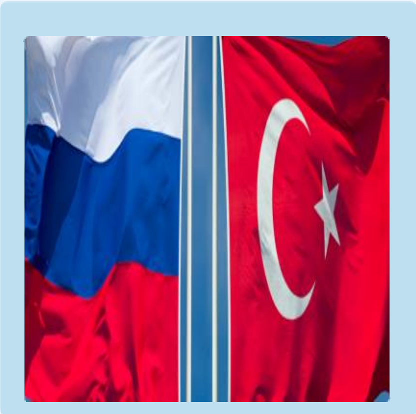
Of course, Ukraine is yet to prove its real commitment to reform, but at least there are some indications that it has understood the dual role of liberalisation: guaranteeing security of supply and attracting investment. The same goes for Turkey.

It is not known what the intentions of the new Turkish government are, or whether it still wishes to continue the reform that the country committed itself to 15 years ago. However, it is clear that charm offensives abroad are unlikely to change anything for Turkey, at least not for now.

Real change starts at home with as simple a measure as publishing clearly and openly Russian gas flow data via the Western Line and Blue Stream. If Russia cuts the gas to Turkey, at least we shall all know it!

Turkey's plan to reduce energy dependence on Russia

Natural Gas Europe, *09.12.2015*



The Turkish government has worked out a series of measures to reduce to a minimum its dependence on Russian energy sources. The plan of diversification of this so-called "energy basket" will take 2-2.5 years, according to daily Sabah.

The Turkish government discussed the plan, to minimize the consequences of the economic sanctions introduced against Turkey. The newspaper also reported that the diversification plan envisages acceleration of construction of the TAP, which will be used to export Azerbaijani gas to Turkey and Europe, and to export LNG from Qatar. Turkey also plans to increase its gas storage capacities and build new storages.

Meanwhile, Turkey's Milliyet newspaper reported that Ankara also has a "plan B," which envisages purchase of gas in northern Iraq (Iraqi Kurdistan). For this purpose it is planned to hold bids to build an 185-km-long gas pipeline in Shirnak province bordering on Iraq. Natural gas from northern Iraq is first of all planned to be used to satisfy the needs of Turkey's southeastern provinces Diyarbakir and Mardin, where the pipeline construction will begin.

The first gas from northern Iraq is expected to be exported via the new pipeline within 2-3 years. At the first stage annual volume is planned to be 10 billion cubic meters (BCM), and by early 2020 it should increase up to 20 billion BCM.

According to Milliyet, Turkey consumes about 50 BCM of natural gas a year and almost half of this volume (48.2%) is used to generate power. Twenty percent of gas is used to heat the houses. In 2014, Turkey consumed 48.7 BCM of gas, the newspaper reports.

Last year, Turkey imported 49.2 BCM of natural and liquefied gas, of which 26.9 BCM was exported by Russia, 8.9 BCM by Iran and 6 BCM by Azerbaijan. The import of liquefied gas totaled 7.3 BCM. In 2014, 65% of gas was exported to Turkey via gas pipelines from Russia.

"We will hope that our relationships with Russia will get better and it is not going to play with the gas pipeline tap," writes Milliyet's economics observer Gunger Uras. Turkish experts say that suspension of Russian gas exports is unlikely in the current conditions.

"Russia has concluded the gas agreements and I do not think that it is going to terminate them, because this is fraught with fines," Nejet Pamir, Turkey's representatives at the World Energy Council, leading expert of energy security issues, told TACC.

Turkey eying East Med gas

Natural Gas Europe, *09.12.2015*

In recent conferences (the Atlantic Council Summit), and Tel-Aviv that Turkey expects to obtain 10-12bcm/y of gas from the East-Med for its future needs.

That was before the recent incident and the standoff between Turkey and Russia. As a result of this Turkey is now looking for alternative gas supplies, including the East-Med to lessen dependence on Russia. It has, for example, signed preliminary agreements to import gas from Qatar and Kurdistan. Should "Cyprob" be resolved, Israel and Greek Cyprus jointly can supply more than 20bcm/y to Turkey, should this be acceptable and provided the price is right.

And markets and prices matter, given the glut of oil&gas now in the global markets. Following Egypt's decision to freeze talks to buy natural gas from Israel, after the ruling by the International Chamber of Commerce Court of Arbitration awarding Israel Electric $1.76 billion in compensation for the halt in the supply of gas from Egypt in 2011, Israel responded in various ways.

The Energy Minister Yuval Steinitz said, "Whatever happens, Israel must rapidly develop the gas fields that it has discovered to ultimately achieve a reasonable degree of energy independence. So we will continue moving forward with energy export options, not only with Egypt but other countries in the region such as Jordan, Greece and Turkey, and even with countries in Western Europe."

Also with regards to Turkey, Israel's Prime Minister Benjamin Netanyahu revealed: "My personal representative is in touch with a senior representative of the Turkish government, and the possibility of exporting Israeli gas to Turkey was raised.

The interests are clear and wide-ranging. All the interest in us and the joint interests vanish if we do not export. Exports are a major and important element in safeguarding the country's interests in its foreign relations in general." Netanyahu also asserted at the Jerusalem Post Diplomatic Conference late November that Israel is looking to better relations with Turkey.

Further, Yossi Cohen, the new head of the Mossad intelligence service, signalled that the suspended relations with Turkey would be amended: "Israel's place in the Middle East is increasingly challenged, and it will be reinforced by cooperation with our neighbors, particularly Egypt, Jordan, Cyprus, Greece and Turkey. It is in our interest to forge strategic economic relationships with these states."

After these positive signs by Israel on possible improvements in Turkish-Israeli relations and gas trade, a Turkish Presidential spokesman also signaled on Wednesday a possible gas trade and restart of relations between the two countries, but only if Israel fulfilled Turkey's conditions.

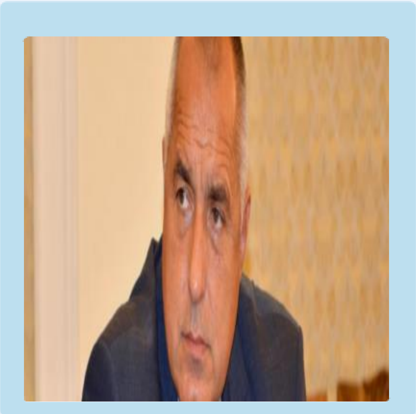
This was the subject of an article in Turkish newspaper Daily Sabah, with the headline “Israeli gas likely option for Turkey if demands met.” The article went further to say that Israel has so far fulfilled only one of the three conditions set by Turkey for normalization of relationships, when it apologized for the Mavi Marmara incident. The other two conditions are compensation for the Mavi Marmara and lifting the embargo on Gaza. The Turkish Presidential spokesman said that there is no possibility of bridging relations with Israel unless it meets Turkey’s demands.

But the Daily Sabah went on to write that the rift between Turkey and Russia, the war in Syria, and Turkey’s quest to obtain alternative gas supplies to Russian gas, may now help Turkey and Israel open a new era. The energy issue seems to be a common ground for Israeli and Turkish interests.

For this to happen it requires resolution of Cyprob, as a pipeline from Leviathan to Turkey will have to pass through Cyprus’ EEZ. If this happens it may open-up Israeli gas exports to Turkey, possibly also including gas from the Aphrodite gas field going through the same pipeline. But this should not end-up being the only option as it could make future negotiations very one-sided.

Greece and Bulgaria vying for Turkey’s losses

Natural Gas Europe, *10.12.2015*



The rift in bilateral relations between Russia and Turkey may have created a shift in regional balance regarding impending natural gas projects, the most important one being Turkish Stream, whose prospects have been appearing dim.

Seizing the opportunity, Bulgaria and Greece, appear to be interested in taking advantage of developments and are proposing to strengthen ties with Gazprom and Moscow. First of all, Athens and Sofia have pointed out they have not participated in signing a letter that was addressed to the EU Commission by countries in Central & Eastern Europe who have signalled their opposition to the Nord Stream II project.

Although having signed originally, the Czech Republic and Romania are also distancing themselves from their previous opposition to the project. Meanwhile, Bulgaria’s Prime Minister, Boyko Borissov, observed that all countries are having difficulty agreeing on a common stance and, as regards to his own state, Bulgaria, said it will not participate in any such protest against the new pipeline.

Likewise, the Greek Energy Ministry issued a statement that Athens was never a participant in signing this protest letter, and in a recent meeting between the Russian Energy Minister, Alexander Novak, and his Greek counterpart, Panos Skourletis, various projects were discussed, including the participation of Gazprom in hydroelectric and lignite infrastructure in Greece and new pricing for Russian gas imports.

Mr. Skourletis also expressed to the local press that Greece supports Turkish Stream and the importation of Russian gas in general, but Turkish Stream has been effectively stopped for the moment, but once negotiations resume it is likely to proceed as agreed earlier.

According to all available information, both Greece and Bulgaria will abstain from condemning Nord Stream II on 18 December 2015, when this issue will be raised in the agenda of an EU Summit in Brussels. Furthermore, the deputy Prime Minister of Bulgaria, for EU Funds and Economic Policies, Tomislav Donchev, recently relayed that the country is in talks with the EU for a sort of a "mini-South Stream".

Any such plan would involve mapping out a new supply route of Russian gas to the Bulgarian Black Sea coast ports. Then this gas, along with that of other suppliers, would be used to be transited to other EU destinations via the regional interconnection system, which could be enlarged. According to the Bulgarian government, if the EU's relevant authorities give the green light, then this project could be set into negotiations with the Russian side.

Depending on the course of events between Turkey and Russia, we might expect that new initiatives by countries in the region will be unveiled. Turkey has for years been working to achieve energy hub status, thus any change in that would surely have side effects for the rest of its neighbors, who appear to be aiming to attract gas supplies and elevate their transit status.

Netanyahu to testify today on Israel's natural gas framework

Natural Gas Europe, *10.12.2015*

Israeli Prime Minister Benjamin Netanyahu, in his capacity as Economy Minister caretaker, is expected to testify in front of the Knesset's Economic Affairs Committee in his push to approve a natural gas regulatory framework.

For Mr. Netanyahu, who has not made himself available to local Israeli media, it will be a rare moment in which opposition Knesset members, the most prominent being Shelly Yechimovich, will be able to ask him unvetted questions concerning the state natural gas strategy, energy security and other matters. It is expected news channels and business websites will broadcast the pm's testimony live.

The natural gas regulatory framework suffered a blow this week when Egypt announced its freeze on natural gas deal negotiations with Israel following a decision of the ICC panel to award the Israel Electric Corp (IEC) about $2 billion in compensation from Egypt following the cancellation of a natural gas contract from 2008. Mr. Netanyahu will be hard pressed to explain how his government ignored this expected development and how he plans to overcome this obstacle and whether he will surrender to Egyptian demands to give up on the compensation.

However, Mr. Netanyahu might find some solace in the ICC panel's decision. He might point out to lawmakers that Nobel Energy, the leading partner in the gas monopoly in Israel, has threatened to take Israel to arbitration at the same institution and to ask for billions of dollars in compensation if the framework is not be approved.

One way or another, the committee is expected to complete its deliberations in the next few days and its "decision" is not binding, so in his capacity as Economy Minister, Mr. Netanyahu will be able to approve the framework by signing article 52 of the antitrust law. And then the show will go on, probably, through its opponents' petitions to the High Court.

Day of high drama sees Egypt freeze gas negotiations with Israel

Natural Gas Europe, *07.12.2015*

Relations between Israel and Egypt sank to a new low yesterday after two Egyptian gas companies, EGAS and EGPC, were ordered by the ICC arbitration panel to pay $1.76 billion in compensation to Israel Electric Company Corp (IEC).

Another company, EMG, which oversaw Israeli-Egyptian gas deals from 2008 to 2012 has been awarded $288 million in compensation. EMG built and operated the 60 km EMG undersea pipeline, between al-Arish in North Sinai and the Israeli town of Ashkelon, which delivered Egyptian natural gas to Israel.

In response to the arbitration results, Egypt said it would appeal the arbitration outcome and the two Egyptian companies said they were ordered by the Egyptian government to freeze further negotiations with Israeli gas companies over future deals. On the heels of the Egyptian announcement, Israel's Energy Minister, Yuval Steinitz, said that Israel will promote other export options to other countries in the region, such as Jordan, Greece and Turkey and also with countries in Western Europe.

These events took place during the Knesset's Economic Affairs Committee's natural gas regulatory framework deliberations, expected to reach a crescendo when Prime Minister Benjamin Netanyahu testifes before the committee Tuesday morning. Mr. Netanyahu will have to justify his support for the framework despite export to Egypt, the framework's main pillar, which is now in doubt.

Mr. Netanayahu and his supporters claim that supplying Egypt with Israeli gas would help stabilize President el-Sisi's regime since Egypt is experiencing gas shortages. However, that same regime froze gas negotiations with Israel yesterday (December 6), at least for the time being. The arbitration result was revealed Sunday morning when IEC reported to the Tel Aviv Stock Exchange (TASE).

The corporation said that it will act toward collecting the sums it is entitled to according to the arbitration result. The arbitration claim, totalling approximately $5 billion, was filed 3.5 years ago by IEC and EMG. In addition to the $1.76 billion in compensation, IEC will receive interest payments according to a mechanism that was decided in the arbitration and partial coverage of legal expenses.

The arbitration in Geneva, Switzerland was heard before a panel of three lawyers. Deliberations and conclusions are confidential and usually cannot be challenged in an appeal though this time it looks as if an appeal will be heard by Swiss courts and the final dispute results may be delayed for a few years. In its defense during the arbitration, Egypt claimed for a force majeure that caused the halt natural gas supply to Israel.

From 2011-2013, until Tamar gas field started gas production in the spring of 2013, supply interruptions and eventually the contract cancellation, cost the IEC NIS20 billion ($5 billion) in overpayments for the purchase of more expensive fuels for power generation. Currently, IEC's debt is over NIS 70 billion.

Egypt, as part of its negotiations with potential Israeli gas exporters, demanded dropping all arbitration claims. One arbitration currently ongoing is an $8 billion arbitration claim, filed by EMG shareholders, against the Egyptian companies for disrupting the natural gas supply in 2011 and 2012.

During those years, following the dismissal of the Hosni Mubarak, the former President of Egypt, terror attacks on the pipeline in the Sinai Peninsula were commonplace, causing damages and interrupted supply to Israel and Jordan. Following those attacks, regime changes in Egypt and natural gas shortages in the country, the contract was eventually cancelled.

Egypt also demanded in the past that Union Fenosa Gas's (UFG) contract with Tamar Partnerships would be conditioned upon the former, dropping its $6 billion arbitration claim against Egypt.

The arbitration result has, therefore, the potential to derail the Tamar and Leviathan Partnership negotiations with Egyptian customers or with international energy companies which operate the liquefaction facilities in Egypt, although so far it is not clear whether Egyptian companies, EGAS and EGPC, were part to these negotiations.

The only contract signed so far between Tamar Partnerships and an Egyptian entity was with Dolphinus Holdings, a private, non-governmental body that represents private businesses in Egypt. However, the 5 bcm, 3 year contract signed in March 2015 was not approved by the Israeli government.

Speaking with Natural Gas Europe before Egypt announced the negotiation freeze, Oded Eran, a former Israeli ambassador to Jordan and to the EU, and currently a senior researcher at the Institute for National Security Studies in Israel (INSS), estimated that the arbitration process will have only limited influence over commercial negotiations. "It is a totally a commercial thing and quite negligible to the diplomatic relationship [between Israel and Egypt]" he said, referring to the arbitration results.

"The two countries have two main common interests: security cooperation in Sinai, fighting terror organizations and the big gas contracts. The interest here is much bigger than obligations from the past. It will be right to remove this affair from the headlines and finish it off."

PM Netanyahu: Israel to send an envoy for talks in Egypt

Natural Gas Europe, *09.12.2015*

Israeli Prime Minister Benjamin Netanyahu says he will send an envoy to Egypt to negotiate on the freezing of the gas talks between the two countries that Egypt imposed this week.

The prime minister's remark was made in the context of a 2 hour and 20 minute session that included a Q&A session of Members of the Knesset. In his speech to the nation, Mr. Netanyahu made an obligatory appearance, in his capacity as Economy Minister caretaker, in front of the Knesset Economic Affairs Committee in its hearings on the natural gas regulatory framework in Israel.

The prime minister barely answered any questions he was asked directly, and mostly responded to them in broad terms, without going into details other than the envoy being sent to Egypt. Mr. Netanyahu opened the session by describing the poor energy security of the country and said that the only way to improve it is by accepting the framework.

He referred in length to security issues and said that in 2013 the government had decided to invest huge sums of money, NIS 3 billion ($750 million) in order to protect the gas fields. "That demonstrates how important it is. If security of the gas fields is under threat, the country might collapse," he said.

He also highlighted the fact that only one gas rig, Tamar, supplies all the gas needed to generate 60% of the electricity in the country. In order to eliminate that risk and enhance the system's redundancy, he argued it is of the utmost importance to have at least another gas rig, rather than having more pipelines to the shore from the single operating rig.

"From a national security perspective it is necessary to develop the Leviathan gas field as fast as possible, adding a new pipeline to the Israeli shore and developing cooperation with Jordan," the prime minister said.

When referring to the international arena, Mr. Netanyahu said that a country which exports "essential things" is much stronger than countries that do not. "Increasing Israel's strength is essential [for the country]. The stronger you are in either fighting terror or fighting radical Islam, the more [people] are asking for you.

Energy strength means less international intervention," said Mr. Netanyahu, alluding to various boycotts against Israel, the "Boycott, Divestment and Sanctions" movement, and even to international mediators who try, unsuccessfully so far, to mediate between Israel and the Palestinian Authority.

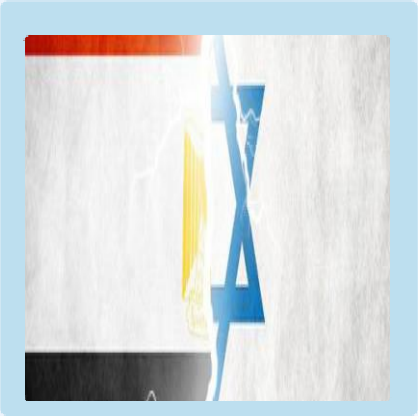
As for Egypt, he said that gas negotiations were lengthy and next week he will send an envoy for further talks. The prime minister added that there had been contact with Turkey concerning gas exports, either to the Turkish market or for re-export to other European countries.

Next month, Mr. Netanyahu said, he is going to have a meeting with the President of Cyprus, Nicos Anastasiades, and the Greek Prime Minister, Alexis Tsipras. While this announcement had already been made earlier, it is the first confirmation that the three heads of states will attend the meeting, which will likely be dedicated to discussing energy and security matters.

In his conclusion, the prime minister presented three options for further actions: entering a litigation process with the energy companies that would be lengthy and whose outcome is doubtful; a second option imposing cost controls on natural gas that may dampen the prospects for new investment; and the third and best option of approving the regulatory framework, which he said would eliminate the monopoly and open up the market to new players.

Uncertainty surrounding an Egypt-Israel deal

Natural Gas Europe, *11.12.2015*



The giant Zohr discovery made by ENI in Egyptian waters did not stop Egyptian companies from entering talks with the partners in Israel's largest offshore fields for the purpose of importing gas from Israel's 22 Tcf Leviathan and 10 Tcf Tamar fields to the Egyptian domestic market.

Egypt's energy troubles are likely to be relieved once ENI's Zohr field, reaches production stage sometime around 2020. But Egypt's needs for natural gas are pressing and growing. Importing gas from Israel and Cyprus, could offer an interim solution for Egypt until the country develops resources to satisfy its needs and re-enter the export market.

For Cyprus and Israel, Egypt is an attractive customer, not only for its proximity - gas would reach Egypt from the two new natural gas producers via an existing subsea pipeline - but also because Egypt owns two liquefied natural gas facilities (LNG) export terminals that could allow Israel and Cyprus to reach lucrative far-reaching markets. Egypt has repeatedly reassured its two neighbours that despite having discovered a massive offshore field in its waters, it would still be looking to absorb gas from Israel and Cyprus.

Since the discovery of their offshore riches, Israel and Cyprus have not yet reach the export stage, Israel delayed by domestic regulatory disputes and Cyprus held up by its slow offshore progress.

Despite Egypt’s appetite for regional natural gas, and Israel’s need to monetize its riches, a rising tension between the two countries may put an end to their gas talks and jeopordise future gas deals. In late November, a Letter of Intent (LoI) was signed between the Leviathan partners and Egyptian company Dolphinus Holdings Limited for the supply of 4 BCM (billion cubic meters) of natural gas per annum from the Leviathan field to the Egyptian market over a period of 10 to 15 years.

Shortly after the positive development between the two neighbours, a decision by a panel of arbitrators from the Paris-based International Chamber of Commerce earlier this week declared Egyptian Natural Gas Holding Company and the Egyptian General Petroleum Corporation liable for the payments of $1.76 billion compensation to Israel Electric Corporation for halting gas supplies three years ago.

The Egyptian Government ordered its two state-owned companies to freeze talks on importing Israeli gas. The freezing of the talks will last until at least after the appeal against the ruling, according to the Egyptian Government.

The new tension between Egypt and Israel might have a serious impact on the gas negotiations between the two countries. The decision to freeze the talks will however not affect the ongoing pourparlers between Egypt and Cyprus, according to a statement released by Cyprus’ Minister of Energy Yiorgos Lakkotrypis. Lakkotrypis said the Egyptian Prime Minister Ibrahim Mahlab called him to tell him that Egypt is still interested in purchasing natural gas from Cyprus despite its most recent conflict with Israel.

In 2011, Noble Energy made the Aphrodite discovery estimated at 4.54 Tcf of natural gas in Block 12 of Cyprus’ Exclusive Economic Zone. Noble is currently working closely with the Government to progress the development of Aphrodite.

Noble submitted a Declaration of Commerciality and preliminary Field Development Plan for development of the Aphrodite field and is expected to reach a Final Investment Decision in the months to come. British Gas (BG) Group’s offer to buy 35% of the Aphrodite field off Noble Energy could also facilitate a Cyprus-Egypt deal given that BG operates the LNG plant at Idku in Egypt.

Iran, India FMs discuss enhanced ties, gasline project

Shana, *09.12.2015*

Foreign ministers of Iran and India met in Islambad negotiating promotion of bilateral relations including construction of a seabed pipeline to export gas to India.

The meeting between Mohammad-Javad Zarif and Sushma Swaraj took place on sidelines of the conference Heart of Asia-Istanbul Process which focuses on helping settlement of the challenges in Afghanistan. "With the closing of PMD case, there is no longer any impediment on increasing relations between Iran and India," Zarif said, adding that New Delhi can cooperate with Tehran in development of Chah Bahar Port as well as other economic, trade, banking activities.

Managing Director of National Iranian Gas Export Company (NIGEC) said that Tehran and New Delhi are seriously negotiating construction of a trans Oman Sea-Indian Ocean pipeline. "The 4.5-billion pipeline is set to pump 31.5 mcm of Iran's gas to India's western Gurjarat port," Ali-Reza Kameli was quoted saying to reporters on the sidelines of the Fifth World Energy Policy Summit in New Delhi.

"The construction of the Iran-India pipeline will be completed in two years after signing the contract," he said. Gas-rich Iran which holds the largest reservoirs of 34 tcm or 18 percent of the global resources has entered into contracts for export of natural gas to neighboring Turkey, Pakistan, Iraq, and UAE.

Last November, Chairman of Coordination Committee of the International Gas Union (IGU) said India and Pakistan are considered a special market for Iran's gas considering their developing economies. "Iran has the capacity to increase it gas export and boost presence in the global markets," Menelaos Ydreos said on the sidelines of an IGU meeting, adding that Iran's gas industry is advanced and systematic. Iran and neighboring Pakistan are working on the construction of a gas pipeline which will pump natural gas to the South Asian nation. The gasline can be extended to India and China via Pakistan.

Zangeneh, Rosneft CEO discuss joint oil projects

Shana, *08.12.2015*

Minister of Petroleum Zangeneh and visiting Executive Chairman of Russian oil company Rosneft Sechin met to review investment in Iran's development projects.

In November, a delegation from Rosneft met Iranian officials with the swap of oil and gas on agenda of negotiations. A joint committee was set up to continue the talks between the two sides, ministry sources told. The Russian firms are interested in IOR and EOR projects and development of Iran's oil and gas fields. Two Russian and one Croatian companies have expressed their interest to invest in the Changuleh oilfield in west Iran in the post-sanctions era.

In addition to Lukoil from Russia which is ready to return to Azar oilfield, Zarubej Neft and Rosneft are set to invest and participate in the Changuleh field located in the western border province of Ilam. After a visit by the Zarubej Neft's CEO Nikolai Brunic to the province in October, the Russian company has decided to send a delegation to carry out a field study on Ilam's oil and gas capacities.

Greece, Bulgaria seal the deal on IGB

Natural Gas Europe, *11.12.2015*

The Greek and Bulgarian governments have signed an agreement for constructing the IGB, a pipeline conceived back in 2008. The Greek Energy Minister, Skourletis, met with Petkova, and signed the final investment decision for IGB, covering the whole of its business provisions.

The pipeline will commence its construction around May 2016 and should be ready by mid-2018. It will have a length of 180 km and connect the Greek city of Komotini with Stara Zagora in Bulgaria. The total cost of the project is likely to reach EUR 225 million and will have an initial annual transit capacity of 3 bcm, which could be upgraded to 5 bcm at a later stage.

The interconnector will mainly serve to assist the flow of Azeri gas from the Shah Deniz field via the Southern Corridor - the Trans-Anatolian Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP).

Thus, in effect, the completion of IGB in 2018 would be a bit earlier than the planned commencement of TAP in late 2019, which means that until then, most likely the pipeline will not have a source of gas to flow into. Importantly the IGB is envisaged as an element that could support the Vertical Corridor between Greece, Bulgaria and Romania, stretching up to Hungary and Central Europe and concluding as a supplementary project of the proposed Eastring pipeline.

The shareholders of the IGB project are Poseidon S.A., a joint consortium of Greek DEPA & Italian Edison, with 50% shares, and the rest held by the state Bulgarian Energy Holding. The EU supports the project via a EUR 45 million subsidy.

One intriguing possibility for IGB is the prospect of it transporting shale gas from the US delivered by Cheniere Energy Inc. Talks regarding this have taken place between Sofia, Athens and Washington since the the US State Department has backed that potential opportunity, which has been a subject of the bilateral agenda between the US and the other countries.

The plan would involve the export of American LNG that could be shipped to a proposed LNG facility in Alexandroupolis, Greece, a project conceived by the Copelouzos Group, who, via Prometheus gas, is also the main trader of Gazprom in Greece. The $500 million LNG terminal would regasify Cheniere's LNG and, via additional pending routes, would then be delivered to Bulgaria via the IGB, once it is completed. Cheniere has shown great interest in acquiring transit capacity for IGB.

Nevertheless, there are a number of issues that have to be dealt with before this concept could take off. One is long-term pricing for such transatlantic LNG shipments; secondly, the question of who will bear the cost of the necessary infrastructure; and, thirdly, if these plans potentially clash with TAP's aims of being the prime supplier to the Bulgarian market via IGB.

It's important to note that total annual consumption in Bulgaria is a bit less than 3 bcm annually and, with the insufficiency of its industrial sector, it is unlikely the gas sector will experience growth, if any, in the foreseeable future. Therefore the country's gas market has limited ability to expand imports.

Concurrently, Romania covers most of its needs by domestic gas production but would face difficulty in expanding its imports to Bulgaria. Lastly, Bulgaria is also actively seeking to increase its domestic gas production, which, if successful, would translate into even lesser quantities being imported in the coming years. Overall, IGB looks to be a significant facilitator for the future introduction of Azeri gas into Bulgaria, and stands a slight chance of becoming a similar tool for importation of US LNG.

Gazprom dissatisfied with Turkmen gas price

Argus, *02.12.2015*

Though Russia has an ongoing dispute with Turkmenistan over the price it pays for Turkmen gas, it continues to purchase it. Russia does not plan on bringing up the issue of termination of the intergovernmental agreements on the purchase of gas from Turkmenistan and Uzbekistan, said Gazprom's Deputy Chairman Golubev.

"Turkmenistan isn't showing a willingness to come to a compromise on gas price issue, Golubev said, adding the contract on gas purchases was concluded at a high price level, but, world gas prices have gone down and gas purchases from Turkmenistan have become unprofitable.

Gazprom decreased the volume of Turkmen gas purchases from 10.5 billion cubic meters (bcm) in 2014 to 4 bcm in 2015. Gazprom announced in July that it had lodged a case against Turkmenistan's Turkmengaz at the international arbitration court in Stockholm over the price in a supply contract.

Two weeks before that, Turkmenistan accused Gazprom of not paying for gas supplied from the Central Asian country this year. According to Forbes magazine, the purchasing price stood at $240/thousand cubic meters (tcm) - lower than the price Gazprom charges its customers in Europe.

However, the statistical report of the Russian Customs Service indicates that from January to August 2015 the average export price of Russian gas totalled $240/tcm. In 2008, Gazprom bought more than 40 bcm of Turkmen gas. In 2009-2014, Russia's annual gas imports from Turkmenistan stood at 10-11 bcm.

Gazprom's new strategy for Europe

Natural Gas Europe, *30.11.2015*

During the Eastern Economic Forum in Vladivostok at the beginning of September 2015, the Russian gas monopolist Gazprom signed a series of energy agreements with Western energy companies.

These included a deal on the construction of the Nord Stream 2 gas pipeline with an annual capacity of 55 billion cubic meters of gas. According to the agreement, the new pipeline would complement the Nord Stream pipeline in operation since 2011. This delivers Russian gas through the Baltic Sea to Germany and then to the other EU countries via the German gas pipeline network.

The project will double North Stream's transport capacity. As the new pipeline would bypass the Ukraine, it would significantly reduce the country's importance as a transit country. At the same time, it would strengthen Germany's role in this capacity and make it the largest gas distributor in Europe.

In the light of the Ukraine crisis and the EU blockade of Gazprom's other pipeline project South Stream, this agreement appears to be a logical step in Russia's export policy. Many experts have described it as a triumph for the longstanding German-Russian energy cooperation.

The agreement met with huge outrage from the Central and South East European countries. Poland strongly criticized the agreement, arguing that the agreement had been reached without any consultation with the Polish government and that the new Baltic pipeline could endanger Polish energy security in the future.

Bulgaria and Hungary also have reason to be disappointed. Both countries were Gazprom's partners in the South Stream project and hoped to get additional gas deliveries and transit fees from the Russian pipeline.The European Commission has, however, decided that the construction permits for the pipeline on Bulgarian territory were not issued in accordance with EU regulations. It threatened legal proecedures against the Bulgarian government. As a result, Bulgaria stopped the construction work on South Stream in June 2014. Now, Germany and the Czech Republic will profit from the new Russian pipeline.

A major problem for the Nord Stream 2 project is also the position of the European Commission. The main objective of the EU Commission's strategy is the unbundling of natural gas production and supply on the European gas market. Accordingly, pipeline operators have to cede pipeline capacity to third-party providers, except in cases where the European Commission and the relevant national regulatory authorities permit exceptions. Because Gazprom's Nord Stream pipe would run through EU territory, Russian gas cannot flow through the pipes in full capacity without explicit EU approval. The European Commission has however shown no great interest in Nord Stream 2 so far, stressing that there is no need for a new pipeline that bypasses the Ukraine.

Some experts see economic and political interests as being less important to Nord Stream 2 than the financial interests of the companies involved. According to Mikhail Krutikhin, an energy expert and partner at the consulting firm RusEnergy, this agreement offers Western partners lucrative revenues in the form of transport fees regardless of whether and how much gas will be transported through the pipeline. Since 51% of the Nord Stream 2 shares belong to a subsidiary of Gazprom registered in Switzerland, the transit feed would not be taxed in Russia and would not flow into the Russian state budget.

Gazprom has responded to the ongoing challenges on the European energy market, albeit hesitantly, with a new strategy. Accordingly, North Stream 2 can be seen as a tool that would enable Gazprom to supply gas to the whole European energy market as a single consumer instead of providing individual deliveries to each national market inside the EU. This would be in the line with the strategy of the European Commission. It would supply Europe through an enlarged pipeline via the Baltic Sea and avoid transit countries.

In order to meet the EU's competition rules for the natural gas market, Russia has in recent years increasingly shown a willingess to liberalize its own national gas market. The basis for this is the emphasis on reciprocity in EU rules whereby foreign companies can only receive unlimited access to the EU market if they come from countries that also apply EU competition rules in their domestic markets.

The Russian government has taken steps to loosen Gazprom's control over the Russian natural gas pipeline network and weaken its legal monopoly on gas exports. A law entered into force in December 2013 allowing other Russian gas producers to export liquefied gas LNG.

Currently new regulations are under discussion that would grant other Russian energy companies access to the export pipelines. At the initiative of Igor Sechin, the head of the state energy company Rosneft and a close confidant of President Putin, the Russian Federal Anti-Monopoly Service has prepared a request to the Presidential Commission for the energy sector proposing to place responsiblity for the pipeline network under an independent company.

As a result,Gazprom would no longer be the owner of Nord Stream's connecting pipelines and could use the full capacity from the pipeline operator as a formally independent producer. At present, it is still unclear whether President Putin will support these plans. According to Russian media reports, a decision will be taken shortly.

The current economic stagnation means that one can assume that the demand for gas in Russia will not rise in the near future. Therefore, the importance of gas exports for Gazprom is growing significantly. Gazprom is endeavouring through the TurkStream pipeline project to increase gas exports to Turkey and Southern Europe, while also seeking to gain access to the Chinese market through two other pipeline projects. Here, too, there are significant problems with their implementation.

The liberalization of the European gas market, the Western sanctions against Russia as a result of the Ukraine crisis and the stagnation of the gas demand on the domestic market have led to a reconsideration of the recent energy strategies used by Kremlin.

It is trying to adapt to the prevailing reality flexibly and exploit the weaknesses of EU political activity in the energy sphere. It has achieved this with a certain level of success. The cessation of the South Stream project has created the impression that Gazprom has abandoned investments in the European gas market. In fact, Russia has adopted a new strategy based on the two pipeline projects Nord Stream 2 and TurkStream. With this additional export capacity, Gazprom would supersede supply alternatives to Germany and the Central and East European EU Member States. It would thereby strengthen its position as a main supplier.

According to Gazprom's plans, the TurkStream pipeline will replace the failed South Stream pipeline project. However, the circumstances surrounding this project have became more and more complex over time, impeding its implementation.

Initially, Russia and Turkey wanted to sign the new agreement on TurkSteam in the second quarter of 2015. However, they could not agree on a number of issues, including the gas price and the price discount for the Turkish partner so far.

Furthermore, Gazprom's management were concerned that if the West lifted its sanctions against Iran, Russian gas would compete with Iranian gas on the European markets. This could reduce demand for Russian gas supplies, which would mean that TurkStream would be no longer profitable. The representatives of Gazprom recently announced that the annual capacity of TurkStream will be reduced from 63 bcm to 32 bcm - half of that originally planned - and the construction will be postponed until the end of 2017.

Moreover, Russia's ongoing military operation in Syria could significantly affect the further development of the bilateral energy cooperation, including TurkStream. The Turkish president Erdogan has repeatedly criticized Russia for violations of the airspace above Turkey during the air strikes in Syria. He warned that Russia's behaviour could undo the bilateral energy agreements worth several billion US dollars. If necessary, Turkey would be able to secure the volume of imported gas needed from other suppliers.

The shooting down of the Russian jet by Turkey near the Turkish-Syrian border recently led to the further escalation of the conflict between the two counties, culminating in Russia's single-sided imposition of economic sanctions against Turkey. For the time being, the bilateral energy deals have not been affected or included in the sanctions list prepared by the Russian government.

Gazprom has already invested hundreds of million US-Dollars in the first construction stage of the pipeline network, first of South Stream and then of TurkSream. Moreover, this route and the Turkish energy market have great geopolitical importance his for Russia: Turkey is the second-largest Russian gas importer after Germany.

At the same time, Turkey is highly dependent on Russian gas imports as it lacks suppliers that could replace the required gas from Russia in the short and middle-term. We can therefore assume that both sides will attempt to put the gas export-import issues and the TurkStream deal beyond the ongoing conflict and continue to affirm their interest in the bilateral energy projects. Nevertheless, one can expect a postponement of the signing of the TurkStream agreement, making it uncertain whether and when the project will be realized.

Apart from this, Russia is trying to adapt to EU requirements. It is doing this either directly through negotiations with Brussels or indirectly through bilateral agreements with Western energy companies. The extent to which the liberalization of the Russian internal market will fulfil the demand of the EU remains to be seen.

Although in the legal sphere, the relations between Russia and the EU have remained unchanged, the attitudes of the actors involved in energy cooperation is changing. Nord Stream 2 has a higher chance of being realized than TurkStream because the support of all the partners involved in the project, including Germany, has been secured. The realization of these politically motivated projects could, however, last several years, as the crises in the Ukraine and Syria overshadow the negotiations.

At the same time, Russia’s gas exports have to be considered in the context of Russia’s current weak economic situation, including the one-sided orientation of the Russian economy toward oil and gas revenues and the lack of investment in the exploration of new gas fields. Without Western investment, these problems cannot be solved. Russia still relies on the European market and the interdependence of both sides will continue in the short and medium term.

Both the original Nord Stream and Nord Stream 2, however, cast doubt upon European solidarity in the field of energy security. While the largest European energy companies involved in Nord Stream 2 support the project, Brussels and Central and East European countries express strong criticism and reject it.

Therefore, one can expect that in the future the Central and East European countries will focus more on their own national interests, and confidence in a common EU policy will fall. Consequently, divisions over the issue of energy supply in Europe could continue to deepen. This could weigh down upon the plans for European energy union significantly.

Gazprom’s activities in the Caspian Sea region and its negotiations with China show that Russia is increasingly looking for opportunities to strengthen its position in other regional energy markets, even though this is connected with high political and economic costs.

It is still too early for an assessment of how or whether this policy is successful. The implementation of the pipeline projects is highly dependent on other factors, such as changes in the world market prices for oil, geopolitical developments in the affected regions and the willingness of the countries involved in the projects to comply with Russian interests.

However, one can also state that Russia’s energy policy is going to be increasingly complex and less predictable because new players with their own corporate strategies and personal interests are becoming involved in Russian gas exports. This will strongly affect activities in the Russian gas industry in the future, both internally and externally.

EC Director: Energy Union makes great progress

AA Energy Terminal, *09.12.2015*

A great deal of progress has been made through the promotion and development of the European Commission's Energy Union, the European Commission's Director General for Energy said.

Dominique Ristori, EC's Director General for Energy, said in the statement that renewables are on track to meet EU's 2020 target and the continent has already surpassed its 2020 emissions target by implementing 23 percent cuts in 2014. In addition, he stated that the focus must turn to making sure that the EU keeps up with its efficiency progress up to 2020 in order to reach its 2030 target.

"That work will start in early 2016 with the Security of Supply package and will be followed later in the year with a review of energy efficiency and renewable energy legislation, as well as a legislative proposal on electricity market design," he stated.

He noted that in November, important steps were taken with the adoption of the second list of Projects of Common Interest (PCIs). "These infrastructure projects are crucial to integrate European energy markets, and will enable diversification of energy sources and help bring an end to the energy isolation some European countries face," he said.

He stated that the 195 projects on the PCI list will receive priority status and may be eligible for European Commission funding. Furthermore, he emphasized that it is the EU's energy commissioner's job to deliver on the commitments and ensure that Europe's energy system is a driver for a transition to a low-carbon, secure and competitive economy.

The Energy Union aims "to create an internal, common, sustainable and single energy market among member countries as well as monitoring bilateral energy relations of the countries while ensuring security and diversity of supplies."

Joint Commission meets to discuss Iran's nuclear program

AA Energy Terminal, *07.12.2015*

A joint commission, composed of Iran and the world powers P5+1 group, is expected to discuss Tehran's nuclear program and its possible military dimensions in Vienna.

The Joint Commission that includes Iran and P5+1 countries was established to supervise and monitor the implementation of JCPOA, also known as final nuclear agreement, signed between the parties. The meeting of the Joint Commission is expected to focus on overcoming the issues the implementation of JCPOA, prepare a draft resolution for IAEA Board of Governors to close the case of possible military dimensions of Iran's nuclear activities from its agenda.

Hamid Baeedinejad, the director general for political and international affairs at Iran's foreign ministry said Monday that the draft resolution will be prepared "under consultation and direct dialogue" with Iran, according to Iran's Tasnim news agency.

He further stated that he has confidence the IAEA Board of Governors would "unanimously pass a final resolution on the closure of the case about the possible military dimensions of Iran," Tasnim reported.

Iran and the IAEA signed a separate deal on July 14, dubbed as the "Road Map." The agency has until Dec. 15 to finalize a report about the past and present dimensions of Iran's nuclear activities and investigate whether Tehran's nuclear program is militarized.

After successfully concluding the Road Map, and fulfilling the requirements of the JCPOA, Tehran hopes that P5+1 countries will remove the sanctions on Iran sometime next year. The Joint Commission's meeting is being attended by Iranian deputy foreign ministers, Abbas Araghchi and Majid Takht-e Ravanch, EU Deputy Foreign Policy Chief Helga Schmidt, Lead Coordinator for Iran Nuclear Implementation Ambassador from the U.S. Stephen Mull, and Ambassador Tom Shannon, who led the U.S. delegation at the first meeting on Oct. 19 of the Joint Commission, and representatives from China, France, Germany, Russia, and the U.K.

LNG: An "insurance policy" for Europe

AA Energy Terminal, *16.11.2015*

In his remarks on US gas in the European market in the EP, Mr. John Roberts, Director of Strategy, Natural Gas Europe, pointed out gas must be delivered on an uninterruptible basis to run power stations or household appliances, a fact which made for contracts that are uninterruptible, or that offer flexible delivery, but which mandate backup storage.

Natural gas must be produced, distributed and must have back up storage, he added. "Insurance policies play a major role," he quipped, offering that LNG is becoming an insurance policy for Europe. "Part of that policy is managing to create the infrastructure that can ensure diversification."

The ability of the US with its newly found export capacity mostly based on shale gas development provides gas into the global market, he explained, for which the European market can benefit as long as the prices in Europe are attractive to a US producer.

Of Lithuania's position in this context, Mr. Roberts said: "It costs money to build liquefaction, regasification facilities, whether you have a fixed unit onshore, or a floating unit offshore you've got to put out an amount of capital. There are those who will say 'Why are we doing this? It costs money.'

"True," he answered. "But you do it because it's an insurance policy. And sometimes that insurance policy pays for itself much faster than you would ever have dreamed." It had paid off for Lithuania, he opined.

He explained, "Lithuania found that as soon as it was going to have quite definitely a floating regasification and storage unit facility, that Gazprom would cut prices by more than 20%." That price, he recalled, had been around $450/TCM. "So a 20% cut back on that is $90/TCM. With Lithuania importing around 2.6 BCM of gas/year, good grief that's saving the country $234 million a year," he remarked.

The cost for that insurance, according to Mr. Roberts, is estimated at around EUR 101 million, or even less. Hiring costs, he added, can run around EUR 55 million/year. By adding those costs, he said, one came up with more or less the same amount as the savings.

He noted, "You get your money back in 2 years. Or, if it's not quite that rosey, then you'll get your money back in 3 years. That's an incredibly quick time for an insurance policy to pay off."

As for who pays for the insurance policy, Mr. Roberts said the private sector would not, as it's the consumer that benefits, meaning that public sector expenditure makes things happen. While such a cash outlay from taxation is required, he said it is worth it to finance such infrastructure.

Meanwhile, he observed that US LNG doesn't even have to land in Europe, but exerts a similar impact on the European market."Do we mind if Gazprom provides 100% of supplies to some markets? Do we mind if it's the lowest cost supplier? No, so long as there are alternatives available that can cover in the event we might be aware of a cutoff," he answered.

As a result of many factors, Mr. Roberts explained, Russia is deciding to reduce prices generally across the board in Europe because it wants to preserve market share in the face of potential intrusions from the US. "That is to be welcomed, because it means Russia is responding to commercial pressures," he explained.

Indeed, said Mr. Mantas Bartuska, CEO, SC Klaipedos Nafta, the LNG terminal in Klaipeda, Lithuania has "paid off" and been a game changer for the entire Baltic region. The operator of that terminal, he reported, "So far, we have been operating for over a year and have received six LNG cargoes from Norway, safely and smoothly regasifying them for the Baltics."

This, he explained, has been a great enabler for the market, having witnessed the first gas flows from Lithuania to Estonia at the beginning of 2015. "We see further developments regarding opening the market in Latvia, which is currently not yet open," he remarked, saying he expected that to happen in the near future. "What is key for the whole region is that we should focus and work on the whole region as one gas market. We are pretty small and taking into consideration the gas consumption, which is pretty significant in this market, the market is shrinking."

Mr. Bartuska recalled that the Lithuanian market consumed around 3 BCM/annum when the project was started, while today it's around 2.3 BCM and could fall below two; a previous forecast for Latvia's consumption was around 2 BCM/annum, but is now around 1 BCM/year, he reported, while Estonia's consumption comprises 0.5 BCM/annum.

To confront the challenge of shrinking demand, he suggested that Lithuania, Latvia and Estonia work together as a unit to open the market. He offered: "It's worth mentioning that the LNG terminal works on 3rd party access rules, which is very unique. We work on very transparent, published rules, and for the world traders it is really clear what the procedures are if they want to come and book capacities and then regasify to the whole region."

According to him, the Lithuanian LNG terminal offers great potential to LNG suppliers like Cheniere Energy, Inc. Once the Baltic gas market altogether works as a unite, opined Mr. Bartuska, it will offer great potential for LNG supplies, and suppliers using the terminal is a hoped for prospect, but the more enticing possibility is for small-scale LNG.

"Our facility is already ready to reload to small LNG bunkers," he reported, "and to distribute to the whole Baltics, which will create a market for LNG distribution and could be used for marine fuel or as an energy for the off-grid industry, where pipelines are not well developed." Small-scale terminals in the Baltics, he added, could be supplied from the Klaipeda LNG terminal.

Expert: LNG to beat pipeline gas in two years

AA Energy Terminal, *08.12.2015*

Over the next two years LNG could prove cheaper than pipeline gas when new actors join the LNG market, according to the head of development at Energinet DK.

Soren Juel Hansen, head of the non-profit enterprise, Energinet DK, owned by the Danish Ministry of Energy, Utilities and Climate told Anadolu Agency that LNG has to date been more expensive than pipeline gas due to its costs of transfer and conversion from LNG to pipeline gas. He added that the next two years will bring more economic costs to the LNG market. "If it comes to remote areas like Lithuania, it can be competitive.

Now we see West Africa, Australia, the U.S. and other producing countries are coming to the LNG market," he said. "If I take a long term perspective, I would say being located just in between Russia and Norway and a lot of pipelines, means we only need a few more pipelines and then we will have cheaper gas from pipes. But in some periods of global oversupply, I can imagine that LNG could come in and beat pipeline gas," he explained.

He stressed that LNG terminals and conversion of transport ships are expensive; cautioning that being dependent on one LNG supplier is risky. "We have to build some business models to handle the situation. When the number of LNG terminals increases, the price of LNG will be cheaper," he said.

He also spoke on the Baltic Pipe project, which will transport natural gas from Norway to Poland via Denmark when completed. "Baltic Pipe is an old project. The Baltics is extremely well located between Norwegian and Russian supplies so demand shouldn't be fully dependent on one source. The Baltics could have a market with real gas to gas competition," he said.

The aim of the Baltic Pipe is the construction of the subsea gas pipeline connecting the natural gas transmission systems of Poland and Denmark. He explained that currently the enterprise is conducting a small feasibility study on the project, in which 50 percent of the study is being subsidized by the EU. It is due to be complete by the end of 2016.

"If at the end of this year we can handle legal breaks we will try to build a business case with the legal breaks," he explained. The Baltic Pipe project was first announced in 2001. But due to Poland's falling gas demand, it was postponed. Poland reactivated the project in 2010 and awaits the results from the feasibility report before progressing on the project. The pipeline plans to be around 250 kilometers long, but its capacity has not been announced yet.

EIA: US' crude oil stocks enough to last 450 days

Natural Gas Europe, *30.11.2015*

Total crude oil stocks are enough to last 450 days, giving the country crude import coverage, according to EIA. Total crude oil inventories stood at 1,181 billion barrels of oil for the week ending Dec. 4. Of this amount, 485.9 million barrels are in commercial crude oil inventories, while 695.1 million barrels are stored as Strategic Petroleum Reserves SPR.

"The SPR alone holds crude oil stocks equivalent to 156 days of import protection," the EIA said, and added "including average levels of commercial stocks over the past five years, total days of import coverage provided by strategic and commercial stocks is currently 450 days."

The SPR stockpile is stored in four different sites along the U.S.' Gulf of Mexico, and its current level stands at around 96 percent of the total storage capacity of 727 million barrels, according to the EIA. The U.S. holds the largest government-owned crude stocks in the world, and the SPR is stored to serve the country's oil consumption during emergencies.

"The SPR is designed to help alleviate significant disruptions in oil supplies from events such as severe weather, major geopolitical events, and unplanned production, transport, and delivery outages," the EIA said.

The EIA explained that since the U.S. is a member of the International Energy Agency, as a member it is obliged to store sufficient oil stocks for at least 90 days in order to give the country import protection, or to supply other agency members in times of energy shortages.

So far, such energy shortages were seen on three occasions when the U.S. released oil from the SPR to help other members of the agency as part of a collective effort, the EIA noted. The first time SPR released stock was in 1991 during Operation Desert Storm with the Iraqi invasion of Kuwait when 17.2 million barrels of oil were released from the U.S.' SPR.

The second event took place in 2005, during Hurricane Katrina, when 11 million barrels of oil were sold from the SPR. The third time was in June 2011 when 30.6 million barrels were released from the SPR to prevent supply disruptions in Libya.

In addition during emergencies, oil refiners in the U.S. can borrow SPR oil and later replace it - a process known as "exchange." Most of these occurred during major weather catastrophes namely hurricanes - with Hurricane Lilli in 2002, Ivan in 2004, Katrina in 2005, Gustav and Ike in 2008 and Isaac in 2012. "Other exchanges occurred in response to temporary disruptions such as pipeline blockages and ship channel closures, and in the creation of the Northeast Home Heating Oil Reserve in 2000," the EIA added.

Recently, there have been two legislative attempts in the U.S. to sell crude stocks from the SPR in order to provide liquidity for certain funds. The bill known as the FAST Act, or “Fixing America’s Surface Transportation,” had passed the U.S.’ House and Senate, and was signed into law by President Obama.

While the bill plans to sell a total of 66 million barrels of crude oil from SPR between 2023 and 2025, it aims to generate $6.2 billion from these sales to partially fund the $305 billion-worth Highway Trust Fund. In addition, some lawmakers in the U.S. Congress proposed on Oct. 27 to sell 58 million barrels of crude oil from the SPR between 2018 and 2025.

Known as the Bipartisan Budget Act, it plans to generate revenues for the U.S.’ budget, and reduce the country’s deficit. Moreover, the Act aims to sell 40-50 million barrels from the SPR during 2017-2020 for its modernization.

However, Republicans and Democrats in the U.S. failed to reach a budget deal so far that would fund the federal government next year, according to the U.S. media. During the budget talks, many Republicans pushed to remove the U.S.’ 40-year-old self-imposed ban on exporting crude oil, while some Democrats are considering joining this camp in return for gaining incentives and raising the funding of renewable energy initiatives.

Announcements & Reports

► *The Evolution of European Traded Gas Hubs*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/12/NG-104.pdf

► *MOMR December 2015*

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

► *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

► *KRG-Iraq Oil & Gas Conference & Exhibition*

Date : 30 November – 02 December 2015
Place : London - UK
Website : http://www.cwckiog.com/

► *Oil & Gas Environmental Conference*

Date : 01 December 2015
Place : Dallas, The US
Website : http://www.cvent.com/events/2015-oil-gas-environmental-conference/

► *World Future Energy Summit*

Date : 18 – 21 January 2016
Place : Abu Dhabi
Website : http://www.worldfutureenergysummit.com/

► *2016 Exploration and Production Winter Standards Meeting*

Date : 18 January 2016
Place : Texas, The US
Website : http://www.api.org/Events-and-Training/Calendar-of-Events/2016/epwinter

► *European Gas Conference 2016*

Date : 19 – 21 January 2016
Place : Vienna, Austria
Website : http://www.europeangas-conference.com/?utm_source=external%20&utm_medium=banner&utm_campaign=naturalgaseurope

► *Middle East Drilling Technology Conference and Exhibition*

Date : 26 - 28 January 2016
Place : Vienna, Austria
Website : http://www.spe.org/events/medt/2015/

► *Global Oil & Gas Conference*

Date : 27 - 29 January 2016
Place : Cairo, Egypt
Website : http://www.global-oilgas.com/MENA

► *Black Sea Oil & Gas Summit*

Date : 11 February 2016
Place : Istanbul, Turkey
Website : http://www.theenergyexchange.co.uk/events/black-sea-oil-gas-summit-2015/

► *Drilling Africa Conference*

Date : 15- 16 February 2016
Place : Cape Town, South Africa
Website : http://www.iadc.org/event/drilling-africa-2016/

► *Iran Oil & Gas Post Sanctions*

Date : 22 - 24 February 2016
Place : London, UK
Website : http://www.iranoilgas-summit.com/

► *Kazakhstan Oil and Gas Summit 2016*

Date : 22 - 23 February 2016
Place : Almaty, Kazakhstan
Website : http://www.kazakhstanogs.com/

► *Australasian Oil & Gas Conference*

Date : 24 - 26 February 2016
Place : Sydney, Australia
Website : http://aogexpo.com.au/

► *Global Oil & Gas Turkey*

Date : 16 – 17 May 2016
Place : Istanbul, Turkey
Website : http://www.oilgas-events.com/TUROGE-Conference