

## Russia's billion dollar energy projects at risk

AA Energy Terminal, 24.12.2015



Western sanctions and decreasing oil prices have put some of Russia's billion dollar energy projects at risk. When the US and the EU started imposing sanctions on Russia at the start of 2014, due to the country's role in the Ukrainian crisis, they mainly focused on Russia's financial and energy sectors.

The sanctions prohibited Russian companies' access to western financial institutions while Russian energy companies were also banned from importing western equipment needed to access new oil fields. The EU decided to extend, the U.S. also announced a new series of sanctions, adding 34 people to its "black list".

With Russia's suspension from certain western markets, the country is now focusing on the Asian market to cushion its economic losses. The \$400 billion "mega deal" signed between Russia and China on natural gas in November 2014 was seen as a milestone of this new strategy.

Some \$40 billion is estimated to be required for the "Power of Siberia" and the "Altai" pipelines that are planned for construction to export Russian gas to China, according to a memo on the Kremlin's official website.

However, with oil losing more than 50 percent of its value over the last year, Russia was subsequently hit with an economic recession as well as a depreciated ruble. As a result, the development of the project was brought to a halt.

The economic stagnation in China and the increase of liquefied natural gas (LNG) supplies globally, have caused China to stall the \$25 billion financing that it was due to provide for the construction of the pipelines. Another project that Russia placed great importance on was the Turkish Stream project, which Russian President Vladimir Putin had announced in the Turkish capital city Ankara in late 2014.

Talks on the project, which was developed by Russia in order to bypass Ukraine to export its gas to Europe via Turkey, made little progress. The project ground to a halt when Russia's Gazprom did not implement the requested 10.25 percent discount on its gas sales to Turkey. In addition, according to statements from both sides' officials, the talks are now completely suspended amid the dispute over the downing of the Russian jet in Turkey's borders near Syria last month.

Finally, the Nord Stream II project is also at risk. The project was announced on June 18, when Shell, Russia's Gazprom, Germany's E.ON and BASF along with Austrian OMV signed a memorandum of understanding for the construction of the project.

East European countries including Poland, Slovakia and Ukraine strongly object to the project, fearing a loss in transit fees from delivering Russian gas to Europe through the current pipelines. Each country receives around \$3 billion from Russia annually for deliveries to Europe, a study by Brookings, an American think tank shows. The Nord Stream II project is planned to have a 55 billion cubic meter capacity, and is due to run from Russia to Germany across the Baltic Sea.

## Turkish private firms could transfer Israel's natural gas

AA Energy Terminal, 24.12.2015



A solution to the transfer of Israeli gas to Europe via Turkey can be reached through a consortium of private Turkish energy companies, according to Chief Executive of Zorlu Energy Group.

Sinan Ak, chief executive of Zorlu Energy Group, said on Wednesday that if relations between Turkey and Israel are normalized, energy investments could be realized through a different approach than before, through a consortium of private energy companies which could provide the solution in formulating a deal to transfer Israeli natural gas to Europe through Turkey.

In 2010, Turkey and Israel's relations soured over the Turkish Mavi Marmara aid flotilla dispute. Israeli commandos killed eight Turkish nationals and an American of Turkish origin in a raid on the Mavi Marmara sea vessel which was Gaza-bound carrying humanitarian aid and construction materials.

Ak explained that the Israeli natural gas reserves are not state-owned but belong to private companies. Therefore, when new agreements between Turkey and Israel are being considered, a consortium could well be the ideal solution.

Previously, energy companies worked in Israel independently. Working for mutually beneficial projects in energy, specifically natural gas, could offer a key solution to boost relations between the two, according to Ak. "Normalization between Turkey and Israel will require a long time as expected, but the latest development [for potential bilateral gas trade with a consortium] is an indication of potential new cooperation between the two," he added.

Batu Aksoy, chief executive of Turcas Petrol confirmed that many discussions and negotiations on the possibilities of transferring natural gas from Israel to various destination including Turkey and Europe are in progress. "Carrying Israeli natural gas would be one of Turkey's mega projects. We are currently negotiating with EnerjiSa and Zorlu Energy Group," he added.

Moreover, through a potential deal, Israel could provide up to 20 percent of Turkey's natural gas demand, equivalent to 8 to 10 billion cubic meters per year. Discovered natural gas reserves amount to 1.1 trillion cubic meters, almost half of which are considered for transfer via natural gas pipelines from Israel to Europe within 20-25 years.

According to Aksoy, the project which could cost around \$1 to \$3 billion to transfer such volumes through a prospective 500 kilometer-long pipeline from Israel to Turkey would be feasible for private companies. Zorlu Energy Group announced that the company activated its second power plant in Israel. The power plant has 55 megawatts of installed capacity. There are currently three main companies participating in natural gas activities in Israel; Noble, Delek and Avner .

## Turkey to focus on natural gas storage, energy minister says

Daily Sabah, 25.12.2015



Energy and Natural Resources Minister Berat Albayrak said Thursday that the ministry's priority will be increasing the natural gas storage capacity of the country. Albayrak gave a briefing about energy policies, investments and plans of the energy ministry to deputies representing the Marmara region.

The government will support investments in two natural gas storage facilities with a total capacity of 4 billion cubic meters with a comprehensive stimulus package. The investment aims to make a major contribution to natural gas supply security and trade in Turkey as a part of endeavors to increase the natural gas storage capacity.

The government is set to offer a stimulus package for two new natural gas storage facilities to be constructed in Mersin by Bendis Energy via Toren Natural Gas Storage and Mining Inc. and Gas Storage and Mining Inc. Bendis Energy will invest nearly \$10.5 billion in the storage facilities that will have a total capacity of 4 billion cubic meters.

The natural gas supply from Russia to Turkey was brought to the agenda right after a Russian Sukhoi-24 fighter jet violating Turkey's airspace in the southern province of Hatay was downed by Turkish F-16 fighters last month. The Russian government decided to implement some economic sanctions against Turkey including banning some Turkish goods from entering the country. Yet due to binding agreements, the Russian natural gas flow to Turkey continues uninterrupted; however, Turkey held talks with several natural gas suppliers since the incident to ensure energy security.

Albayrak said the government does not think or expect that Russia will cut natural gas flow to Turkey due to the crisis, adding that, nevertheless, all possibilities are taken into consideration and necessary measures have been taken.



He added that Turkey has hydroelectric power plants, coal plants and other alternatives regarding liquefied natural gas (LNG), gas capacities and cargo handling. Pointing to the fact that Turkey imports 56 percent of its natural gas from Russia, Albayrak stated the government will take steps to diversify this supply. The minister also said that Turkey is holding positive talks with Qatar, Turkmenistan and Azerbaijan on natural gas import.

Underlining that the first thing to be done is to increase the capacity of natural gas storage facilities in Turkey, Albayrak said investments in this area will be rapidly actualized. Also, storage facilities will be put into operation in Thrace and Lake Tuz.

Turkey's first underground natural gas storage facility in Silivri, which has a storage capacity of 2.6 billion cubic meters, is operated by the Turkish Petroleum Corporation (TPAO). The second one will be put into operation in Lake Tuz as of 2016 and will have a storage capacity of 500 million cubic meters in the first phase. Its total capacity will be increased to 1 billion cubic meters in the second phase, which will be put into use in 2019. The Ministry of Energy and Natural Resources is developing projects to store around 10 percent of the imported natural gas in Turkey every year over the next five years.

Toren Natural Gas Storage and Mining Inc. will invest nearly \$7 billion in a 3-billion-cubic-meter storage facility. The company will import machines and equipment worth more than \$695 million for the facility that will employ 48 people.

Gas Storage and Mining Inc. will make a fixed investment of nearly \$3.5 billion in a storage facility where 1 billion cubic meters of natural gas will be stored. The company will import machines and equipment worth more than \$360 million for the facility that will employ 24 people. The natural gas storage facilities will be supported with investment incentives such as value-added tax returns, value-added tax exemptions, customs duty exemptions, a 90 percent tax deduction, investment support of 50 percent, seven years of support for an insurance premium employer deal, the allocation of investment placement and interest support.

# Turkey hopes for continued Russian gas supplies

Trend News Agency, 24.12.2015



Ankara hopes that Moscow will not stop supplying gas to Turkey amid deteriorating bilateral relations, Berat Albayrak, Turkish Minister of MENR, said, the Turkish Sabah wrote.

The minister said that currently, some 56 percent of Turkey's imported gas accounted for Russia. He said that Turkey will continue diversifying the sources of gas to supply to the country. "Ankara continues negotiating with the countries-importers of gas," Albayrak said. The relations between Moscow and Ankara greatly deteriorated after Turkish Air Force shot down a Russian Su-24 bomber in Turkey's airspace Nov. 24.

A number of Turkish media reported that Russia may stop supplying natural gas to Turkey. While commenting on this information, the deputy head of the Energy Market Regulatory Authority Mehmet Erturk said that Russia can not stop supplying gas to Turkey, primarily for legal reasons. The countries signed the intergovernmental purchase-sale agreements.

"The Turkish market is very important for Russia," Erturk said. "If Russia stops supplying gas to Turkey, it will undermine its credibility in Europe, to which it also makes supplies." In accordance with two contracts signed with Turkey, Russia is committed to annually supply gas amounting to 20 b c m to the country.

The first contract to provide Turkey with 16 b c m of Russian gas was signed in 1997, and it expires in late 2025. The second contract, for the supply of four b c m of gas, was signed in 1998 and expires in 2021. In 2014, Turkey was the second largest importer of Russian gas after Germany – Ankara purchased 27.3 b c m of gas from Gazprom.

Turkey is also importing 6.6 b c m of gas per year from Azerbaijan on the basis of a 'take or pay' contract. Turkey also buys gas from Iran. Ankara also has agreements with Algeria and Nigeria for the supply of 4.4 b c m and 1.2 b c m of liquefied gas per year, respectively. Qatar is ready to ensure Turkey's gas demand and start exporting liquefied natural gas in the volumes required for Ankara, Qatar's ambassador to Turkey Salim Mubarak said.

Doha and Ankara signed an agreement on supplying some 1.2 b c m of liquefied gas to Turkey. The agreement was signed during the Turkish president's visit to Qatar in early December.

# Analysis: Turkey balances on brink of gas supply crisis

Platts, 21.12.2015



All eyes in the Turkish gas market have been focused on the possibility of a cut in supplies from Russia in the wake of the downing of a Russian jet. But even if all Turkey's suppliers fulfil their contracts, the country still faces serious problems.

Turkey's gas consumption last year reached 48.72 Bcm, 7.74% up on the 45.2 Bcm reported in 2013. This year it was expected to exceed 50 Bcm, perilously close to Turkey's total import portfolio of 52.05 Bcm/year. While that portfolio was boosted by a deal with Qatar for spot LNG cargoes, that extra supply would only help cover any shortage caused if any of Turkey's other suppliers fail to deliver necessary volumes.

It could not overcome the limitations of Turkey's gas infrastructure, mostly operated by state gas importer and transit operator Botas. Such is the fine balance between Turkey's potential daily maximum gas demand and the technical limitations of the country's gas infrastructure that all it would take to trigger a shortage is a particularly cold period.

Given the unpredictability of Turkish winters, that could happen any time between now and the end of February, or not all. And given that any new pipeline gas will only arrive in Turkey at the end of 2018 at the earliest when first Shah Deniz gas arrives via the TANAP link, the tight supply/demand balance is likely to be an issue for the next three, possibly four, winters.

In August 2014, Platts reported daily demand for gas could reach 215 million cu m/day, while Turkey's existing gas delivery infrastructure could supply a maximum of 193 million cu m/d. The problem was confirmed the following month by then energy minister Taner Yildiz who said gas demand could exceed the system's ability to supply during the following winter if the country experienced extremely cold weather. Since then little has changed and therein lies the problem.

The capacity of the entry points to Botas grid remain unchanged: Four major pipeline entry points, two of which carry gas from Russia, one from Iran and one from Azerbaijan; two LNG terminals one on the Sea of Marmara operated by Botas and a privately operated facility at Aliaga on Turkey's Aegean coast; and one underground storage facility under the Marmara and some limited local production, itself in decline.

The only new addition to Botas's system is a new loop line across the Sea of Marmara that will not increase entry capacity but will allow flexibility transferring gas arriving from the south and east, northwest to Turkey's main demand center Istanbul. As it happened, last winter proved mild by Turkish standards though the country still suffered a limited shortage when plummeting January temperatures caused gas demand to rise above supply.



A major crisis was avoided when the ministry implemented its 'curtailment procedure', a process of consultation involving state and private sector bodies. The first stage sees state gas-fired power plants switching to fuel oil from gas.

A second stage sees major private CCGT plant ordered to cut gas burn by 50%, and a third sees those same plants being forced to burn fuel oil alone. The procedure was implemented to stage three twice during January and February this year with nine major CCGT plants totaling 10 GW told to switch fuel.

That procedure has already been implemented to stage two once this winter, with operators of CCGT plant of over 500 MW instructed to cut gas burn by 50% from December 10-14. That cut was made in the wake of a 50% cut in supply from Iran for 36 hours on December 8-10.

While private plants were given the go ahead to return to normal consumption, and private generators have told Platts that Botas has assured them that all of Turkey's gas suppliers are supplying at normal volumes, it was unclear whether the four state-owned gas fired plant totaling 3.78 GW have also been cleared to burn gas again.

With Turkey's gas infrastructure unable to meet peak demand in cold weather, further cuts in supply and requests for fuel substitution were inevitable, an official from one private generator told Platts. And that is not taking into account possible cuts from suppliers such as Iran and Russia.

These, he said, were a real possibility with Russia and Turkey still at loggerheads over the downed plane. If Gazprom were to supply only the minimum contracted gas volumes needed to meet its legal commitments, that would leave Turkey suffering a major shortage. Although clearly a risk, such fears were not universally held.

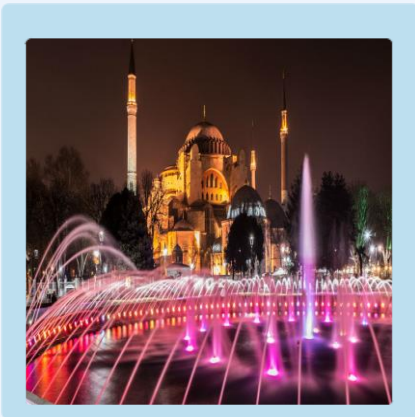
Another official from Turkey's private power sector said that because Russia was facing financial difficulties, it would be wary of cutting existing revenue streams. Any reduction, however limited, could prove serious. While only 29% of Turkey's 72.5 GW installed capacity is gas-fired, this capacity generates anything up to 51% of the power consumed in a given month.

The variation depends on water levels in Turkey's hydro dams, which account for 35% of capacity. With most of Turkey having experienced a particularly dry period at the end of November, state grid operator TEIAS said the dams held a total 2.528 trillion cubic meters (tcm) of water, down 20% on the volume anticipated in Turkey's 2015 generating program and 16% below the long-term average for November.

More worryingly, it was also down 13% on levels reported at the end of December 2014, only days prior to Turkey implementing its curtailment procedure and forcing private CCGT plant to switch to fuel oil. So, while the winter remains mild, Turkey may escape without suffering any real hardship. But it still seems under-prepared for significant shortages until TANAP begins pumping gas.

# A gas-powered rapprochement between Turkey and Israel

Foreign Policy, 18.12.2015



Turkey's quest for new sources of energy to escape Russia's clutches may have helped power the latest push for reconciliation with Israel, five years after the two countries acrimoniously split.

But a full restoration of ties between Ankara and Jerusalem, which has proven elusive before, requires further concessions on thorny issues like the future of Gaza, and concrete energy ties between the two nations are likely years away at best. Israel and Turkey said on Thursday that secret diplomatic talks in Switzerland had paved the way for the long-awaited reconciliation.

Both sides mapped out steps that will need to be taken to restore ties that were broken when Israeli commandos stormed a Turkish vessel bringing relief supplies to Gaza in 2010. According to Israeli media reports, Israel will pay Turkey compensation for that raid. Turkey, in turn, has agreed to crack down on Hamas terrorists operating from Istanbul.

The two sides then need to reach an agreement about Israel's blockade of Gaza, which has torpedoed past efforts at rapprochement. Once ties are restored, the two countries said they planned to "explore" cooperation on natural gas, with Israel exporting some of its offshore bounty to Turkey.

"I think the reconciliation was a long time in the making, and security cooperation between the two sides had already deepened over the last year," said Brenda Shaffer, a Georgetown University expert on eastern Mediterranean nations. She said the detente is "about politics and security, not gas" — although Turkey is also happy to quench its energy needs from sources other than Russia, given Ankara's ratcheting tensions with Moscow over the last month. "Ankara has an interest now in showing the Russians it has other options to get natural gas," Shaffer said.

Indeed, while both sides had come close to making amends before, especially in 2013 and 2014, leaders in both countries recently had signaled a possible thaw. Israeli Prime Minister Benjamin Netanyahu told Israeli lawmakers last week his government had been in talks with Turkish officials regarding exports of natural gas. Earlier this week, Turkish President Recep Tayyip Erdogan stressed that a restoration of ties between the two embittered countries would be good for "the entire region."

The deteriorating situation in Syria, and especially Russia's sudden leap into the ongoing civil war there, appears to have landed like a cannonball in the middle of the diplomatic dance between Turkey and Israel. Both sides are concerned about security threats boiling out of a disintegrating Syria, especially the Islamic State.





And with Russia throwing its military might behind Syrian strongman Bashar al-Assad and behind groups hostile to Turkey and Israel, the two countries saw grounds for common cause. “Both countries see Russia’s presence and Russian-backed groups in Syria as a threat,” said Soner Cagaptay, director of the Turkish Research Program at The Washington Institute for Near East Policy.

The final catalyst seems to be Turkey’s newfound need to find an energy supplier other than Russia, from whom it imports more than half of its natural gas. In October, after the Russian military jumped into Syria, Turkey warned it could harm ties between Ankara and Moscow. After Turkey shot down a Russian jet that invaded its airspace in late November, relations took a nosedive. Russia slapped economic sanctions on Turkey, cancelled a high-profile natural-gas pipeline, and threatened further reprisals.

Turkey, fearing that Russia could use its control over energy exports as a geopolitical bludgeon, quickly started scouring the region for other sources of gas. Israel made a huge discovery of gas off its coast years ago, but has been struggling to figure out just who to sell it to.

“I think the tension between Russia and Turkey is what makes Israeli gas even more desirable from the Turkish side,” Cagaptay said. “I think the tension between Russia and Turkey is what makes Israeli gas even more desirable from the Turkish side,” Cagaptay said. “If Russia decides to put Erdogan in a difficult situation, they could limit the sale of Russian gas.”

That doesn’t mean that Israeli gas will be fueling Turkish power plants anytime soon, even if the two sides manage to normalize relations. For starters, the development of Israel’s offshore gas fields has been held up for the past year due to domestic issues. Even preliminary deals that Israel appeared to have reached with friendly neighbors have gone south in recent months. Plans to export Israeli gas to Egypt and Jordan — the two Arab states with which Israel has a peace accord — have both foundered on domestic political opposition there.

What’s more, planning, financing, and building a natural-gas pipeline can take decades, even when there are few political or diplomatic complications, let alone the daunting technical challenges of laying pipe on the deep Mediterranean seabed. For example, Azerbaijan made a huge gas find in 1999, but took 14 years to secure a final decision on an export pipeline through Turkey, and gas won’t start flowing until 2018, Shaffer noted.

“While this reconciliation will give impetus to a lot of ‘energy diplomacy’ between Turkey and Israel, and that is a good thing to help smooth relations between Ankara and Jerusalem, it will not bring in the short term a concrete deal on natural gas supply,” she said.

There are also domestic political complications, especially in Israel, where both the left and right jeered the rapprochement. Opposition leader Isaac Herzog said reconciliation could have happened earlier, but Netanyahu dragged his feet. Conservative Avigdor Liberman, a former foreign minister under Netanyahu, slammed the accord as a sellout to a “radical Islamist regime.” All those hurdles to actual energy trade — diplomatic, domestic, commercial, and technical — are real.

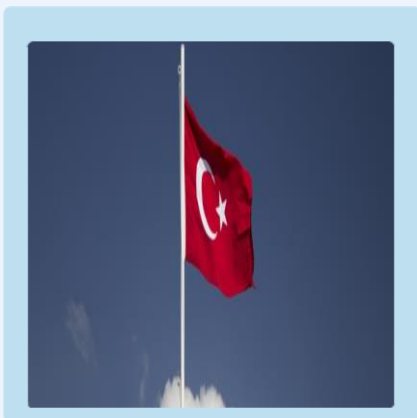
But Russia's unbridled fury at Turkey — Moscow has decried Turkey's "stab in the back," has accused Erdogan of being in bed with the Islamic State, and has taken potshots at a Turkish fishing boat — could nevertheless end up steamrolling those challenges and paving the way to turn Israeli gas exports from dream to reality.

In Israel, Netanyahu last week pointed to the diplomatic dividends of energy trade to justify overriding Israeli technocrats and pushing for the controversial development of Israeli gas fields. He said that exporting energy to neighbors was crucial to safeguard Israel's future security. Turkey, for its part, sees itself acutely vulnerable to any sudden interruption of Russian gas supplies.

"Earlier, diversifying energy supplies was a long-term need that Turkey had. With the crisis with Russia, this has become a pressing need," Cagaptay said. "A pipeline would be a huge deal, meaning the next time the Turkish-Israeli relationship faces a political shock like in 2010, that pipeline would keep them together, given its political, economic, and commercial ramifications," he said.

## Turkey's natural gas strategy: Balancing geopolitical goals & market realities

Turkish Policy Quarterly, 17.12.2015



Though it is a rapidly growing emerging market, Turkey lacks indigenous reserves of the world's two crucial fossil fuel sources, namely oil and natural gas.

As a result, the country is highly dependent on imports to meet its demand (the country has 98 percent import dependency in natural gas and 92 percent in oil), and energy security has been a chief component of Turkey's energy strategy for the past two decades. Natural gas, in particular, has remained at the forefront of Ankara's energy policy due to its rapid increase in Turkey's energy mix and the rigid and long-term nature of natural gas supply contracts.

Over the past couple of decades in Eurasia and the Middle East, it has become virtually impossible to separate the conversation about natural gas from geopolitical and foreign policy discussions. This is definitely true of Turkey.

### Turkey's Natural Gas Market: A Need to Diversify

Despite natural gas's significance in today's economy, Turkey's experience with it is a relatively new affair. Turkey's first gas imports came from Soyuzgas in the USSR in 1986, and consumption began in 1987. The country's natural gas demand has steadily increased ever since, with natural gas overtaking oil as the country's single most important fuel source, representing 35 percent of the country's primary energy mix.



Turkey's own "rush to gas" occurred in the past decade, as the country's demand tripled from 15 billion cubic meters (bcm) annually in 2000 to 47.6 bcm in 2013, registering the second biggest increase in demand in the world behind China.

Turkey is estimated to consume around 50 bcm of natural gas in 2015, still experiencing demand growth despite slowing economic growth and a host of geopolitical risks affecting Turkey's neighborhood. In fact, Turkey is expected to be among the International Energy Agency (IEA) member countries with the fastest energy demand growth in the medium- and long-term. It is also important to note that, in addition to its high share in Turkey's total energy mix, natural gas plays a particularly crucial role in the country's economy, with electricity generation and industry representing a big portion of the country's total natural gas demand.

Considering these internal trends and indicators, and barring any game-changing indigenous natural gas discoveries, Ankara's reliance on imported natural gas will only increase in the future. What makes matters worse from an energy security standpoint is Turkey's asymmetric reliance on a single supplier, Russia.

In 2014, Russia's natural gas exports to Turkey reached 26.9 bcm, representing 54.76 percent of Turkey's total natural gas imports (49.2 bcm). Russia was followed by Iran (18.13 percent), Azerbaijan (12.33 percent), Algeria (8.48 percent via LNG), Nigeria (2.8 percent via LNG), and spot LNG (3.43 percent).

The concerns over Turkey's dependence on Moscow for natural gas imports, and its constraining impact on Ankara's foreign policy and geopolitical strategy, were put in the spotlight recently due to increased tensions between the two countries after Russia stepped up its involvement in Syria. Russia's belligerence in Turkey's neighborhood over the past several years – including the invasion of Georgia in 2008, the annexation of Crimea in 2014, and now the intervention in the Syria crisis – have highlighted the importance of supply security, in particular the diversification of energy suppliers and supply routes, for Turkish national security and foreign policy.

When it comes to natural gas, Turkey's decades-long desire to become a regional energy hub and Ankara's tendency to play up its favorable geostrategic position (Turkey is located in close proximity to 70 percent of the world's conventional oil and gas reserves) adds another dimension that goes beyond the economic fundamentals of supply and demand.

Conveniently located between the world's second-largest natural gas consumer after the US, Europe, and major natural gas reserves in Central Asia, the Middle East, and Eastern Mediterranean, Turkey does have the potential to significantly benefit in both economic and political terms as a transit country, connecting natural gas producers to natural gas consumers through a network of pipelines on its territory. Ankara's strong historical ties and relationship with the EU have been crucial components of Turkey's natural gas supply diversification efforts and transit ambitions.

These factors were behind Turkey's involvement in the European Commission's Southern Gas Corridor (SGC) project, launched in 2008. Aiming to bring natural gas resources from the Caspian Basin and the Middle East to Europe, the project was initiated as a way for the EU to diversify its natural gas supply portfolio in response to the Russia-Ukraine gas supply dispute of 2006.



However, plans for the Nabucco Pipeline, considered a key piece of the SGC, failed to materialize despite strong political support from the EU and the US. Today, Nabucco serves as a note of caution in the heated debate pitting geopolitical desirability against commercial viability when it comes to such large-scale, expensive energy infrastructure projects.

It is true that geopolitical dimensions and political considerations have often distracted analysts from discussing the actual market dynamics or financial realities of different projects. This is a dangerous distraction that in recent years particularly dominated the natural gas industry in Europe and the surrounding region. The right balance would be somewhere in between assessing projects based on the principle of commercial viability and realizing that energy resources, especially natural gas, are very prone being exploited as a means to strengthen countries' political and economic preeminence in the region.

### Energy's Role in a Fast-Changing Region

Turkey's natural gas policy over the past couple of years can be defined as proactive, ambitious, pragmatic, and at times opportunistic. Realizing that the Nabucco project had become a mere pipe dream due to various commercial and financial issues, Ankara teamed up with the government of Azerbaijan to propose a new infrastructure project, the Trans-Anatolian Pipeline (TANAP). Financed by Azerbaijan's sovereign wealth fund, TANAP is designed to carry the natural gas that will be produced during the second stage of Azerbaijan's Shah Deniz offshore field.

It is important to note that this move by Ankara and Baku almost entirely reshaped the planned configuration of the SGC, as TANAP became an integral part of it. In December 2013, Shah Deniz shareholders reached a final investment decision on the second phase of the field and selected the Trans-Adriatic Pipeline (TAP), which is to connect TANAP with Italy via Greece and Albania.

The same kind of pragmatism manifested itself in Turkey's energy dealings with Russia. The energy relations between the two countries are often described as a good example of the compartmentalization of different aspects of bilateral relations in order to obtain cumulative gains. Despite strong disagreements on many issues in the recent past, including over Georgia, Ukraine, and Armenia, Moscow and Ankara have not only maintained a strong relationship in the field of energy, they managed to expand it even further with new deals such as the 20 billion dollar agreement signed in 2010 for Rosatom to build Turkey's first nuclear power plant in Akkuyu, Mersin.

Although this "Turco-Russian rapprochement" was put to the test in recent months as a result of the Syrian crisis, it is true that the countries have become economically interdependent in a way that would make any dramatic derailment in the relationship a very costly affair for both sides. The downing of a Russian jet by Turkish F-16s on November 24 and the ensuing crisis demonstrates the risk of potential spillover from the volatile geopolitical backdrop in Turkey's region.

Although it is clear that the heightened rhetoric in the immediate aftermath of the incident is not sustainable, early signs indicate it will be difficult for Ankara and Moscow to go back to the glory days of rapprochement that dominated the past decade in their bilateral relations. Its pragmatism and eagerness to close deals also proved to be a liability for Ankara at times.



The nuclear agreement with Rosatom was widely criticized in Turkey both for environmental and security reasons and for further increasing Turkey's dependence on Russia. It is indeed true that it was this overdependence, among other things, that resulted in Turkey's muted response to Russia's illegal annexation of Crimea in March 2014, drawing the ire of Ankara's Western allies.

Today, Turkey remains the only NATO country that did not join the sanctions regime against Russia. In fact, Turkish Economy Minister Nihat Zeybekçi even said in August 2015 that he was "very glad about the new developments, as Turkey will benefit from what has been going on in Russia," referring to the opportunities for Turkish exports due to Western sanctions.

The discovery of a significant amount of natural gas in the Eastern Mediterranean reignited debates about the relationship between regional geopolitics and energy. Notably, the finds had prompted many observers to suggest that energy could be the game-changer to solve long-standing conflicts in the region.

The long-stalemated conflict in Cyprus island and Turkey's uneasy relationship with Israel since the Mavi Marmara incident in 2010 present daunting political roadblocks to any Turkish involvement in the offshore discoveries in the region. However, despite all the rhetoric about geopolitics, it was instead commercial issues in Cyprus island, and domestic policy and regulatory issues in Israel that proved to be the biggest impediments to the development of natural gas.

In fact, Ankara's resilient economic relationship with Israel gave reason to be optimistic about future cooperation in the field of energy despite bilateral relations reaching a historic low on a political level. The trade between Israel and Turkey in 2014 increased by 11.5 percent compared to 2013, as bilateral trade reached an all-time high at 5.44 billion dollars, despite the ongoing political crisis and increasingly hostile anti-Israel rhetoric in Turkey.

Moreover, Turkish companies Zorlu Group and Turcas were among those bidding for the tender to construct a pipeline with an annual capacity of 7 to 10 bcm, transporting natural gas from the giant Leviathan field to the Turkish mainland. Although a scenario involving Turkish companies' participation in the short term looks unlikely in the current conjuncture due to political obstacles, such examples serve to show Turkey's pragmatic approach in the energy field.

Finally, Iraq recently emerged as a significant potential oil and gas supplier that could offer Turkey an alternative to diversify away from Russian supply. The potential of Iraq's energy sector was of such magnitude that the IEA, in its special Iraq Energy Outlook report in 2012, stated that the country "can make a major contribution to the stability and security of global energy markets."

Turkey's dealings with the Kurdistan Regional Government (KRG) of Iraq are another case in point for Ankara's recent foreign policy and natural gas diplomacy approach. With an estimated range of three to six trillion cubic meters (tcm) of natural gas reserves, the KRG has the potential to play an important role in Turkey's efforts to become an energy transit country. What makes the KRG a particularly interesting story is the close economic and energy relationship between Ankara and Erbil over the past several years. In a turn of events that confounded many outside observers due to Turkey's decades-old conflict with its own Kurdish population, Turkey quickly became one of Erbil's most important political and economic partners and an outlet for the Iraqi Kurdistan's energy exports to the world, despite strong objections from Baghdad and Washington.



The tensions between Ankara and the Iraqi government of Nouri al-Maliki had come to such a point that then-Foreign Minister Ahmet Davutoğlu's plane was not given permission to land in Erbil's airport by the central-government-run Iraqi civil aviation authority.

Meanwhile, Turkey and the KRG signed an agreement in November 2013 that envisioned exports of four bcm of natural gas annually by 2017, 10 bcm by 2020, and 20 bcm thereafter. Turkish-Iraqi bilateral relations have improved since then in the Haider al-Abadi government. Unfortunately, the emergence of the Islamic State of Iraq and the Levant (ISIL) in Iraq dramatically transformed the geopolitical dynamics in the region, posing significant security challenges to further investment. However Ankara's stance in any event demonstrates the Turkish government's willingness and desire to push forward to close energy deals.

### What Does the Future Hold for Turkey's Natural Gas Strategy?

In light of Turkey's domestic market realities and its track record over the past couple of years, it is clear that supply diversity will be a top priority in Turkey's quest to enhance its energy security. Despite Turkey's recent efforts, some of which have had significant negative consequences for the country's security and foreign policy, Ankara still finds itself in a position of high vulnerability in terms of energy security.

The Ministry of Energy and Natural Resources, in its five-year strategic plan for 2015-19, recognizes the country's considerable import dependency in oil and natural gas, and names diversification of import countries and routes as a major priority in ensuring the security of energy supply. This goes hand in hand with Ankara's desire to integrate with regional energy markets and become a more powerful regional actor in the energy industry.

In short, the risk related to natural gas supply security is clear, and the government is trying to tackle this on both the domestic and foreign fronts. Domestically, the Ministry's strategic plan aims to reduce the share of natural gas in electricity generation from 44 percent to 38 percent by the end of 2019. Externally, it limits the dependency on a single country for imports of natural gas to 50 percent by 2019, a figure that is still dangerously high. Coupled with Turkey's desire to become a natural gas hub, these targets make for one ambitious list and unfortunately, the road ahead is a difficult one.

### Domestic Market Challenges

Turkey's longstanding desire to become a regional natural gas hub faces both internal and external challenges. First, the country needs to implement a series of domestic market reforms in order to deepen its natural gas markets and establish a properly functioning legal and regulatory framework.

Lack of competition and transparency in the Turkish domestic market, coupled with infrastructure issues (such as transmission bottlenecks and inadequate storage capacity) are main hurdles that need to be overcome. Finally, BOTAŞ's monopoly needs to be broken up. There are no immediate solutions to these problems and no easy ways to establish the market conditions necessary for Turkey to become an energy hub or a reliable transit country. Some positive steps have been taken in the right direction over the past decade.



The establishment of the independent Energy Market Regulatory Board (EMRB) in 2001, and the Natural Gas Market Law (NGML) 4646 in the same year, marked an important start.[28] Unfortunately, the liberalization process ever since has been painfully slow.

The initial law had aimed at reducing BOTAŞ's share of imports to 20 percent of the country's total consumption, but as of 2015 the figure is at 80 percent. There are also plans to increase Turkey's natural gas storage capacity from the current meager level of around three bcm to five bcm by 2019. The current storage capacity merely represents around 5.5 percent of total consumption. Realizing that even this upgraded capacity would be a drop in the bucket, Turkey's Economy Ministry announced it would offer up to 10 billion dollars for a new gas storage facility to be built on the Mediterranean coast.

The draft law amending the 2001 NGML was submitted to Parliament in 2013 and is expected to help transform the sector into a more competitive, transparent, and financially stable one. It includes provisions limiting BOTAŞ's market share to 50 percent, and placing a 20 percent cap on the amount of natural gas that can be sold by a single wholesale company.

The draft law also envisions the unbundling of BOTAŞ into three entities, in charge of transportation, LNG and storage operations, and imports, respectively. It also aims to increase natural gas storage capacity to 10 percent of consumption by 2019. Finally, the country is taking steps to improve its transmission infrastructure by building new high-pressure compression stations.

The Erzurum station, completed in 2014, is the country's ninth such facility, and there are also ongoing plans to improve the capacity of Hanak, Sivas, and Doğubayazıt compressor stations. The lack of adequate transmission infrastructure is especially problematic in the eastern parts of the country, as Ankara had to pay fees in the past for the contracted gas that it failed to take from Azerbaijan and Iran.

While these projects demonstrate that Turkey's plan to enhance its profile as a prominent regional natural gas transit country is certainly not a pipe dream, it will take some time before the country can develop the necessary domestic market conditions needed to achieve the goal of an energy hub.

## External Challenges

The next obvious question is then the following: Where can Turkey turn to meet its increasing demand for gas? A cursory analysis would suggest that the external factors and developments over the past few years might have favored Ankara. The price of oil is at a record low (especially compared to the peak it experienced in 2008), providing a boom for import-dependent countries such as Turkey.

Similarly, the discovery of new large natural gas fields in Turkey's neighborhood, including places like Israel, Cyprus island, and Egypt, as well as the possibility of increasing supply from current providers such as Azerbaijan and Iran (though Russia would also be included on this list), means Ankara might soon have a multitude of options in terms of supplier and supply route diversification. Finally, even some geopolitical developments (such as Russia's invasion of Crimea) that further increased the geopolitical risk premium in the region could have potential silver linings for Turkey.



As Russia's move sparked fears of supply crises in Europe similar to those of 2006 and 2009, it highlighted the concerns about security of the European energy supply and increased the profile of alternative supply routes such as the SGC.

Unfortunately, almost all of these supply route options face various challenges. Some have to do with geopolitical reasons; others face financial, economic, or logistical issues.

#### Where Would the Additional Gas Come From?

Azerbaijan is the first option that comes to mind. Azerbaijan currently supplies around six bcm annually to Turkey via the South Caucasus Pipeline. With its reserves at 1.2 tcm, the country is on its way to increasing its profile as a natural gas provider to Turkey and Europe.[34] With the construction of the TANAP pipeline, Azerbaijan is expected to start exporting an additional six bcm annually to Turkey at the end of 2018.

TANAP is being built so that it can be upgraded to supply 23 bcm by 2023, and 31 bcm by 2026 from Azerbaijan (either from the later stages of Shah Deniz or Azerbaijan's natural gas fields such as Absheron or Umit-Babek). However, such plans will have to wait until at least 2023 when TANAP can allow for additional supply; given the delays that were experienced in the run-up to the Shah Deniz II final investment decision in December 2013, and the new low oil price environment, more delays might affect later stages of the project.

With its huge natural gas reserves, estimated at 34 tcm, Iran could potentially be a true game-changer for the natural gas industry. Although the nuclear deal reached between the P5+1 countries and Tehran in July 2015 is a promising first step in opening Iran's vast reserves to foreign investment, many obstacles need to be overcome before Turkey's natural gas imports from Iran could be significantly increased from the current level of around nine bcm annually.

The pre-sanctions contracting system used buy-back contracts whereby foreign companies conducted exploration and development without rights to the actual fields. Tehran is now working on a new contract regime in order to attract foreign investment.[35] There are also ongoing commercial disputes between Ankara and Tehran over the price of natural gas.

Turkey on average is paying around 487 dollars per each 1,000 cubic meter of Iranian gas, a price that is significantly higher than that for Russian gas (418 dollars per 1,000 cubic meters) or Azeri gas (340 dollars per 1,000 cubic meters).[36] Finally, Turkey's current infrastructure does not allow for significant additional piped natural gas from Iran, so it would have to go through TANAP pipeline.

Moscow's plans to increase Russian supply to Turkey and potentially Europe through a new pipeline underneath the Black Sea have been one of the most hotly debated topics of 2015. Dubbed "TurkStream," the first phase of the project will carry 15.75 bcm per year for Turkey's consumption.

Initially the project had envisioned four strings of pipeline with a combined capacity of 63 bcm, part of which would be destined for European markets via Greece. Despite all the brouhaha about the pipeline project that replaced Gazprom's initial South Stream proposal, which was supposed to take the Russian gas directly to Bulgaria, instead of Turkey), significant setbacks provided a reality check on the pipeline's feasibility.





Question marks have been raised about Moscow's plans to double the capacity of the Nord Stream pipeline that carries Russian natural gas to Germany underneath the North Sea, given both financial constraints and potential regulatory issues in accessing the European market. The negotiations for the pipeline were frozen as of September 2015 and Gazprom CEO Alexei Miller announced in October that the pipeline's capacity would be reduced by half.

Also, the attractiveness of the TurkStream for Europe is limited since the EU's main goal is supply diversification. Despite the successful track record in compartmentalizing different aspects of bilateral relations, geopolitical challenges in the region such as Syria and Russia's growing role there (which raised awareness of Turkish over-dependence on Russia for its natural gas imports) could hinder potential increases in Russian supply.

The Eastern Mediterranean region also recently emerged as a potential major supplier of natural gas in Turkey's region after significant discoveries were made offshore from Cyprus island and Israel over the past five years. However, the commercial challenges and domestic policy and regulatory issues have affected the development of the fields and the export capacity. Additionally, the political obstacles in Cyprus island and the deterioration of bilateral relations with Israel make exports from the region to Turkey unlikely in the short term.

Turkmenistan, with its massive estimated reserves of 17.5 tcm, could also be an important potential supplier of natural gas for Turkey. Turkmenistan has been a priority for Turkey's energy policy, as the idea of transporting Turkmen gas via a Trans-Caspian pipeline to Turkey and Europe goes back to the early 1990s. Despite political support from the EU and the US, the plans never reached a mature stage due to disagreement among the Caspian littoral states on the delimitation of the Caspian Sea.

### Turkey's Natural Gas Strategy Going Forward

Turkey's natural gas strategy has correctly identified its shortcomings, but there usually is a gap between targets and actual policies. This has weakened Turkey's hand in its quest to increase energy security. Turkey's overreliance on Russia for gas supply has, in short, restricted its ability to conduct foreign policy.

There are challenges hampering Turkey's efforts toward further supply diversity but they are certainly not insurmountable. Ankara is quickly becoming a more adept natural gas consumer and negotiator. It is clear that diversity of suppliers is and will remain crucial, therefore energy diplomacy and foreign policy will continue to be at the forefront of Turkey's natural gas strategy.

But a proactive and pragmatist approach in energy policy can be a strength only if it is balanced with a more cool-headed and sustainable foreign policy approach. It is also very important to be realistic in targets and policy goals. The concept of Turkey as a natural gas hub might still be in the cards, but only in the medium- and long-term. Rhetoric and geopolitical ambitions can be self-defeating in that respect, as the natural gas sector tends to be dominated by grandiose infrastructure projects and ambitious themes that may not come to fruition. It is important to consider actual market mechanisms, financial and economic considerations, and basic supply-demand fundamentals when assessing new projects and planning for the future.

# TANAP and the semi-encirclement of Iran: Progress and paradoxes in Turkey's energy diplomacy

Turkish Policy Quarterly, 13.12.2015



The TANAP is a cornerstone of Turkey's energy diplomacy and Ankara's answer to the strategic paradox that 56.7 percent of Turkey's natural gas comes from one of its principal geopolitical rivals: Russia.

The central pillar in Turkey's plan to diversify its natural gas supply mix, the 11 billion dollar TANAP project, is slated to transport natural gas from Azerbaijan's offshore Shah Deniz field across the length of Turkey for sale in both Turkey's domestic gas market as well as in the EU. Turkish energy diplomacy is confronted with the strategic imperative to encourage some form of Iranian participation in TANAP.

The product of Turkey's far-sighted, strategic energy partnership with Azerbaijan, TANAP will initially transport 16 bcm annually from the Shah Deniz field's second phase of development via the expanded South Caucasus Pipeline (SCPX) extending across Azerbaijan and Georgia to the Turkish border. However, TANAP will ultimately transport 60 bcm annually, with capacity expansion and the inclusion of additional suppliers. Building on its energy partnership with Azerbaijan, Turkey's efforts to secure other suppliers for TANAP has also succeeded in creating a framework to contain the influence of Ankara's other principal geopolitical rival: Iran.

Paralleling the strategic paradox with Russia, Iran constitutes Turkey's second largest supplier of natural gas, accounting for almost 20 percent of Turkey's import supply mix. Turkey's efforts to secure natural gas supplies from the Kurdistan Regional Government (KRG) in Iraq and Turkmenistan for TANAP has resulted in the creation of an arc of strategic energy relationships with states and political entities bordering Iran, effecting the virtual encirclement of Iran north of about 35 degrees north latitude. For Turkey, this is an important strategic gain in light of the expected expansion of Iranian regional influence with the anticipated lifting of international sanctions against Iran in 2016.

Although Turkey has made significant strategic progress against its two main geopolitical rivals through its energy diplomacy based on TANAP, this article suggests that paradoxes remain. Its geopolitical analysis of the proposed pipeline projects with Turkmenistan and the KRG reveal that Turkey's gains are fragile and susceptible to interference from Iran as well as Russia.

Turkey's long term interests in supply diversification would be best served by using its temporary strategic advantage to mitigate the risk posed by Iran through measures aimed at reducing Iran's threat perception of Turkey's TANAP diplomacy.



The article concludes that aside from engaging new potential suppliers (such as Israel), Turkish energy diplomacy is confronted with the strategic imperative to encourage some form of Iranian participation in TANAP.

### TANAP and Turkey's Outreach to Iranian Frontline States

Against the backdrop of Russia's 2014 annexation of Crimea, continued sponsorship of low-intensity conflict in eastern Ukraine, Black Sea naval build-up, and ongoing presence in the Georgian breakaway regions of Abkhazia and South Ossetia, the creation of a Baku-to-the-Bosphorus energy transportation corridor has assumed a new strategic urgency. With the September 2015 advent of Russia's direct intervention in the Syrian conflict, placing a significant Russian combat presence on Turkey's southern border in addition to its northern maritime border, this strategic urgency has become even more heightened.

This is particularly the case as Russia's gas exports to Turkey have become part of the diplomatic tug-of-war between Ankara and Moscow resulting from Russia's military presence in Syria. At the time of writing, Turkey shot down a Russian fighter jet and the issue of Turkey's Russian gas imports is likely to be at the forefront of the ensuing tensions. The gas supply diversification provided by TANAP, which will become operational in 2019, will ultimately allow Turkey greater freedom of maneuver in its energy policy options toward Russia.

For Turkey, TANAP forms the foundation of Ankara's strategic policy to become an international energy transportation hub. In addition to the progress made in creating the opportunity to ease Turkey's dependency on Russian natural gas, Turkey's energy diplomacy based on TANAP has also achieved the significant strategic gain of creating an arc of energy relationships with the frontline states and political entities spanning Iran's western and northern borders – the KRG, Azerbaijan, and Turkmenistan.

Demonstrating a forward-leaning posture in its energy diplomacy, Ankara's outreach will serve to curb the expansion of Tehran's influence in the post-sanctions environment. While Turkey's "frontline" energy diplomacy has accrued several advantages for Ankara; it has also led to a fundamental strategic paradox: More than Azerbaijan, Turkey's leading alternative suppliers for TANAP are vulnerable to Iranian and even Russian interference.

TANAP's long-term viability requires the participation of other states. TANAP's export volume is expected to increase at least 1 bcm per year. Slated to transport 23 bcm by 2023, 31 bcm by 2026 and, with infrastructure expansion, ultimately 60 bcm, TANAP's increasing capacity has important geopolitical ramifications as the pipeline will need to transport gas from other regional producers besides Azerbaijan.

If Baku continues to exploit its existing gas reserves at the current pace, it will completely deplete its reserves in 40 years. Therefore, despite facing price competition from additional suppliers in the short term, transporting gas from other nations via TANAP is in Azerbaijan's long-term economic and strategic interests. Likewise, expanded gas deliveries to Turkey via TANAP are important for the Turkish economy, as Turkey's consumption rate will likely continue to increase over the next decade.



Geopolitically, Turkey and Azerbaijan consider TANAP's success a matter of vital national interest, albeit for different reasons. For Turkey, TANAP, as the transit route for new sources of natural gas to reach the EU, forms the foundation of Ankara's strategic policy to become an international energy transportation hub. For Azerbaijan, TANAP is the foundation of Baku's strategic policy to develop international stakeholders in Azerbaijan's political sovereignty through the construction of energy infrastructure.

## TANAP and Turkmenistan

Among Azerbaijan's neighboring Caspian littoral states, Turkmenistan is an essential additional supplier, particularly if Iran does not transport gas through TANAP. With the world's fourth largest proven reserves, Turkmenistan represents an important alternative source of natural gas for both Turkey and the EU as they seek to alleviate their dependency on Russia. Thus, Turkmen gas exports via TANAP form a critical policy objective for Turkey and Azerbaijan. Ankara has declared its intention to incorporate 5-6 bcm of Turkmen natural gas into TANAP.

Turkmenistan represents an important alternative source of natural gas for both Turkey and the EU as they seek to alleviate their dependency on Russia. The export of Turkmen gas exports to Turkey and the EU via TANAP involves the construction of a 5 billion dollar, 300 km undersea Trans-Caspian Pipeline (TCP) between Turkmenistan and Azerbaijan. The TCP's construction requires a political reconciliation between Turkmenistan and Azerbaijan, divided over the disputed Serdar (Turkmen)/Kyapaz (Azeri) hydrocarbon field located 145 km from Azerbaijan's coast. Absent a boundary settlement, Baku and Ashgabat would need to either compartmentalize the issue or expediently agree to joint development terms.

An additional hurdle to the TCP's construction is Turkmenistan's traditional policy commitment to avoid involvement in external pipeline projects or assume any obligations for gas disruptions abroad. With Turkmenistan willing to do little more than deliver gas to its border, the TCP's construction has required concerted effort from the other interested parties to advance the project.

To this end, Maroš Šefcovic, the European Commission Vice President in charge of Energy Union, participated in the 1 May 2015 Ashgabat quadrilateral summit of the EU, Turkey, Azerbaijan, and Turkmenistan. Resulting in the Ashgabat Declaration outlining the parties' next steps for bringing Turkmen gas to Europe, the European Commission Vice President emerged from the summit asserting "Europe expects supplies of Turkmen gas to begin by 2019." The summit also empowered the W-Stream Company, a reconfiguration of the White Stream Pipeline company, to carry the TCP project forward as the parties search for IOCs join a TCP consortium.

The advances made toward the TCP's realization, to a large degree, have been facilitated by Turkey's continued mediating role between Baku and Ashgabat, which witnessed a major breakthrough with the convening of the first ever trilateral meeting of the foreign ministers of Turkey, Azerbaijan, and Turkmenistan on 26 May 2014. Focused on enhancing energy and security cooperation, the foreign ministers agreed to hold trilateral meetings biannually and develop a two-year "action plan." Indicative of the effect on Ashgabat's policy orientation, one month later Turkmenistan's President Gurbanguly Berdimukhammedov signed a decree to open an embassy in Georgia.



With the declared goal to promote the further development of their Turkmenistan-Georgia relations, the action was an acknowledgment of the increasing importance of TANAP for Turkmenistan, as Georgia constitutes the critical transit state with the SCPX traversing Georgian territory to connect the western Caspian shore and TANAP.

From the development of high-level ministerial cooperation between Turkey, Azerbaijan, and Turkmenistan and the development of stronger diplomatic relations between Georgia and Turkmenistan in 2014 to the Ashgabat Summit in 2015, the TCP project has witnessed important diplomatic advances. Nevertheless, the greatest obstacle to the TCP's construction remains Iran's and Russia's consistent opposition to the project. Iran has offered itself as a transit state for Turkmen gas to reach Turkey and the EU market.

Presently, Iran lacks sufficient capacity to transport commercially significant volumes of Turkmen gas and would have to undertake a massive infrastructure expansion requiring a minimum of five years, assuming Tehran obtained the prerequisite financing. While Iran may be incentivized to acquiesce to the TCP's construction, it remains unclear whether Russia will relent in its opposition to the pipeline, particularly in the current climate of diplomatic confrontation with Turkey.

#### TANAP and the KRG

In contrast to Turkmenistan, a contractual agreement already exists for Turkey's importation of natural gas from the Kurdish Regional Government (KRG) in Iraq. On 25 March 2013, Turkey concluded a commercial framework agreement for the minimum annual import of 10 bcm from the KRG.

Depending on the ultimate gas supply agreement to be concluded between Ankara and Erbil, the annual volume may reach as high as 20 bcm. The signatories to the commercial framework agreement were the KRG and the "private" Turkish Energy Company (TEC) that is wholly owned by Turkey's state-owned gas company BOTAŞ. Construction on the Turkish segment of the pipeline, which will run from Bismil to Mardin and then to Silopi, located on the Turkish side of the border, has already been undertaken by BOTAŞ.

Turkey has created an arc of strategic energy relationships with the KRG, Azerbaijan, and Turkmenistan that is tantamount to the semi-encirclement of Iran. However, the gas pipeline faces severe security challenges on both sides of the border. Along the Turkish segment of the route, Silopi and other locations in the Kurdish-dominated Şırnak province, such as Cizre and Uludere, have been sites of severe civil unrest and Kurdistan Workers' Party (PKK) militancy.

On 29 July 2015, PKK militants bombed the Kirkuk-Ceyhan oil pipeline in the Cizre district near Silopi. The financial loss resulting from the attack on the pipeline, which transports oil from the KRG to the Turkey's Mediterranean Ceyhan port, is estimated at 250 million dollars. During the period from 1 July to 17 August 2015, the Kirkuk-Ceyhan pipeline suffered a total of 501 million dollars in losses due to ongoing sabotage and theft.

Unrest in the region is ongoing. In August 2015, Turkish security forces battled to wrest several of Silopi's districts from the control of PKK-affiliated urban youth militias barricaded with homemade trenches laden with improvised explosive devices.



In September 2015, Mardin witnessed a PKK bomb attacks against police. In October 2015 in the run-up to Turkey's November 1 parliamentary elections, both Mardin and Silopi had been placed under curfew. The intensification of civil conflict after the elections suggests that additional measures to secure the gas pipeline will be required and Turkey needs to factor these measures into the overall cost.

Similar measures will need to be taken by the KRG along its segment of the pipeline. The 492 km highway route from Erbil to Bismil passes through Mosul. While the KRG segment of the pipeline will presumably circumvent areas controlled by the Islamic State of Iraq and the Levant (ISIL), the pipeline's safety will be affected by the overall security environment in northern Iraq.

The institutional coherence of the KRG has also come into question as President Masoud Barzani has continued to remain in office beyond the KRG constitution's two term limit. The two-year extension to Barzani's second term granted by the KRG parliament dominated by Barzani's Kurdish Democratic Party (KDP) expired on 19 August 2015.

According to KRG law, the speaker of the Parliament, currently Yousif Mohammed Sadiq from the Gorran (Change) party, is supposed to become acting president. In October 2015, the ongoing peaceful protests against the KDP in Gorran strongholds turned violent with arson attacks against KDP offices. Sadiq has been prevented from attending Parliament sessions and social media was temporarily shut down.

Turkey has an interest in encouraging Azerbaijan to sell an equity stake in TANAP to Iran. At the time of writing, protests have become more widespread and reflect a general discontent with the functioning of the KRG. Both the main opposition party the Patriotic Union of Kurdistan (PUK) as well as Gorran maintain strong relations with Iran. Should the Barzani-led KRG not sufficiently accommodate Iranian interests, Tehran could shift the political balance in the KRG through increased support of the PUK and Gorran or by augmenting its military presence in regions controlled by the PUK.

Perhaps, the most important concern for Turkey is the 260 dollars per 1,000 cubic meters price it will pay for natural gas from the KRG. When BOTAŞ, through TEC, finalized its commercial framework agreement with the KRG, the average monthly price for crude oil was 102.61 dollars per barrel and BOTAŞ' average gas price was approximately 435 dollars per 1,000 cubic meters.

However, the average monthly price for crude oil in September 2015 was only 46.29 dollars per barrel. Consequently, Turkey should be able to renegotiate a lower price. Given that the KRG's energy relationship with Turkey provides the KRG with vital revenue for its survival, it is likely that Turkey and the KRG will arrive at a mutually acceptable accommodation.

## Concluding Remarks

In seeking to diversify its import supply mix of natural gas through TANAP, Turkey has conducted some deft energy diplomacy with potential suppliers in addition to Azerbaijan. Ankara has facilitated the advancement of gas pipeline projects in Turkmenistan and the KRG. Through its energy diplomacy based on TANAP, Turkey has created an arc of strategic energy relationships with the KRG, Azerbaijan, and Turkmenistan that is tantamount to the semi-encirclement of Iran.

While an important geopolitical gain for Turkey in advance of the expanded regional influence Iran is likely to exert with the 2016 lifting of international sanctions, these pipeline projects are subject to Iranian, as well as Russian, interference.

Because of the vulnerabilities inherent in the Turkmenistan and KRG pipeline projects, Turkey faces two strategic imperatives for its future energy diplomacy. To ensure its security of supply and diversity of import routes, it is in Turkey's interest to pursue – if it can achieve a sufficient level of strategic confidence with Israel – the development of an undersea pipeline from the Leviathan natural gas field to Turkey.

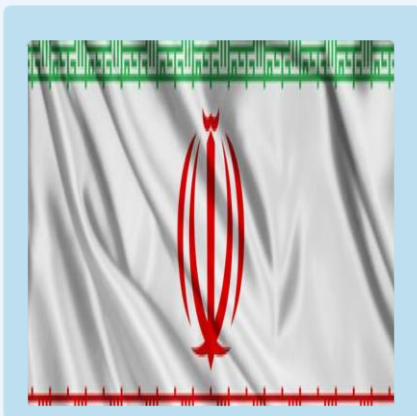
At the same time, to ameliorate the possible threat Iran poses to the realization of the Turkmenistan and KRG pipeline projects, Turkey has an interest in encouraging Azerbaijan to sell an equity stake in TANAP to Iran.

In April 2015, after the five permanent members of the United Nations' Security Council plus Germany (the P5+1 nations) and Iran announced the Comprehensive Framework Agreement in Lausanne, Rovnag Abdullayev, the president of TANAP's lead stakeholder the State Oil Company of the Azerbaijan Republic (SOCAR), acknowledged SOCAR was prepared to consider an Iranian bid for an equity share in TANAP after sanctions end. SOCAR previously announced its willingness to sell up to eight percent of its 58 percent stake in TANAP to a new shareholder. Iran's Ambassador to Azerbaijan Pak Ayeen indicated Iran's interest in acquiring an equity share in TANAP.

Turkey's then-Minister of Energy Taner Yıldız subsequently declared Ankara's openness to Iran joining TANAP. Engaging either Israel or Iran, and especially both concurrently, will pose exacting challenges for Turkey. However, the strategic logic of Ankara's heretofore successful energy diplomacy based on TANAP has made the option of engagement almost ineluctable.

## Overview: The Caspian Sea fields Iran's offering to foreigners

Natural Gas Europe, 23.12.2015



During the 10th joint economic commission meeting, held between Iran and Azerbaijan, both sides emphasized the boosting of economic relations.

Iran and Azerbaijan's trade turnover stands below \$500 million according to Iranian officials statements, while the custom statistics show the figure is less than \$300 million. Iran holds a 10% share in Azerbaijan's offshore gas field, Shah Deniz. Iran and Azerbaijan also swap about 1 mcm of gas a day and also exchange power. Iranian Oil Minister Zanganeh explained the country's interests in cooperation with Azerbaijan, during an interview with Trend.



The most important issue for Iran currently is the development of about 50 oil and gas fields, offered to foreigners last month in the framework of a newly designed oil and gas contract, called the Iran Petroleum Contract (IPC).

Iran has offered four projects in the Caspian Sea, blocks 24, 26 and 29, as well as the Sardar-e Jangal oil fields to foreigners for exploration and development. Iran has divided its exploration area in Caspian sea to 46 blocks of which eight have priority. Iran has previously carried out 3D seismic operations in 4000 square kilometres of the Caspian Sea at blocks 6,7,8 and 21 from 2003 to 2005.

Iran also announced in 2012 that while drilling a 1,000-metre well below the surface of the Caspian Sea by the Amir Kabir drilling rig, the country found a gas field at the depth of 700 kilometres. A year later Tehran announced the field (Sardar-e Jangal) was in fact an oil field with a gas layer. The Amir Kabir drilling rig's crane crashed last March in the mentioned field. Baku has the necessary equipment to repair the crane.

The Iranian part of the Caspian Sea has also been twice studied by Azerbaijani equipment--once before the fall of the Soviet Union, and the second time in 1994 and 1995--to discover possible hydrocarbon reserves, but to no avail.

Azerbaijan has all the necessary technical equipment to cooperate further on energy, from rig building yards like Heydar Aliyev Baku Deepwater Jackets Factory, barges for transferring the rigs, and platforms as well as laying pipelines under sea, huge cranes, seismic vessels, and several rigs that could be rented to Iran as well as supportive ships for various operational activities.

Here are the technical details of the above mentioned fields:

#### Sardar-e Jangal

This field is located at block 6 with dimensions of 24 x 6 kilometres in 750 metres water depth. Iran has drilled two exploration wells and reportedly the field holds 2 billion barrels of crude oil, with an API of 39.

Block 24 is located 130 kilometres north of the Nowshahr port and has a depth of 600-800 metres and a 200-square-kilometre area. Block 26 is situated 100 kilometres north-east of the Anzali port and has a depth of 850-900 metres and a 384-square-kilometre area. Block 29 is also located 135 km north of the Nowshahr port and has a depth of 800 metres and an area of 1028 square kilometres.



# Government approves first gas export contract from Israel to Egypt

Natural Gas Europe, 24.12.2015



Israeli Energy Minister, Yuval Steinitz, signed approval for the Tamar Partnership to export natural gas to Egypt via Dolphinus Holdings. The approval is for a 7-year interruptible contract, worth \$1.2 billion for the export of 5 BCM.

The gas will be transmitted to Egypt through the undersea EMG pipeline that was used to import gas to Israel from Egypt before repeated terror attacks and change of regime in Egypt caused cancelation of the contract in 2012. Last month Israel Electric Corp (IEC) won in an arbitration a compensation of \$1.8 billion from the Egyptian gas suppliers for the contract cancelation.

Following the arbitration result, Egypt President, Abdel Fattah el-Sisi, ordered to freeze natural gas negotiations with Israel. However, the instruction was likely concerning Egyptian national gas companies rather than private ones, although private deals, like this one, would need governmental approval.

Dolphinus Holdings is a mysterious entity and the company intends to sell the gas to private customers from various sectors of the Egyptian economy. It is still not clear why the contract approval by Israel Energy Ministry was delayed for 9 months and why it was given today. The approval was never conditional on the approval of the natural gas regulatory framework, which was signed last week. The framework has yet to overcome its last hurdle, petitions to the Supreme Court to be heard next February.

In the past, Tamar Partnership said that only a period of a few weeks and an investment of some \$10 million in the EMG pipeline is needed from contract approval to start of gas delivery. However following the freeze on natural gas negotiations between Israel and Egypt further talks on a political level are needed.

Yitzhak Molcho, a personal envoy of Israel PM, is expected soon to head the negotiations. It is still not clear what demands EMG, the undersea pipeline owner, would present to the Tamar Partnership and Dolphinus Holdings in order to let them use the pipeline. In the past, there was unofficial information that the Tamar Partnership hasn't asked to use the pipeline but those rumors were denied. A person with knowledge about the Dolphinus contract, who was not allowed to speak publicly, said that probably during 2016 gas transmission to Egypt would start. The EMG pipeline is a 100 km undersea branch of the Arab Gas Pipeline that connects Egypt with Jordan, Syria and Lebanon.



EMG is an Egyptian company with an international group of share holders, among them Thai state-owned PTT (25%), Mediterranean Gas Pipeline Company (28%), the Israeli Merhav Group holds 25% of the shares via 2 entities, Egyptian Natural Gas Holding (10%) and others.

As part of the IEC arbitration with Egyptian companies, it was ruled that EMG, who was the mediator in the gas deals between Egypt and Israel, is entitled to \$324 million in compensation. EMG shareholders also sued Egypt for \$8 billion and the arbitration is still ongoing. It is assumed that Egypt would demand dropping the arbitration claim as a condition for the approval of the gas contract. However, it is unclear whether the shareholders will be willing give up without nothing in return, apart from reactivating the pipeline.

## Gazprom is losing its market muscle

Bloomberg, 23.12.2015



**Gazprom, the state-controlled, Moscow-based natural gas giant has long played a double role: as an instrument of Kremlin foreign policy; and as a major source of tax revenue for Vladimir Putin's government.**

Things have changed. Gazprom has long been accustomed to dictating terms because of its size. In the EU, it supplies about 30 percent of the gas. But with a 70 percent drop in profits, the company finds itself fighting to protect its share it depends on for as much as a third of its revenue of \$100 billion. Gazprom is no longer a potent diplomatic tool at a time when customers have many more options.

By 2025, says the International Energy Agency (IEA), gas imports by the EU will account for 77 percent of its consumption, up from 63 percent now. Gazprom will not necessarily be supplying Europe with those extra imports. American companies will be providing liquefied shale gas to European power plants starting next year.

“U.S. shale gas will provide a very important opportunity for European consumers to strengthen their hands,” says Fatih Birol, executive director of the IEA. U.S. exports may make up half of flexible liquid natural gas volumes heading to Europe by 2020, says Philip Olivier, chief executive officer of Engie Global LNG, a shipper of flexible LNG. “Flexible” means the gas can be shipped anywhere. It's not just America.

“There will be competition between American gas, Russian gas, Algerian gas, Middle Eastern gas,” Total CEO Patrick Pouyanné said in October. In response, Gazprom has dropped the bluster and threats it used with European clients that protested Moscow's actions in Ukraine last year and whose governments imposed sanctions on Russia. (The Western sanctions don't restrict purchases of Russian natural gas.) Instead, the company is paying more attention to customer needs, announcing plans for a pipeline that would transport its gas directly to the EU and pushing to settle an EU antitrust claim that could cost it billions of dollars.



The new approach complements Russia's attempts to ease tensions with the West over Ukraine and boost cooperation in fighting terrorists in Syria. Those efforts have met with limited success, but Russia is persistent. "The position of Gazprom and the Russian side is becoming flexible in light of the changing situation, defending our interests but also taking into account the demands of the European side," says First Deputy Energy Minister Alexey Teksler.

"The position of Gazprom and the Russian side is becoming flexible in light of the changing situation, defending our interests but also taking into account the demands of the European side" Gazprom is trying both to appease the Europeans and look for new customers. "In the aftermath of the Ukraine crisis, gas diversification became a mantra for both the EU and Russia," says Simone Tagliapietra, energy fellow at Bruegel, a think tank in Brussels. But "Russia needs the EU gas market as much as—if not more than—the EU market needs Russian gas."

Gazprom's room to maneuver is limited. All the gas for Europe is shipped by pipeline, meaning Russia can't divert it to other markets. Links to China aren't expected to be built until after 2019. Russia shelved plans to turn Turkey into a conduit to Europe after the Turks downed a Russian warplane near the Syrian border in November.

Gazprom's "export policy has always been balanced and adaptive," says spokesman Sergei Kupriyanov. He argues that European customers have become more interested, not less, in Russian gas, given Europe's own decline in production.

The Kremlin's traditional hard-line approach to customers was on display last year when tensions over the crisis in Ukraine led to the worst breach in relations with the West since the Cold War. "Europe has lost," Gazprom CEO Alexey Miller declared after Russia signed its first gas supply deal with China. He said another deal would come in the "nearest future" that would allow Russia to redirect some EU-bound gas from deep in West Siberia to Asia.

In September 2014, Gazprom started to limit gas deliveries to some EU members, including Poland and Slovakia. They had been supplying gas to Ukraine to replace supplies that Russia had cut off in a pricing dispute with its neighbor. Russia warned that the conflict with Kiev could disrupt supplies to Europe, as had happened in 2006 and 2009. In both those episodes, Gazprom cut off gas to Ukraine. Because Europe got most of its Russian gas via Ukraine, Gazprom's actions imposed shortages on the EU as well.

In January 2015, Miller told the EU's new energy chief, Maros Sefcovic, that Gazprom would cut off shipments to Europe via Ukraine after the current pipeline contract ran out in 2019. That would force customers to build new pipelines. "We don't work like this," a stunned Sefcovic told reporters in Moscow.

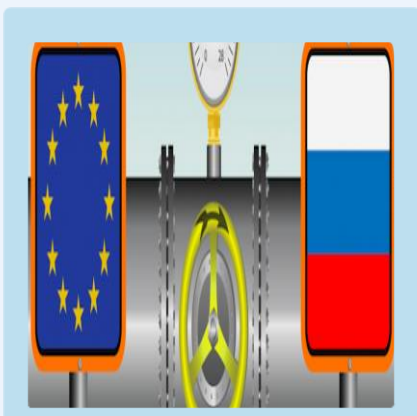
But since the spring, the pressure has been growing on Gazprom. The plunge in gas prices has begun to bite. Gazprom expects revenue in Europe in 2016 to be down 16 percent, the lowest in 11 years. Its giant Siberian fields are operating far below capacity. It says production this year will fall to a record low because of weak demand, primarily from Ukraine, which isn't buying much. In April, Brussels unsealed an antitrust complaint alleging Gazprom sold gas to Poland and the Baltic states at prices up to 21 percent higher than the average.

If the charges are proven, the gas giant could pay as much as \$3.8 billion in fines, VTB Capital in Moscow estimates. Gazprom denies all the charges. In negotiations to export more gas to China, talks have stalled. After a September visit to China again failed to yield a deal to expand shipments, Gazprom hastily signed a pact with five big EU companies including oil major Shell and utility E.ON to build a pipeline under the Baltic Sea to Germany. Russian officials say they're ready to offer lower prices to gas customers that help fund construction, as well as concessions to ensure the pact wins EU approval. The company later made a formal offer to settle the EU's antitrust charges.

Miller has publicly backed off from threats to cease shipments via Ukraine after 2019. Gazprom is also giving in to European clients' calls for more pricing flexibility. Slowly, Gazprom is learning how to operate like an ordinary company that has to work on its customer relations.

## EU summit opposes Nord Stream 2

Natural Gas Europe, 16.12.2015



European leaders convened that any new infrastructure - Nord Stream 2 included - has to comply with European laws and with the objectives presented in the Energy Union, European Council's President Donald Tusk said on Friday after the meeting.

“We discussed the conditions that need to be met by major energy infrastructure projects. What we have agreed is that any new infrastructure should be fully in line with Energy Union objectives, such as reduction of energy dependency and diversification of suppliers, sources and routes” he said in a statement.

Presenting the outcome of the EU summit in Brussels, Tusk explained that the projects can stumble upon political, legal or financial hurdles. “All projects have to comply with all EU laws, including the third Energy Package. This is a clear condition for receiving support from the EU institutions or any Member State - be it political, legal or financial.”

Tusk explicitly mentioned the Nord Stream 2, saying it does not meet EU energy rules on supply diversification. He also added that the pipeline extension would undermine Ukraine's role as a gas transit country.

# Germany's Merkel defends Russian gas pipeline plan

WSJ, 18.12.2015



German Chancellor Merkel found herself under pressure from other EU leaders over her government's support for a natural-gas pipeline from Russia that others fear could further undermine the economic and political stability of Ukraine.

The planned expansion of PAO Nord Stream pipeline, which ships Russian gas via the Baltic Sea to northern Germany, would add an extra 55 bcm of gas in capacity. Officials in Brussels and Washington as well as Kiev have accused Moscow of using the project, dubbed Nord Stream 2, to deprive Ukraine of much of its remaining political leverage as well as much-needed revenues from transit fees.

Ukrainian President Petro Poroshenko called Nord Stream 2 his country's "greatest concern as of today." But Ms. Merkel defended the planned pipeline. "I made clear, along with others, that this is a commercial project; there are private investors," Ms. Merkel said following talks with the other 27 EU leaders.

During the discussion on Nord Stream, the chancellor's position was attacked by Italian Prime Minister Matteo Renzi and Bulgaria's Boyko Borisov, while she received some backing from Dutch Premier Mark Rutte. Gazprom holds a 50% stake in the Nord Stream 2 consortium. The other 50% are held in equal parts by Royal Dutch Shell PLC, Germany's E.On AG and BASF AG, Austria's OMV AG and France's Engie SA.

Despite the involvement of these private investors, several European Union and U.S. officials have questioned the commercial reasoning behind Nord Stream 2, arguing that existing transit routes from Russia, including the first Nord Stream pipeline and the Ukrainian lines aren't used at full capacity.

In a recent interview, the U.S. special envoy for international energy affairs, Amos Hochstein, called Nord Stream 2 "an entirely politically motivated project" and warned European authorities against "rushing into" the project.

Since relations with Moscow cooled over the conflict in eastern Ukraine, the EU has been working to reduce its dependence on Russian gas. Building Nord Stream 2, however, would concentrate 80% of the bloc's gas imports from Russia onto a single route, according to the EU's climate and energy commissioner, Miguel Arias Cañete. "In my perspective, Nord Stream does not help diversification nor would it reduce energy dependence," said European Council President Donald Tusk, who presided over Friday's discussions among the 28 EU leaders. He said, however, the EU must avoid politicizing this issue and check whether the pipeline would comply with EU rules, which block companies from controlling both a pipeline and its supply.

Ms. Merkel said that should Nord Stream 2 be built, a solution should be found that would maintain Ukraine as a transit country for Russian gas. “That’s the political wish,” she said. Ukraine, which had to restructure its debts earlier this year and depends on a bailout from the International Monetary Fund and the EU, currently earns some \$2 billion a year in transit fees.

During Friday’s discussion, several leaders complained that Germany was supporting the expansion of Nord Stream, while an earlier pipeline project that would have bypassed Ukraine in the south was canceled amid pushback from Brussels. “I found it surprising that the South Stream project was blocked, while now we are discussing a doubling up of Nord Stream,” Mr. Renzi said. Italian energy company Eni SpA held a 20% stake in South Stream. Russian President Vladimir Putin said last winter that EU requirements for Gazprom to relinquish control of the pipeline led to its cancellation.

Hungarian Prime Minister Viktor Orban also questioned the logic behind Nord Stream 2. “We need a reasonable argument why South Stream was bad and Nord Stream is not,” he said. Hungary currently receives Russian gas via Ukraine and would have been connected to the South Stream pipe.

## Shell plans big cost cuts on BG merger

Telegraph, 23.12.2015



Shell is planning to slash \$7bn (£4.7bn) of costs, \$8bn of investment and 10,300 jobs in the next two years if shareholders approve its plan to buy BG, the energy giant has vowed.

Regulators around the world have given the green light to the £35bn deal, but bosses still have to win over some sceptical investors which includes promising larger than previously expected savings from the deal. Publishing the prospectus for the mega-merger, the oil giant described the deal as a “springboard to reshape Shell,” including asset sales amounting to \$30bn from 2016 to 2018.

Shell’s shareholders will vote on the plan on 27 January 2016, with BG’s investors voting a day later. If investors approve it - requiring support of 50pc of Shell shareholders and 75pc of BG shareholders - the deal is expected to complete by February 15.

BG chief executive Helge Lund and chief financial officer Simon Lowth will leave the enlarged firm once the deal is concluded. The scheme is however predicated on oil prices rising sharply from their current low levels. Shell’s calculations are based on prices rising from \$36.50 per barrel currently to more than \$50 in 2016 – a rise of more than 35pc. Prices then rise even further in the oil firm’s assumptions, hitting \$65 per barrel in 2017. The group acknowledged that this is far from a certainty, however it does expect a long-term rise in prices.



“Shell’s view is that the fundamentals of supply and demand, and in particular the requirement for significant and sustained global investment to deliver in excess of 5m barrels per day of new oil supplies per year, means that oil prices today are unsustainably low,” said the prospectus.

“The timing and magnitude of any oil price recovery are uncertain. In addition, the volatility of oil prices appears to have increased, meaning that Shell will need to manage its finances through significant swings in oil prices.”

However, the combined firm will hope that if it achieves its planned cuts to costs, it will be able to turn a profit at a lower oil price than would be the case if they remain separate companies.

## US company to export first crude after removal of ban

AA Energy Terminal, 18.12.2015



A U.S. company announced Wednesday that it is planning to export its first crude oil in almost 40 years, after the self-imposed ban on U.S. crude exports was lifted last week.

Enterprise Products Partners L.P., based in Houston, said in a statement that 600,000 barrels of domestic light crude oil is scheduled to load for export delivery during the first week in January next year. “We are excited to announce our first contract to export U.S. crude oil, which to our knowledge may be the first export cargo of U.S. crude oil from the Gulf Coast in almost 40 years,” said A.J. “Jim” Teague, chief operating officer of Enterprise’s general partner, in the statement.

“We applaud the actions of Congress and President Obama to remove the ban on U.S. crude oil exports,” he added. The U.S. Congress passed a spending bill on Dec. 18 that included the removal of the four-decades-old ban on exporting domestically produced crude oil.

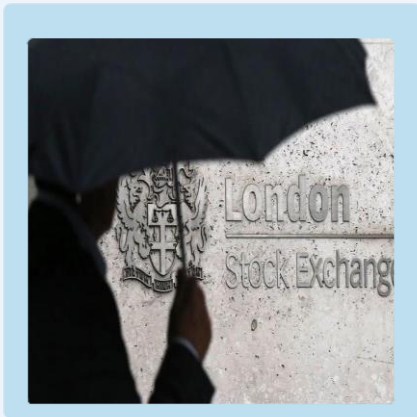
The ban was implemented during the 1970s, when Arab oil producing states placed an embargo on the U.S. This domestic crude oil has since been considered as a significant commodity for the U.S.’ energy security.

With the U.S. shale revolution, increasing oil production and stocks, the country’s dependency on foreign crude imports decreased and a domestic oil glut emerged, making storage harder and more expensive.

“This law facilitates economic growth and job creation for the U.S. as well as enhances our national and energy security. This action provides new markets to domestic producers, especially producers of light crude oil, and will provide global markets with supply diversification,” Teague explained in the statement.

# Crude rises after U.S. fed rate hike, gains limited

Reuters, 17.12.2015



Crude futures rose in Asian trade recouping some of the losses from the previous session, when they fell sharply after the FED raised rates and official figures showed a surprise build in U.S. inventories.

West Texas Intermediate for January, rose 17 cents to \$35.69 a barrel by 0100 GMT after finishing settled down nearly 5 percent. Brent crude for February, the front-month contract was up 17 cents at \$37.56. The global benchmark fell \$1.34 to \$37.39 the previous session. U.S. crude stocks increased as imports into the Gulf Coast rose, data from the EIA showed, surprising analysts who expected inventories to decline.

The EIA data showed crude inventories rose 4.8 million barrels last week to near record highs, while analysts in a Reuters poll had forecast a drop of 1.4 million barrels. Adding to the overall bearish global picture, OPEC producers see scant chance of a significant rise oil prices in 2016 as extra Iranian production could add to the ongoing glut and the prospect of voluntary output restraint remains remote.

The U.S. Fed hiked interest rates for the first time in nearly a decade on Wednesday, a sign it believes that the U.S. economy had largely overcome the calamity that was the 2007-2009 financial crisis. Higher U.S. rates typically support the dollar, making oil and other commodities denominated in the greenback more expensive, undermining demand.





# Announcements & Reports

## ► *Oxford Energy Forum*

**Source** : OIES  
**Weblink** : <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/12/OEF-103.pdf>

## ► *The Challenge of Completing The EU Internal Market For Natural Gas*

**Source** : SIEPS  
**Weblink** : <http://www.sieps.se/en/publications/european-policy-analysis/the-challenge-of-completing-the-eu-internal-market-for-natural>

## ► *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

## ► *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](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>