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Experts: Iran's arbitration will lower gas prices for Turkey

AA Energy Terminal, *11.02.2016*

The International Court of Arbitration's decision against Tehran in the gas dispute with Ankara will benefit the Turkish public, as its outcome is anticipated to reduce gas prices in the country, international arbitration lawyers said.

According to Eric Chang, principal at Chang Law, an international law firm specializing in international commercial arbitration as well as investor-state arbitration said that compensation to Turkish citizens is not a legal matter. "I would venture to guess that the Turkish utility would follow any directions from the Ministry of Energy and/or Ministry of Justice on this.

That is, the government of Turkey is the entity that will receive any monies from Iran. It is up to the government to decide as to what it will do with this money. Presumably, it will pass any monetary recovery on to Turkish gas consumers. As for prospective gas discounts, I would expect that this would also trickle down to Turkish gas consumers going forward," Chang said.

The tribunal has awarded monetary damages amounting to 10-15 percent discount from 2011 until the present day. "This monetary amount must be paid by Iran. However, it is somewhat unlikely that Iran will automatically honor the award and pay. Arbitration awards are not self-enforcing: Turkey will have to apply to [Turkey's domestic courts] to have it recognized and enforced," he said.

He explained that there are two logical places where the award can be recognized and enforced: Turkey, and Iran. Both Turkey and Iran are signatories to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under this treaty, both states agree to enforce foreign arbitral awards as if they were domestic court judgments, and agree to limited reasons to set aside or (vacate) an award.

Turkey brought the case to court because of Iran's high natural gas prices applied to the country during the four year period between 2011 and 2015. The International Court of Arbitration ruled against Tehran in the gas dispute, officials from Turkey's Energy and Natural Resources Ministry told Anadolu Agency.

Turkey and Iran must decide within three months on the level of discount Turkey will receive on Iranian gas, Turkey's Energy Minister Berat Albayrak said. "For any discounts that may apply prospectively, i.e. from 2016, the award would presumably order specific performance, i.e., command Iran to apply the discounted price going forward," Chang said. "I would expect Iran would do so, and might not even wait until recognition and enforcement of the award to do so. Of course, Iran may attempt to set aside/vacate the award and challenge it.

However, if Iran chooses to do so, it will likely lose on that point, because the New York Convention limits the reasons under which a party may apply to set aside an award. This said, if Iran does file to challenge and set aside the award, this might result in a lengthy procedure lasting months or years," Chang added.

Turkey imported 8-10 billion cubic meters (bcm) of natural gas from Iran last year. The country consumes around 45-48 bcm of gas per year. William Kirtley, partner at arbitration boutique Aceris Law in Switzerland's Geneva said that if the decision is final and binding, one would assume that an International Chamber of Commerce (ICC) arbitral tribunal (not the ICC Court itself, which merely scrutinizes and approves awards issued by arbitrators) has issued an award pursuant to a price review provision contained in a long-term contract for natural gas between Turkey and Iran.

"It is possible, however, that a final award has not yet been issued and that the price review provision existing in the agreement between Turkey and Iran has a multiple-tier dispute resolution procedure, providing first for an ICC expert determination to be made concerning the pricing provisions, to be followed by an arbitral award if Turkey and Iran are unable to revise the price provision in their long-term contract on their own. One would need a copy of the agreement to determine the precise dispute resolution mechanism that was used," Kirtley said.

According to Kirtley, such price review provisions were inserted in most long-term natural gas sales agreements starting in the 1990's. Kirtley said that these provisions are not in a standard form, however, the term 'price review' refers to a variety of different clauses that allows the existing price formula to be altered in circumstances that are specified.

"The arbitrator's or expert's task depends on what the contract with Iran requires the arbitral tribunal to do. This is primarily ascertained from the wording of the price review provision, the existing price formula, the law governing the interpretation of the contract, the arbitration provision and the relationship between the price review provision, the price formula and the rest of the agreement," Kirtley said.

Kirtley reminded that Turkey gave notice for a price review and added that what typically follows is a private and confidential ICC arbitration, much like a domestic court proceeding, where both parties lay out their positions on the need for changes to the pricing provision and an arbitral tribunal decides who is right, often with the assistance of an expert in natural gas markets.

"If three arbitrators were used, Iran will likely chose one arbitrator, Turkey will likely chose another, then these two arbitrators are likely to choose the president of the arbitral tribunal, although the mechanism for forming the arbitral tribunal depends on what was agreed to in their contract," he said.

According to Kirtley, arbitrators for such matters are typically highly-esteemed lawyers or retired judges with experience in natural gas markets, although they could be anyone who is independent and impartial that the parties agree to appoint. "If the price formula was reviewed by arbitration, and an award was issued rather than a mere expert determination, then it is binding and Iran must respect it except in very rare cases where annulment is possible for procedural irregularities," he said.

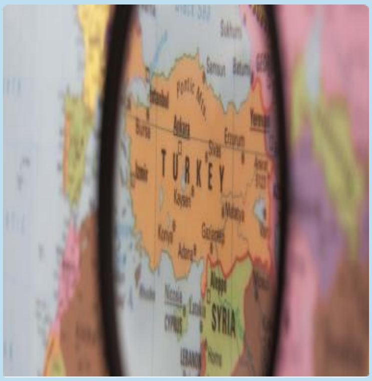
“If Iran does not respect an award, then Turkey could theoretically enforce it against assets owned by Iran in the 153 States that are parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. If merely an ICC expert determination took place, then this determination is not legally enforceable, and it depends on the good faith of Turkey and Iran to respect it, perhaps followed by a final and binding ICC arbitration if they are unable to update the pricing provision in their contract on their own,” he added.

Kirtley also asserted that the case results should benefit Turkish citizens by decreasing the cost of gas. “It also makes Turkey as a whole a bit stronger economically; since it will reduce its current account deficit which is Turkey’s glaring economic weakness. The $1 billion that was reportedly awarded should also help to fill Turkey’s coffers, which could indirectly benefit citizens depending on how the Turkish State uses it,” he said.

Iran’s Oil Minister Bijan Namdar Zanganeh accepted the court’s decision on Thursday. The Minister said that Turkey will not be allowed to ask for further price reductions or changes in the coming years. “The amount of the penalty is still negotiable,” Zanganeh said.

Azerbajian’s Absheron gas: New alternative for Turkey

AA Energy Terminal, *10.02.2016*



Azerbaijan’s Absheron natural gas field offers a new alternative for Turkey’s gas supply routes, energy experts concur.

“I think the best market for the Absheron gas outside of Azerbaijan domestic market could be the Turkish market due to geographic proximity and demand growth. I believe that Absheron gas field’s operator, Total, has already started market tests and should hold meetings with potential buyers to investigate the market dynamics,” Gulmira Rzayeva, energy expert at Center for Strategic Studies under the President of the Republic of Azerbaijan told Anadolu Agency.

Rzayeva explained that the Absheron natural gas field project is currently at a developmental phase. “Currently, the project is in interim status as exploration works have been done but the appraisal stage, which usually takes 3 years has not been started yet. This is due to no availability of semi-submersible drilling rigs in the country.

This issue is being resolved by construction of a new rig which will be ready by the beginning of 2017. The partners are planning to start Front End Engineering Design (FEED) of the field in 2016 and drilling well in 2017 when semi-submersible drilling rigs will be constructed. The final Investment Decision (FID) of the field is expected to be achieved in 2018 and first production in late 2021,” she said.

The Azeri expert also emphasized Turkey’s rapidly growing demand for natural gas and its need to source alternative supply chains. “Turkish gas demand may reach 70 billion cubic meter (bcm) in 2035 from the 45 bcm in 2013. This means that Turkey will need an additional 10 bcm by 2020 and 15 bcm by 2025. Moreover, some of the long-term contracts with current suppliers will be expired in 2020s. Turkey will either need to find new suppliers to substitute expired contracts or to extend them,” Rzayeva said.

She added that Turkey may not want to extend its current contracts with Gazprom depending on the political situation. For instance, Gazprom’s 4 bcm gas contracts with private buyers in Turkey will expire in 2021 and the long-term contract with Botas [Turkey’s state-owned crude oil and natural gas pipelines and trading company] for 16 bcm for the Blue Stream project is due to expire in 2026. Consequently, she recommended that Absheron gas could be used as a suitable alternative source for Turkey.

Assoc. Prof. Rovshan Ibrahimov, energy expert at Hankuk University of Foreign Studies in South Korea also underlined the significance of Absheron gas for the Trans-Anatolian Pipeline (TANAP).

“It is expected that TANAP’s capacity in the mid and long term will increase. So, one option for gas for TANAP is from the Absheron gas field. Azerbaijan and its consortium members welcome the possibility of Azerbaijani gas exports to the Turkish market,” Ibrahimov told Anadolu Agency adding that Azeri natural gas could become a viable substitute to Russian gas in the mid to long term.

Ibrahimov said that regardless of the relationship between Russia and Turkey, the country will still need to diversify supplies, which Absheron can fulfill along with Umud, Babek and the Shah Deniz natural gas fields.

The Absheron natural gas field is an offshore gas field in the Azerbaijan sector of the Caspian Sea. The field is located 100 kilometers southeast of Baku and 25 kilometers northeast of the Shah Deniz natural gas field. The field holds 350 bcm of natural gas and 45 million tonnes of gas condensate, according to the State Oil Company of Azerbaijan (SOCAR). Participants in the Absheron gas field include Total witih 40 percent, SOCAR with 40 percent and GDF Suez at 20 percent.

Ankara, Tehran must discuss gas discount level, experts

AA Energy Terminal, *08.02.2016*

Turkey and Iran must conclude the natural gas discount rate due to Turkey to avoid the arbitration court fixing the rate, Denis Mouralis, professor of arbitration and international trade law at Aix Marseille University, consultant and arbitrator said.

Turkey brought the case to court because of Iran's high natural gas prices applied to the country during the four year period between 2011 and 2015. The International Court of Arbitration ruled against Tehran in the gas dispute, officials from Turkey's Energy and Natural Resources Ministry told Anadolu Agency.

Turkey and Iran must agree on the level of discount Turkey will receive on Iranian gas within three months, Turkey's Energy Minister Berat Albayrak said the same day. Mouralis said that BOTAS, the Turkish state-owned crude oil and natural gas pipelines and trading company, concluded a gas import contract with Iran but claimed Iran failed to fulfill its obligations under the contract, and initiated arbitration, pursuant to the arbitration clause of the contract.

"The arbitration was conducted under the rules of the International Chamber of Commerce (ICC), a private international body, whose court of arbitration is world renowned for commercial disputes. The seat of ICC is in Paris but arbitral tribunals can seat wherever in the world the parties have chosen . Here, the arbitral tribunal was seated in Geneva, Switzerland," Mouralis explained.

He added that the decision of the arbitral tribunal is akin to a judgment, is binding on the parties and can be enforced. The price of gas imports from Iran is expected to decrease between 13.3 percent and 15.8 percent after Turkey and Iran agree on a rate. If the parties fail to agree on a reduction within two to three months, the international arbitration court will step in and make the decision.

"The parties must discuss the exact rate. If they do not agree, the arbitral tribunal shall fix the rate. This discount will apply retroactively from 2011, meaning Iran would have to reimburse BOTAS a part of the price paid during the last four years," Mouralis added.

Dr. Harun Kilic, a partner from KILIC & Partner International Law Firm, said that in accordance with the court's decision, it has concluded that Iran sells natural gas to Turkey at more expensive costs than other buyers. "It is projected that Iran will have to pay $1 billion for the four-year period between 2011 and 2015. The two countries should discuss and negotiate the percentage of gas sale discount retrospectively," Kilic said. Iran and Turkey signed a natural gas deal for 25 years in 1996 which will expire in 2021. According to Kilic, the court's decision will also affect the cost of Turkey's gas purchase from 2016 to 2021.

Kilic also stressed that the discounted gas prices will be passed onto customers in decreased gas bills. “We will apply natural gas prices for the consumers in accordance with the discount from the court case,” Turkish Energy Minister also announced.

Turkish energy minister: Minimizing dependency priority

Daily Sabah, *09.02.2016*

Minister Berat Albayrak announced an updated road map for the energy sector. The investment required in the energy sector will exceed $110 billion, and $16 billion in contracts will be available for local firms to produce equipment and materials for the Akkuyu and Sinop Nuclear Plants.

Dependency on a country will be dropped to at most 50 percent by the end of 2019. The strategy for the energy sector, which has been submitted by the ministry, is based on the “security of supply, alternative energy resources, variety, inclusion of local and renewable energy resources, deregulation of energy markets and productivity in energy.”

Priority will be given to local resources, and the share of renewable energy resources in energy supply will be increased. Variety in supplier countries for crude oil and natural gas will be increased, while risks arising from import will be lowered. The share of electricity production using natural gas will be under 38 percent of total production by the end of 2019, according to the roadmap.

The $110 billion investment requirement over the next 10 years will be mostly covered by the private sector, and related regulations will be enforced to achieve that. Fluctuation in demand according to season, and the necessity to ensure security of supply, required the storage capacity to be increased.

Boron has been chosen as a major target for Research and Development activities, and boron-related minerals and equivalent products will be exported instead of concentrated boron; products such as boron oxide, agricultural boron, zinc chlorate and anhydrous borax are being manufactured.

As a result of the regional collaboration in the field of energy, Turkey is to become a regional hub and a terminal of energy. Another major target is to include nuclear energy in Turkey’s energy production portfolio.

The Environmental Impact Assessment of the Ministry of Environment and Urbanization and a pre-license from the Energy Market Regulatory Board has been obtained for Akkuyu Nuclear Plant. Development works are about to start, and the first unit of the nuclear plant is scheduled to commence electricity production by 2022.Seismological works have commenced for Sinop Nuclear Plant. Business and employment opportunities will be provided for local firms that can supply equipment in conformity with nuclear plant standards for the Akkuyu and Sinop nuclear plants.

Demand is increasing in all areas of the energy sector, and it is estimated that the energy demand will double within the next 10 years. Big energy-importing companies are about to become exporters, and big energy-exporting countries are becoming centers for demand. Due to the major drop in crude oil prices, the rules of the global oil sector are now being rewritten.

The Ministry also plans to increase the share of the mining sector within the national income and the main strategy regarding mining and metallurgy sectors will be ensuring that the mining activities are carried out in an environmentally-friendly manner, and that rules and regulations regarding occupational health and safety are followed.

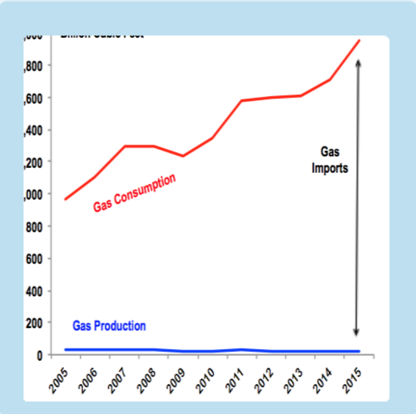
With new plants commissioned plus the increases in capacity, the energy production capacity of Turkey increased to 4,288 MW, while the number of electric energy production plants, which was 300 in 2002, increased to 1,515 by the end of last year making a fivefold increase. The total electricity transmission and distribution network has become the fifth longest in the world, and the third longest network in Europe.

Crude oil and natural gas prospect works and production investments also increased sevenfold, when compared to 2002. Domestic prospecting and production investments reached $625 million in 2015. This year an investment of $451 million is planned.

Turkish Petroleum Corporation (TPAO) is currently investigating sites in Azerbaijan, Iraq, Libya, Afghanistan and Russia, seeking to contribute to the crude oil and natural gas supply. Business development activities are taking place in the Middle East, Central Asia, Africa and the United States. TPAO's foreign investments this year are to exceed a total of $1.8 billion in 2016.

Turkey's rising natural gas demand needs U.S. LNG

Forbes, *07.02.2016*



The ongoing tension between Turkey and Russia makes Turkey's dependence on foreign energy perhaps the country's biggest concern. And this begins with natural gas, which passed oil in 2012 to become Turkey's main source of energy. Turkey imports 99% of its gas, and Russia pipes in nearly 60% of Turkey's total gas use.

Turkey is the second largest consumer of Russian gas and paid Gazprom some $10 billion last year. Iran supplies 20% of Turkey's gas and Azerbaijan 10%, all via pipeline. LNG, mainly from two countries (Algeria and Nigeria), supplies about 13% of the country's gas.

As an OECD Member, and thus a member of the IEA, Turkey has been advised to diversify away from Russian gas, and Russia may also be looking elsewhere (e.g., China, India) in its response to the downing of its warplane by Turkey in November.

There does indeed appear to be a growing organized effort to squeeze Russian energy firms out of Europe, but for Turkey in particular, an interruption in gas flows from Russia would severely damage the economy. The “Turkish Stream” planned gas pipeline project to link Russia and Turkey was shelved in December.

Falling over the years, The Institute for 21st Century Energy ranks Turkey’s Energy Security as 20% LOWER than the OECD Average. Of the 25 countries ranked, Turkey ranks near the bottom at 23rd for “natural gas import exposure.” But, it’s actually even worse since natural gas is far more important in Turkey than the only two countries ranked below it, France and Spain.

More gas has been a strategic choice in Turkey (and around the world) because it’s cleaner, more flexible, and highly reliable. For example, gas generates over 50% of Turkey’s electricity, but accounts for only 30% of installed capacity, illustrating gas’ ability to “punch-above-its-weight,” accounting for more actual power generation than its share of capacity would suggest.

Importantly, this is EXACTLY THE OPPOSITE of the OECD, UN, and World Bank politically favored wind and solar power, where natural intermittency means they ultimately supply LESS electricity than they should. Even in 2022, per average capacity factors, gas will be available 87% of the time, compared to 20-36% on even the best days for wind and solar.

So, regardless of what Greenpeace, Sierra Club, and/or even your elected representative keep telling you, know this: natural gas is a “dispatchable” energy system, and “non-dispatchable” sources like wind and solar don’t displace it.

From 2012-2015, Turkey slowed a bit from “Europe’s ‘fastest growing economy” to “Europe’s third-fastest growing economy.” One of the many things that the anti-coal, anti-oil, and anti-natural gas movement regularly fails to understand (or more likely chooses to ignore) is the direct relationship between more economic growth and more energy demand, working in tandem to drive each other upwards (really underscoring why we need investments in all sources and fields of energy!).

This is especially true in emerging economies like Turkey, where there’s still immense room for growth. Compared to other OECD nations, Turkey’s relatively lower personal incomes and less electricity use means the future is obvious: as Turkey continues to grow, the country will continue to need more natural gas, the backbone of Turkey’s power system Although having 6-times the population, Turkey uses less electricity than Pennsylvania does.

Yet, Turkey has one of the most perfectly linked GDP and electricity use connections of all nations that I have studied. And over 50% of Turkey’s natural gas use is for electricity, compared to ~33% in the U.S., meaning that demand for gas is mostly tied to the cornerstone of a modernizing economy: the generation of increasingly amounts of electric power. Add on the fact that households in Turkey constitute another 25% of gas demand, and it becomes very clear very quickly that the amount of gas Turkey consumes is directly tied to how much money residents have. Per the USDA, Turkey’s real GDP per capita will surge 80% by 2030, compared to just 25% in the European Union.

Thus, the construction of new housing and apartment blocks will significantly increase gas demand growth in Turkey's household sector. And soaring demand has Turkey with the "2nd fastest growing house prices in the world." Turkey's electricity demand is projected to rise ~8% per year over the next decade, compared to overall GDP growth of 4-5%, making it one of the fastest growing power markets in the world. This growth will help reverse a falling lira and low electricity prices that have hurt utilities.

Turkey is highly ranked for an emerging economy in Forbes' "best countries for business list," with a sophisticated energy market incentivizing foreign investors to invest. For example, the retail electricity market opened in 2010 to investors through the tender of six distribution companies, an attractive market at a very early stage in its development.

Energy Minister: Tel Aviv considering gas pipelines to Turkey, Greece

Trend News Agency, *08.02.2016*

Israel is reviewing the possibility of launching two pipeline ventures to export gas to Turkey and Greece, Energy Minister Yuval Steinitz said, Sputnik reported.

Tel Aviv, Nicosia and Athens agreed to work on joint projects to export gas from the Eastern Mediterranean's gas reserves discovered in the seas belonging to Israel and Cyprus to Europe. "If things improve with Turkey… gas could both be sold to Turkey, and to Greece via Turkey," Steinitz told the Greek Kathimerini newspaper. The Israeli minister added that the discovery of strategic gas reserves in Israel and Egypt would justify the costs of building a major pipeline to Greece.

Ankara has been in talks with Israeli firms over a potential pipeline to carry Israeli natural gas to Turkey for several years, but the negotiations reached an impasse as relations between the two countries deteriorated.

Relations between Israel and Turkey deteriorated after the Freedom Flotilla incident in 2010, when a convoy of six ships, including one under Turkey's flag, tried to approach the Gaza Strip with humanitarian aid and activists on board. The flotilla was blocked and stormed by Israeli forces, with eight Turkish citizens being killed. Currently, Israel's Leviathan gas field, first drilled in 2011, is one of the largest young gas reserves in the world, with some 3,450 trillion cubic meters of natural gas of undiscovered reserves.

Turkey keen to strengthen positions in Turkmen market

Azernews, *10.02.2016*

Turkish companies and businessmen desire to strengthen their positions on the promising Turkmen market. This was obviously shown during a joint Turkmen-Turkish business forum and exhibition which kicked off in Ashgabat on February 9 and will last till February 11.

The Turkish delegation includes representatives of more than 100 Turkish companies desire to strengthen their positions on the promising Turkmen market specializing in mechanical engineering, chemical industry, production of industrial, agricultural and water-economic equipment, trade, education, construction and other fields.

In his addressing speech to participants of a joint Turkmen-Turkish business forum and exhibition Turkmen President Gurbanguly Berdymukhamedov said these events will be of great importance for the expansion of bilateral trade and economic partnership, increase in export of goods, development of business relations with Turkish companies and investors, wide attraction of foreign capital into the national economy.

Turkey and Turkmenistan, bound by a common history, language, religion and culture, enjoy special relations. Today the cooperation between the two countries encompasses very diverse fields - foreign policy, trade, economy, in particular energy and construction sectors, as well as culture and education.

Since the early days of independence of Turkmenistan, Turkish businessmen have contributed to the country's development with about 600 Turkish companies registered in Turkmenistan. In the past few years, Turkmenistan has become the country in Central Asia where Turkish contracting companies undertook the most projects.

Turkish companies are making significant contributions to the infrastructural development of Turkmenistan. Recently, amid worsening relations between Turkey and Russia, boosting ties with Turkmenistan has becomes vital for Ankara. Being Turkmenistan's top import partner, Turkey exports mostly electronic equipment, machinery, processed metals and furniture to the Central Asian nations, making up 26 percent of Turkmenistan's imports.

Meanwhile, experts believe that the energy sector is the most important field where the two countries desire to develop cooperation. They say Ashgabat and Ankara have a great potential in energy relations. Currently, when relations between Moscow and Ankara are hopelessly ruined, Turkey seeks an alternative for Russian energy supplies in order to get rid of energy dependence on Moscow. Ankara has already made a strategic decision to turn down Gazprom and reject Russian gas supplies and its transit. In this context, Turkmenistan is seen as an alternative variant.

Turkey is also important for Turkmenistan as a huge and fast-growing natural gas market as well. According to estimations, Turkish natural gas market will grow by 45 percent and reach an annual volume of 65 billion cubic meters by 2023. Most of the natural gas import agreements will expire until then, which opens new doors for Turkmenistan in Turkish gas market.

Being one of the key players in the energy market of the resource-rich Caspian region, Turkmenistan has the world's fourth largest natural gas reserves after Russia, Iran, and Qatar, and produces about 70-80 billion cubic meters of gas a year.

Turkmenistan's natural gas reserves, which is equal to 10-12 percent of proven natural gas reserves in the world, is sufficient to meet Turkey's current natural gas demand for 500 years by itself. Today, Turkmenistan is keen to expand its natural gas market gradually to the European direction. In this regard, Turkey with its strategic position between energy-rich Central Asian country and energy-hunger European consumers plays a crucial role in Ashgabat's getting into the European market.

As a bridge between Europe and Asia, Turkey is also a potentially key actor in natural gas trade. On the backdrop of increase of Europe's demand in blue fuel and its aim to decrease dependence on Russian gas, Turkmen gas becomes important for the economic and strategic security of Europe. It, in turn, leads to strengthening energy relations between Turkmenistan and Turkey.

It is believed that transportation of Turkmen gas to European markets through Turkey will enhance European energy security. Currently, Turkmenistan exports 58 percent of produced gas to China. However, Turkmenistan enjoys a potential to produce even more natural gas, and export it to new -European customers. The infrastructure, which would be used for supply of Turkmen gas to Europe, is the Southern Gas Corridor.

The Southern Gas Corridor project envisages the transportation of the gas extracted at the giant Shah Deniz field in the Azerbaijani sector of the Caspian Sea. Shah Deniz Stage 2 gas will make a 3,500 kilometer journey from the Caspian Sea into Europe. The existing South Caucasus Pipeline will be expanded with a new parallel pipeline across Azerbaijan and Georgia, while the Trans-Anatolian pipeline will transport Shah Deniz gas across Turkey to meet the Trans-Adriatic Pipeline, which will take gas through Greece and Albania into Italy.

Joining of another supplier, such Turkmenistan, to the Southern Gas Corridor would be beneficial for all parts. Turkey, Europe and Azerbaijan have long courted Turkmenistan to become this "another supplier" by constructing the proposed Trans-Caspian pipeline, which would be connected to the Southern Gas Corridor.

However, Turkmenistan has been wary of partaking in a project that counters Russia, which holds a great deal of influence in Turkmenistan and elsewhere in Central Asia. Also, Turkmenistan in recent years has been more focused in fulfilling its natural gas contracts with China.

However, the Trans-Caspian pipeline, according to the energy experts, is the last option for diversifying Turkmenistan's customer base, as the implementation of the Turkmenistan-Afghanistan-Pakistan-India pipeline, the implementation of which is a high priority for Ashgabat, is fraught with security and financial concerns.

Also, negotiations with Iran on using its pipeline infrastructure for gas transportation are hopeless as Iran is a strong natural gas producer itself and is not likely to help Ashgabat. Thus, it is a chance both for Turkmenistan and Turkey to agree on the implementation of the Trans-Caspian pipeline.

Cancellation of Iran oil contracts' presentation signals infighting

Reuters, *12.02.2016*

Iran's cancellation of a conference when it had been due to unveil investment contracts to international oil firms signals that political feuding is disrupting plans to revive its energy sector.

Tehran blamed snags in obtaining British visas for Iranian delegates to the long-delayed conference, which had been scheduled to be held in London. However, foreign oil executives say factionalised politics in Iran, where elections will be held later this month, appeared to explain the delay as the country seeks major investment following the lifting of international sanctions last month.

Iran's new oil and gas contracts are a cornerstone of its plans to raise crude production to pre-sanctions levels of four million barrels per day (bpd), and the OPEC member desperately needs $200 billion in foreign money to reach the goal.

The sanctions imposed in 2012 over Iran's nuclear programme have lost it billions. Tehran now wants foreign firms to revive its giant but ageing oilfields and develop new oil and gas projects through joint ventures with Iranian partners. The conference had been postponed five times due to the sanctions. However, this time domestic infighting over the structure of the oil and gas investments contracts seems to have prevented any announcement of the commercial terms.

"There are big internal clashes on the new contracts," said a senior foreign oil executive. "The Iranians did not present us with a final contract until now, nothing was finally approved." The Iran Petroleum Contracts (IPCs) covering about 52 projects will have flexible terms that take into account oil price fluctuations and investment risks, a senior Iranian oil official told Reuters in November.

BP, France's Total, Italy's Eni and Russia's Lukoil were among 135 firms that attended a Tehran conference in November to hear about the IPCs. But executives expecting to see the model of the contract were offered only data on the fields up for investment and some general presentations about what the new deals might look like. "It was clear that this conference was only for a domestic audience. I do not think they even approved the contracts yet," said another foreign oil executive who attended the November conference.

Hardline rivals of pragmatist President Hassan Rouhani have strongly opposed the new contracts, saying they contradict the constitution which says Iranian natural resource reserves cannot be owned by foreigners. The hardliners also criticised a nuclear deal reached in 2015 that led to lifting of sanctions.

Trying to fend off criticism, Oil Minister Bijan Zangeneh rejected “illogical” calls for banning participation of foreign energy firms, insisting that the new contract models are not treasonable, Shana news agency reported.

Hardliners want a bigger say in the contract regime, under which the oil ministry will assign certain Iranian companies to become partners of the foreign firms, industry sources say. One Iranian oil businessman foresaw more problems for Zangeneh and the National Iranian Oil Company (NIOC) following the elections on Feb. 26.

“The situation could be more difficult for NIOC and the oil minister for negotiations with the foreign companies after the parliamentary elections, because there is a lot of pressure from the hardliners,” said an Iranian oil businessman. “The hardliners don’t want to be sidelined from the decision-making in the oil sector. They want to have a share in the discussions.”

Easing economic sanctions and pulling Iran’s economy out of its current sorry state could help Rouhani’s backers in the elections to parliament and the Assembly of Experts, a body with nominal power over Supreme Leader Ayatollah Ali Khamenei.

“The government and especially the oil ministry have done their utmost to finalise the contracts before the elections,” a senior Iranian official told Reuters. “We need to regain our position in the market and therefore Iran needs to offer contracts that are better than other oil producing countries.”

Khamenei and his hardline allies will not allow Rouhani to gain too much popularity, particularly before the elections, another Iranian official said. “People are tired and have high expectations. The government is trying to bind up wounds created by sanctions. Petrodollars are much needed and therefore the new oil contracts were prepared,” the official, involved in the process said.

“The committee for preparing the contracts finished its work. The contracts need some minor touches and the final approvals. But unfortunately political infighting is overshadowing the issue.” Analysts say Rouhani’s political allies could benefit from an economic dividend. “The news about attracting foreign investors will give hope to Iranians, to voters, who will reward moderate candidates at the ballot box. And this is something that hardliners are wary of,” said political analyst Hamid Farahvashian.

Farahvashian noted they criticised Rouhani’s announcement of deals worth billions of dollars last month on a trip to Italy and France. “The same applies for the oil contracts.” NIOC’s Deputy head Ali Kardor has said foreign oil companies will still be invited in May to bid for the new deals.

“The conference had been repeatedly postponed. It is a clear sign of political disagreement inside the establishment,” said a senior Western diplomat in Tehran. “Hardliners know the economy is one of the main issues for people. They would not let Rouhani and his allies become more popular ahead of the elections.”

Hardline students gathered last week in front of the oil ministry to protest against the terms of the contracts. “These are all politically-motivated protests. Zanganeh is a seasoned politician and a technical person,” said the first Iranian official. “He loves his country and more than anyone else believes in nationalisation of oil in Iran. He has always protected Iran’s interests.”

After sanctions, Iran’s growing role in the Caucasus

Stratfor, *03.02.2016*

With the end of sanctions on Iran, the country’s regional economic influence will begin to rebound. The adjacent South Caucasus region, encompassing Azerbaijan, Georgia and Armenia, is one area that Tehran will target for greater cooperation, reaching out to make deals on trade and energy.

In doing so it will inevitably have to consider the role of Russia, which has dominated affairs between the Black and Caspian seas for two centuries. Russia and Iran are regional rivals, a dynamic manifested in the Nagorno-Karabakh conflict between Azerbaijan and Armenia and on negotiations over pipeline projects for Iranian hydrocarbon exports.

In spite of their rivalry, Russia and Iran will have to work together in order to block Western-led infrastructure projects, which they both largely oppose, and to avoid foreign military presence in the region, particularly by Georgia.

The January 17 end of sanctions on Iran will have important consequences worldwide, changing the state of play in the ongoing conflicts in Syria and Yemen. In the South Caucasus, however, Tehran’s reemergence will have particularly sweeping effects. For some time, Iran has lagged far behind its regional rivals in terms of economic and military influence, even as it has become increasingly interested in Azerbaijan, Georgia and Armenia for their transit and energy possibilities.

Iran has a number of reasons for increasing its regional involvement. Europe is trying to diversify away from Russian natural gas, and Iran wants to seize the opportunity to take over these markets. But it needs access to the South Caucasus first. Tehran recently expressed interest in using existing infrastructure such as the Trans-Anatolian Gas Pipeline and the Trans-Adriatic Pipeline, which connect the Caspian and Mediterranean seas.

Another option would be reaching Georgia’s Black Sea ports of Batumi and Poti through Armenia. Iranian officials are already courting Yerevan for that purpose. Exporting energy through Turkey would be more convenient for Iran, but difficult relations between the countries on issues including how to end the Syrian civil war ultimately make the Armenian route more viable. So far, there has been talk of building a $3.7 bn railway and of extending a natural gas pipeline between Armenia and Iran.

However, that plan, too, is complicated for Tehran, because Moscow has repeatedly tried to stall or become a shareholder in major infrastructure projects so as not to lose its influence in Armenia. The recent diplomatic battle over who will meet Georgia’s growing natural gas demand is emblematic of the ways Iran is being blocked from taking on a more active regional role. The dispute began when Azerbaijan announced that it was unable to meet Georgia’s requests for more natural gas.

Iran saw this as an opportunity and immediately reached out to Georgian officials, even announcing that an official agreement had been signed. Georgia, however, later refuted the claim. The silent player in the dispute is Russia, which has used Armenia to hinder attempts to transport natural gas to the Georgian market via either the construction of a new pipeline or the expansion of an existing one.

The Russian obstacle has spurred Iran to look for routes that avoid Armenia. Tehran is now considering building around $400 mn in railway infrastructure to Georgia through Azerbaijan, Armenia’s regional rival. This north-south transport corridor would run from Iran to Russia’s Baltic ports and take precedence over any plans for transit through Armenia. This is reflected by the pace of construction on railways from Iran through Azerbaijan connecting to Russia’s North Caucasus railway branch.

Again, because of Russian interference, regional powers are circumventing Armenia to get their exports to the European market, in turn increasing Armenia’s dependence on Russia. But Iran is determined to increase its trade with all the South Caucasus countries. Trade with Georgia and Azerbaijan is set to more than triple from below $1 bn to $3 bn.

Post-sanctions Iran will also try to become more involved in the Nagorno-Karabakh conflict. In the early stages of the territorial dispute, Tehran tried to mediate between the two sides, but Armenian forces violated the truce.

Now, Azerbaijan is working to change the status quo on the contact line, and Iran sees an opportunity to insert itself into the new configuration. Iran’s Foreign Ministry offered to mediate the conflict, as a possible resolution to the standoff would make it easier for Tehran to implement its infrastructure projects in the region.

Tehran’s involvement will also undermine Russia’s dominant position in the negotiation process. Moscow could theoretically cooperate with Tehran, but considering how opposed Russia is to any Iranian moves into the Armenian and Georgian energy sectors, this scenario is unlikely. On the other hand, as other world powers try to increase their involvement in the conflict, Moscow could see Tehran as a valuable partner to counter foreign influence.

Indeed, despite the disputes over influence in the South Caucasus, Russia and Iran have shown they can cooperate. In December, both managed to sign a memorandum to synchronise their electricity transmissions systems with those of Georgia and Armenia. And both are keenly aware of the larger threats to their interests. For example, the European Union and NATO are increasing their regional presence through political and economic treaties, as well as a new NATO training centre in Georgia. Tehran and Moscow also both oppose Western-sponsored economic projects, namely the Baku-Tbilisi-Akhalkalaki-Kars railway, the Trans-Caspian transit route, and other projects such as the Nabucco pipeline.

Russia’s fears of being sidelined were magnified January 15, when following the severance of ties between Ukraine and Russia, Kiev signed an agreement with Georgia, Azerbaijan and Kazakhstan to move its exports to Asian markets through the Trans-Caspian transport route. This fear, along with the buildup of an economic and military alliance between Azerbaijan, Georgia and Turkey, may make Russia more willing to work with Iran in the future, especially when it comes to blocking Trans-Caspian efforts.

Iran and Russia’s military priorities broadly align. Both worry about growing military cooperation between Turkey, Georgia and Azerbaijan, and they fear a potential expansion of NATO’s presence in Georgia. Tehran and Moscow know that they need to prepare for such a threat by building out their regional military connections, and as a result, Iran wants a direct route to Russia.

This, however, is politically difficult, given that Georgia, Azerbaijan and Turkmenistan are unlikely to allow Russian military equipment to transit through their territories. One suggestion for avoiding the issue altogether is to use the Caspian Sea as a transit route. Meanwhile, both sides are also concerned with the ongoing conflict in Syria and are both working to secure an alternate route to the country for Russian troops.

Indeed, for the past two years, Stratfor has been closely tracking an expanding network of Russian and Iranian rail and road projects around the Caspian Sea and through the Caucasus mountains.

Though military confrontation with any third party is a distant prospect, boosting mutual trade is a much more immediate motive for building roads and railways. Trade between Russia and Iran increased after the fall of the Soviet Union, reaching almost $1.2 bn at one point, but it eventually stagnated under sanctions.

Trade is expected to rebound following the removal of sanctions on Tehran, particularly Iran rejoining the Society for Worldwide Interbank Financial Telecommunication (SWIFT), an international payments network. Moscow has already made some important moves to reestablish the lost ties.

When Russian President Vladimir Putin visited Tehran in November 2015, he signed around 35 agreements on a range of issues, including in the areas of agriculture, military, nuclear stations and waste disposal. Moscow also provisionally agreed to provide Iran with a $5 bn line of credit.

Moreover, as a token of the trade potential between Iran and Russia, Tehran recently floated the idea of signing a free trade agreement with the Russia-led Eurasian Economic Union. Regarding military cooperation, Moscow has agreed to provide Iran with an S-300 missile system, and Iranian specialists are now being trained in Russia. From 1992 to 2012, 52% of Iranian imports of military equipment came from Russia, but Iran’s share in the global military trade amounted to less than 1.5%.

Thus, while Iran will certainly become more active in the region politically, and while it will increase trade with every South Caucasus country, it will encounter significant obstacles along the way. Russia is unlikely to loosen its grip on Armenia by allowing Iran’s large energy infrastructure projects to move forward — unless Iran allows significant Russian participation in them.

And though Tehran will try to re-engage in Nagorno-Karabakh, Russia will limit or possibly block its involvement. Nonetheless, on a range of issues, the two have enough common ground to work together.

Will natural gas shelter Iran from oil price crisis?

Al Monitor, *26.01.2016*

After years of negotiations with six world powers, Iran celebrated the lifting of international sanctions. Having awaited this moment, the Islamic Republic acted quickly.

Thereafter, commencing efforts to expand its share of the global energy market and engaging in intensive negotiations with possible clients as well as global oil and gas giants to boost production and develop new means of delivery, including new pipelines and liquefied natural gas (LNG) facilities and tankers. While opportunities abound, however, Iran will have a tough time achieving its goals given the plunge in prices for oil and natural gas.

Absent a good grasp of the current energy market and its problems, and given the existing issues afflicting its own oil and gas industries, Iran will not be able to simply boost gas production and expect success in the market. One of the defining features of the current global gas market is how supply is outstripping demand.

A key factor in lowering demand for energy, and particularly natural gas, is the current slow growth of the global economy. This appears to be the aftermath of the 2007-2008 global financial crisis and the 2009 recession, with the effects of the latter clearly lingering. As a result, demand for energy has not increased at the anticipated rate. In addition, recent technological advancements that have increased energy efficiency are resulting in lower fossil fuel consumption across the board, suppressing growth in demand.

In a climate where supply is outstripping demand, competition among exporters is naturally fierce. Thus the reality is that Iran faces very tough competition with established rivals, including Russia, Qatar and Turkmenistan.

None of these countries has suffered from sanctions the way Iran has, and they have had ample time to establish themselves as significant producers and exporters. Of note, because of sanctions, Iran has not had access to needed foreign investment, financing and advanced technology, leaving plenty to be desired for its gas industry. Iran — which holds the world’s second-largest proven natural gas reserves and seeks to pursue LNG production — faces competition in particular from major LNG producers like Qatar and the United States. Qatar has been the world’s largest LNG exporter since 2006, with a 30% share of the market in 2014.

Although the United States has never been among the world's top 10 gas exporters, it has sought to increase exports by gaining access to distant markets via LNG, particularly in East Asia.

In addition to traditional natural gas exporters and LNG producers, Iran is also facing competition from re-exporters, that is, countries that buy natural gas and then sell it onward on global markets. Spain and the United States are among the nations most engaged in this practice. The considerable increase in gas re-exporting countries has further reinforced the supply side of the global gas market equation, thereby contributing to a further decline of prices.

Beyond the supply and demand disequilibrium, the global gas market is also affected by the global geopolitical situation, which poses risks to security of the energy supply and distribution cycles. Indeed, the recent string of conflicts around the world reveals genuine concerns among producers, exporters and consumers alike.

For instance, the conflicts between Russia and Ukraine and between Russia and Turkey have convinced European markets to decrease their dependency on Russian gas and find more politically stable and amicable sources. In this vein, the current global geopolitical situation presents both opportunities and challenges for Iran.

On the positive side, Iran enjoys an amicable relationship with China and could use massive Chinese financing and investment resources for the development of its energy projects. For example, Chinese companies could finance new pipelines and the construction of LNG facilities, including such infrastructure as storage and terminals.

Moreover, Iran can pursue exporting its relatively cheaply produced natural gas to neighboring countries, among them Iraq and its southern Arab neighbors. In addition, it can pursue new gas-swap contracts with neighboring Azerbaijan, Russia and Turkmenistan. Moreover, in terms of re-exporting, Iran could import gas from producers to its north and then either convert it to LNG for delivery to clients in Europe or India via the Persian Gulf and the Gulf of Oman or pump the gas to clients in South Asia through planned deepwater pipelines traversing the Arabian Sea.

The geopolitical situation also presents challenges for the Islamic Republic. The recent negative developments in Iran's relations with Arab states in the Persian Gulf may adversely affect Tehran's plans for gas swaps with those neighbors and also its ability to use their LNG facilities, with the exception of Oman.

Despite the many challenges, there are steps that Iran could independently take to strengthen its position. For instance, the Islamic Republic would be wise to take advantage of its relatively low gas production costs to develop new pricing and marketing strategies to open up new markets. It should also reduce its massive domestic consumption by raising prices in country.

The freed-up gas from such a step — along with added production from the giant South Pars natural gas field — can be directly exported or used as petrochemical feedstock and possibly even in gas-to-liquid facilities to be converted into such high-value products as gasoline, diesel fuel and methanol. Excess natural gas could also be used in gas-generated electricity plants, producing electricity for export to neighboring countries.

This could strengthen Iran's geopolitical position in the region. Another positive development for Iran is the revival of its gas condensate exports, which were almost halted due to the sanctions. Investment in this sector is certainly an opportunity that Tehran should pursue.

While Iran's efforts to boost its natural gas industry to seize a greater share of the global energy market will face obstacles, opportunities abound, and the Islamic Republic can pursue such opportunities despite the climate of low global prices and geopolitical risks.

Saudi Arabia won't cut oil output unless Iran will

Trend News Agency, *12.02.2016*

The possibility of a coordinated production cut between OPEC and non-OPEC members is extremely low, Emma Richards, an oil and gas analyst with BMI Research, which is a part of Fitch Group, believes.

"OPEC's current policy is to allow the lower price to clear the market of the higher cost barrels. That policy's just beginning to bear fruit, so a cut at this stage would be counter-productive," Richards told. Meanwhile, Reuters reported citing the sources familiar with the discussions that some OPEC countries are trying to achieve a consensus among the group and key non-members for an oil production "freeze".

The proposal of a production "freeze" at current levels was floated by Venezuelan Oil Minister Eulogio Del Pino during his tour of producing countries this month which included Russia, Iran, Qatar and Saudi Arabia.

Saudi Arabia's oil minister Ali al-Naimi talked about cooperation between OPEC members and other oil producers to stabilize the global oil market with his Venezuelan counterpart, but there was no agreement to hold an early meeting of suppliers. With regard to the cooperation between OPEC and Russia in particular, on the production cut, Richards said that it is not in the interests of the Russian companies to cut the production.

OPEC and Russia have agreed to production cuts at several points over the past few decades and Russia's history of compliance with those cuts has been poor, Richards mentioned. "Given the increasing role of the private sector, it's unclear how a production cut in Russia would be coordinated. The benefits would also be mixed - the devaluation of the rouble gives a strong incentive for companies to raise their investments (where the cost is in roubles) and increase their exports (where the revenues are in US dollars). Added to that, the tax burden in Russia is significantly lower at this price level," Richards said. From OPEC's side, the main stumbling block would be Iran, Richards believes. "Given how much relations have deteriorated between the two, Saudi Arabia wouldn't be willing to cut unless there was a cut from Iran also," Richards said.

“As the sanctions on Iran have just been lifted, it’s unrealistic to expect them to pull back on production now,” she added. Free of sanctions, the country plans to increase its oil export by 500,000 barrels per day (bpd), and then raise the figure by another 500,000 to two million bpd within a six month period at the next step.

Iran’s oil production surpassed 2.9 million bpd in January for first time since August 2012, a month after imposing western sanctions on Iran. According to OPEC’s monthly report, Iran produced 2.925 million bpd in January 2016, about 38,000 barrels more than in the previous months. Cartel’s 13 members produced 32.335 mbpd in January, about 130,700 bpd more than December 2015. The official quota for OPEC oil production stand at 30 million barrels per day.

Armenia-Iran deal may threaten Russia’s natural gas market

Eurasianet, *11.02.2016*

Economic hopes are rising in Armenia that the country can serve as a trade conduit for Iran now that international sanctions against Tehran are being lifted.

Armenia has long-standing ties to Iran, and is a member of the Russia-led EEU, a factor that potentially increases its attractiveness as a trade partner for Tehran. Yerevan is “an important avenue for both Iran to export through Armenia into that large combined market [EEU], and as a platform for Western engagement in the now opening Iranian market,” noted Richard Giragosian, director of the non-governmental Regional Studies Center in the Armenian capital, Yerevan.

The World Bank’s country director for Armenia, Laura Bailey, told RFE/RL’s Armenian service in January that stalled energy partnerships between Iran and Armenia could be the first sector to take off.

Indeed, National Iranian Gas Exports Company Managing Director Alireza Kameli announced on February 7 that Iran is considering increasing five-fold the 1 million cubic meters of gas it sends daily to Armenia, state-run Iranian media reported. At the same time, plans for a new power line to increase Armenia’s electricity exports to Iran are developing.

The gas deal appears to fit into a larger, regional scheme. In December, quadripartite talks took place during which Armenia, Iran, and the Black Sea countries of Georgia and Russia agreed to establish a coordinating group on establishing an energy corridor linking the four countries. “We should spare no efforts to connect the Persian Gulf with the Black Sea [via Georgia, Armenia’s northern neighbor],” Iranian President Hassan Rouhani told his Armenian counterpart, Serzh Sargsyan in a January 24 phone conversation, Iran’s MehrNews agency reported.

Negotiations already have occurred between Iran and the Georgian government about sending Iranian gas to Georgia via Armenia, Iranian state media reported Kameli, the Iranian gas official, as saying in early January.

Some Armenian experts are tempering their optimism with caution. Russian-owned companies control an estimated 80 percent of Armenia’s energy sector. Energy giant Gazprom runs the gas pipelines from Iran and on to Georgia, and it tends to look askance at competitors who might try to muscle in on their markets. At the same time, no clear sign has emerged that Moscow opposes an increase in Iranian gas exports to Armenia. The Sputnik news agency, a Kremlin mouthpiece, promptly reported Kameli’s announcement.

Iranian affairs specialist Armen Vardanian at Yerevan’s Armenian Institute of International and Security Affairs believes that “Russia will embrace the projects that will not contradict its national interests.” “For example,” he continued, Gazprom, as the owner of the involved pipelines, “will benefit from the export of Iranian gas to Georgia and would not raise objections to it.”

Georgian Energy Minister Kakha Kaladze claimed that Russia had raised the prospect of ending its own gas exports to Armenia via Georgia, and instead having Iran provide the supplies. Given Russia’s energy positions, Vardanian downplayed the possibility that Armenia could become a transit country for significant shipments of Iranian gas to Europe. “Russia would strongly oppose it,” he said. “Gas is the last weapon left in Russia’s political arsenal that is a means of putting pressure on some European countries, and the Kremlin will not want to lose it.”

Gazprom accounts for a majority of gas supplies to several European Union members. The prospect of Iranian gas flooding the EU market, creating downward pressure on prices, is a major disincentive for Russia, added Giragosian. He also expressed caution when it comes to Iranian gas exports to Armenia, even via a Gazprom-run pipeline.

“There will be little incentive for allowing Armenia to escape the Russian orbit so easily. And given Armenia’s pronounced dependence on Russian gas imports, the potential of an expansion of Armenian-Iranian energy ties will be the first target of Russian pressure,” Giragosian said.

The current market turmoil has created a once in a generation opportunity for savvy energy investors. Whilst the mainstream media prints scare stories of oil prices falling through the floor smart investors are setting up their next winning oil plays. Despite these obstacles, Yerevan, he advised, should pursue a role “for engaging Iran.”

Success could provide a much-needed financial boost for landlocked Armenia, which is subject to an economic blockade by two (Azerbaijan and Turkey) of its four neighbors. Officials and experts believe that hydropower is a sector with great potential for growth. According to an official report from Armenia’s Ministry of Energy and Natural Resources, a large-scale electricity exchange program between Armenia and Iran is planned to start in 2018. Power will also be exported north to Georgia.

The groundbreaking for a hydropower plant on the Aras River, which flows along the Iranian-Armenian border, took place in 2012, but the freezing of Iran’s international financial assets stopped further work. Some officials have expressed hope for an expansion of transportation links.

But so far, progress in this area has been slow. In late January, Armenia and Iran signed an agreement about a transportation corridor that would link Iran to Georgia. The Georgian government announced plans to cancel visa requirements for Iranians, but Tbilisi has not, as yet, signed the transportation agreement.

Meanwhile, Armenia has started talks with China to have a proposed multi-billion-dollar, 470-kilometer-long Iran-Armenia railway included in the Beijing-promoted Silk Road project. So far the discussions have not yielded any results. “In [the] post-sanction era, the path towards expanding economic cooperation has been unblocked,” Iranian President Rouhani told Sargsyan during the pair’s phone chat.

BP prepares for Shah Deniz 3

Natural Gas Europe, *05.02.2016*

UK major BP plans to start reviewing the results of last year’s 3D seismic survey of the deeper horizons of Azerbaijan’s offshore Shah Deniz gas field at the end of this year.

A senior geologist at the company Greg Riley told journalists in Baku that BP continued preparation for SD 3 implementation and the collection of data from the Caspian Sea field. However, at the moment this is not a priority for BP, he said, because it is focused on implementation of SD 2. A source from state Socar told NGE on February 5 that the remaining gas reserves at SD 1 were 220bn m³, while the reserves of SD 2 are estimated at 400bn m³.

Azerbaijan started SD 1 in 2007 and produces about 10bn m³/yr from this phase, while producing 16bn m³/yr from SD 2 in 5 years has been planned. “The reserves of SD 3 are estimated at 500bn m³ and we are planning to commence this phase by 2025,” the official told NGE.

A senior geologist at Socar, Khoshbakht Yusifzada, told a press conference late 2015 that the peak level of gas production from SD 2 will reach 16bn m³/yr in 2022 and remain at that level until 2029, then its output would start to decrease. “By that time SD 1 will have been in operation for over 22 years and the production will be going down every year,” he said. Therefore, BP needs SD 3 to support stable volume of exports in long term.

The contract for the Shah Deniz field development was signed in Baku on June 4, 1996. The project partners today are BP (operator with 28.8%), Petronas (15.5%), Socar (16.7%), LUKoil (10%), Iran’s Nico (10%), Total (10%) and Turkish TPAO (19%). So far over 60bn m³ of gas have been produced.

N.American oil, gas firms need to cut spending by $24 bln

AA Energy Terminal, *12.02.2016*

Oil and gas exploration and production companies in North America need to cut their spending by $24 billion to survive in the current low oil price environment, global provider of data and analysis IHS said in its recent report.

The report stated that oil and gas companies need to cut their capital expenditure (capex) significantly to "align spending more closely with cash flow." "To maintain a capital spending-to-cash-flow ratio in the historical range of approximately 130 percent, spending for exploration and production would need to be cut by a further $24 billion, or 30 percent, from the most recent estimates," it read.

This would be a cut of almost 50 percent from 2015 spending levels. IHS reports the current capital spending estimate for the group [of North American companies] totals more than $78 billion, which is 23 percent lower than an estimated $101 billion in 2015.

Paul O'Donnell, a principal analyst at IHS Energy and author of the report, said small exploration and production companies have already highly leveraged their balance sheets and cannot afford deterioration of their balances any further. If their balance sheets deteriorate further, "The result could be forced asset sales at bargain prices, sizeable staff layoffs and, in the worst cases, bankruptcies," O'Donnell said.

In the case that energy prices remain low at their current levels, IHS projects small oil and gas companies' capex to exceed their cash flow by 174 percent. While this amount is expected to be 195 percent for large firms, it is anticipated to be 157 percent for midsize companies.

Oil sinks for second day on fading hopes of output deal, weather

Reuters, *02.02.2016*

Oil slumped for the second straight day, with U.S. crude ending 5.5 percent lower, as hopes of a deal to curb one of the worst supply gluts continued to fade amid concerns that mild winter weather in the U.S. will dampen demand.

The oil markets erased most of last week's four-day rally, when it soared almost 20 percent from the lows touched in mid-January, after Russia's Energy Minister said OPEC kingpin Saudi Arabia suggested a production cut. Hopes dimmed as no deal has emerged and talks between Russia's energy minister and Venezuela's oil minister failed to result in any clear plan to reduce output.

U.S. investment bank Goldman Sachs said it was "highly unlikely" the Organization of the Petroleum Exporting Countries would cooperate with Russia to cut output, saying the move would also be self-defeating as stronger prices would bring previously shelved production back to the market.

"As they (producers) continue to disappoint, we're going to trade lower, until the market forces them to do something and I think that's at a much lower price than here," said analyst John Kilduff, partner at Again Capital LLC in New York. Brent crude LCOc1 closed down $1.52, or 4.4 percent, at $32.72 a barrel. It fell as much as 5.9 percent to $32.23 in the session.

U.S. West Texas Intermediate crude (WTI) CLc1 settled 5.5 percent, or $1.74 lower at $29.88 per barrel, after falling as low as $29.81. The contract fell further in post-settlement trade to $29.57 after data from the American Petroleum Institute, an industry group, showed 3.8 million-barrel build in U.S. crude stocks.

U.S. government energy data is due on Wednesday. With forecasters projecting the weather in the United States will moderate during the last eight weeks of the November-March winter heating season, U.S. heating oil futures HOc1 were down 2 percent and gasoline RBc1 7 percent lower.

The selloff in gasoline futures deepened to more than 9 percent in post-settlement trade after API data showed gasoline inventories soared 6.6 million barrels. Oil stockpiles have been on the rise even outside the United States, with Russian output hitting a post-Soviet high in January. Crude prices are in danger of returning to the $20s unless there was concrete reaction on the supply side, said Thomas Saal, analyst at INTL FC Stone in Miami, Florida. Economic data due later in the week, including U.S. non-farm payroll, unemployment figures and producer prices from the euro zone, could pressure oil prices further, Again Capital's Kilduff said. "I think it's in the cards to re-test the lows from mid-January," he said, referring to Brent's low of $27.10 and WTI's $26.19.

Still, Citi called a bottom on prices, saying that even while a deal may not materialize, the current lows will be short lived. Meanwhile, the prolonged downturn in prices has crushed the oil majors' results. Exxon Mobil Corp (XOM.N), the world's largest publicly traded oil company, reported its smallest quarterly profit in more than a decade and planned to cut 2016 spending by a quarter, while BP (BP.L) announced its biggest annual loss and thousands more job cuts.

There are 3 big reasons why a price recovery isn't coming soon, IEA says

Oilpro, *10.02.2016*

The International Energy Agency said in its monthly report that there are several reasons why a recovery in oil prices is highly unlikely in the short-term.

Over the last few weeks, oil prices have remained volatile as rumors came and went regarding an OPEC/non-OPEC meeting, various assessments were proffered on the volume and speed with which Iran can reenter the market, and estimates of a potential boost in demand due to sub-$30/bbl prices were discussed. On Tuesday, the agency addressed these three "drivers of bullishness" that are being clawed by the "bear."

Recent chatter about a meeting of OPEC and non-OPEC producers is mere talk, as the Saudi-led group continues to increase production in pursuit of market share. "Persistent speculation about a deal between OPEC and leading non-OPEC producers to cut output appears to be just that: speculation. It is OPEC's business whether or not it makes output cuts either alone or in concert with other producers but the likelihood of coordinated cuts is very low. This removes one driver of bullishness," the IEA said.

The agency addresses another "widely-held view": namely, that OPEC production, other than Iran, will not grow as strongly this year as it did in 2015. "Although it is still early in the year, Iraqi output in January reached a new record and it is possible that more increases could follow. Iran has ramped up production in preparation for its emergence from nuclear sanctions and preliminary data suggests that Saudi Arabia's shipments have increased. Thus, another driver might be removed."

Another view the IEA takes on is that oil demand growth will receive a boost from the plunge of oil prices below $30/bbl. "We retain our view that global oil demand growth will ease back considerably in 2016 to 1.2 mb/d – at 1.2% still a very respectable rate – but our analysis so far sees no evidence of a need to revise it upwards. Estimates by the International Monetary Fund that global GDP growth in 2016 will be 3.4% followed by 3.6% in 2017 is heavily caveated with risks to growth in Brazil, Russia and of course slower growth in China. Economic headwinds suggest that any change will likely be downwards." The IEA has maintained its view that global oil demand will ease back "considerably" this year- to 1.2 M/bpd from a five-year high of 1.6 M/bpd in 2015.

Thus, the agency forecasts continuing volatility in oil prices in the short-term, as weakened demand combines with "higher OPEC output" which will "only partly offset lower non-OPEC production." Demand is forecast to be pulled down by "notable slowdowns in Europe, China and the United States," and "early elements of the projected slowdown surfaced in the last quarter of 2015." This demand outlook is juxtaposed to that of OPEC, which in its most recent monthly report forecast that world oil demand would increase this year and that this would be joined by a fall in supply from non-OPEC producers.

This would facilitate the rebalancing of supply and demand and, hence, lift prices, according to OPEC. "In 2016, oil demand growth is expected to be around 1.26 mb/d, marginally higher than in the previous report, to average 94.17 mb/d," OPEC said in its January report.

Like OPEC, however, the IEA forecasts a decline in non-OPEC supply this year. "Non-OPEC supplies slipped 0.5 mb/d from a month earlier to stand close to levels of a year ago. For 2016 as a whole, non-OPEC output is expected to decline by 0.6 mb/d, to 57.1 mb/d," the IEA said.

Global oil supply declined 0.2 M/bpd to 96.5 M/bpd in January, as higher OPEC output only partly offset lower non-OPEC production, the IEA said. OPEC's oil production rose by 280,000 bpd in January to 32.63 M/bpd as the group continued to produce without a quota. The bulk of this increase occurred "as Saudi Arabia, Iraq and a sanctions-free Iran all turned up the taps. Supplies from the group during January stood nearly 1.7 mb/d higher year-on-year."

The global energy landscape beyond the here and now

Financial Times, *08.02.2016*

The oil market is in a state of flux. Oil prices are close to a quarter of their level 18 months ago. Over the past two years, the supply of oil has grown at its strongest rate for more than a decade, fuelled by the US shale revolution. China, the world's most important growth market for oil, is in the throes of a fundamental rebalancing of its economy.

And the commitments made at the COP21 climate change meetings in Paris have raised a question mark over the long-term prospects of all fossil fuels. Not surprisingly, much of the current attention is focused on the near-term prospects for oil. Just how low will oil prices fall and for how long?

On that question, there are clear signs that the oil market — just like any other market — is responding to the prompt of lower prices. Global oil demand in 2015 increased by more than twice its 10-year average and looks set to grow strongly again this year. And supply is beginning to wilt: US shale production is already well off its peak levels of last spring and is likely to continue to fall through much of this year.

Based on those trends, and even with the prospective increase in Iranian production, the oil market is likely to move closer into balance by the latter part of this year. That will still leave a significant inventory overhang that will take some time to work off. But it seems likely that the market will show at least some signs of turning by the end of this year.

The more fundamental question, however, is to look beyond the here and now and consider what the current turmoil may tell us about the future for oil, and energy more generally, over the next 10 or 20 years. That is what really matters for energy companies undertaking long-term investments; for governments whose economies are reliant on exports or imports of energy; and for all of us worried about rising carbon emissions.

Although uncertain, three themes look set to characterise the evolving energy landscape over the next 20 years. First, the global demand for energy is likely to increase markedly. As the world economy expands, driven by the fast growing economies of Asia, more energy will be needed to fuel the higher levels of activity and living standards.

Exactly how much additional energy will be required will depend on the strength of global growth and on the success of economies in improving the efficiency with which they use energy. Even so, it seems clear that significantly more energy will be required to enable the world to continue to grow and prosper.

Second, the form of that energy is likely to change substantially. The commitments made in Paris, supported by improving technology and falling costs, mean renewable energy is likely to grow rapidly. Those same forces should also support a golden age for natural gas. The prospects for oil are less robust, although the likely doubling in the number of vehicles on the planet over the next 20 years should ensure a growing market for oil. The main loser looks set to be coal, as its key customer, China, rebalances towards a more sustainable, and less carbon-fuelled, pattern of growth.

Coal’s loss is the climate’s gain, with the third theme being a significant slowing in the growth of carbon emissions relative to the previous 20 years. That break from the past reflects faster increases in energy efficiency as well as a shift towards lower-carbon fuels, both aided by the pledges made in Paris. But based on the current policy outlook, those improvements are unlikely to deliver the sharp fall in carbon emissions called for in Paris.

That prospective shortfall underlines the importance of carbon pricing, which provides incentives for both energy providers and consumers to play their role in ensuring that the world is able to continue to access the energy it needs to grow and prosper, but do so in a safe and sustainable manner.

Announcements & Reports

► *The Future of the Canadian Oil Sands*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/02/The-Future-of-the-Canadian-Oil-Sands-WPM-64.pdf

► *Russia and OPEC: Uneasy Partners*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/02/Russia-and-OPEC-Uneasy-Partners.pdf

► *BP Energy Outlook: 2016 Edition*

Source : BP
Weblink : http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2016/bp-energy-outlook-2016.pdf

► *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

► *Drilling Africa Conference*

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

► *3rd Annual South Caucasus Infrastructure & New Energy Investment Summit*

Date : 16 - 17 February 2016
Place : Tbilisi, Georgia
Website : www.conventionventures.com

► 4th Annual Floating LNG Conference

Date : 17 - 18 February 2016
Place : London, UK
Website : www.smi-online.co.uk

► Iran Oil & Gas Post Sanctions

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

► IHS Energy CERAWeek

Date : 22 - 26 February 2016
Place : Houston, Texas, USA
Website : http://ceraweek.com/2016/

► 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/

► 7th Mediterranean Oil and Gas Forum 2016

Date : 01 - 02 March 2016
Place : Nicosia, Cyprus
Website : www.energystreamcmg.com

► International LNG Summit

Date : 07 - 08 March 2016
Place : Cannes, France
Website : www.lngsummit.org/

► Balkan Energy Leaders

Date : 09 - 10 March 2016
Place : Belgrade, Serbia
Website : www.greenworldconferences.com/

► *International Conference on District Energy 2016*

Date : 20 - 22 March 2016
Place : Portorož, Slovenia
Website : www.sdde.si/en

► *COGEN Europe Annual Conference 2016*

Date : 22 - 23 March 2016
Place : Brussels, Belgium
Website : www.cogeneurope.eu

► *Gasification 2016*

Date : 23 - 24 March 2016
Place : Rotterdam, Netherlands
Website : www.wplgroup.com/aci/

► *22nd Annual BBSPA Conference*

Date : 07 – 08 April 2016
Place : Vienna, Austria
Website : www.bbspetroleum.com

► *3rd IENE Energy and Shipping Seminar*

Date : 08 April 2016
Place : Piraeus, Greece
Website : www.iene.eu

► *10th Global Oil&Gas Atyrau Conference*

Date : 12 – 13 April 2016
Place : Atyrau, Kazakhstan
Website : http://www.oilgas-events.com/

► *Global Oil & Gas Atyrau*

Date : 12 – 14 April 2016
Place : Atyrau, Kazakhstan
Website : http://oil-gas.kz/en/

► *22nd International Energy& Environment Fair and Conference*

Date : 27 – 29 April 2016
Place : İstanbul, Turkey
Website : www.icci.com.tr

► *Smart Energy Analytics 2016*

Date : 04 – 05 May 2016
Place : London, United Kingdom
Website : www.wplgroup.com/aci/

► *Flame – Europe's Leading Natural Gas & LNG Conference*

Date : 09 – 12 May 2016
Place : Amsterdam, Netherlands
Website : www.flame-event.com

► *Global Oil & Gas Turkey*

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

► *6th International Conference & Workshop REMOO 2016*

Date : 18 – 20 May 2016
Place : Budva, Montenegro
Website : http://remoo.eu/html/general_information.html

► *Turkmenistan Gas Congress*

Date : 19 – 21 May 2016
Place : Turkmenbashi, Turkmenistan
Website : http://www.oilgas-events.com/

► *Pipeline Technology Conference*

Date : 23 – 25 May 2016
Place : Berlin, Germany
Website : www.pipeline-conference.com

► *Caspian Oil & Gas*

Date : 01 – 04 June 2016
Place : Baku, Azerbaijan
Website : www.caspianoilgas.az/2016/

► *Yamal Oil & Gas*

Date : 08 – 09 June 2016
Place : Salekhard, Russia
Website : www.yamaloilandgas.com/en/programmerequest/

► 7th International Energy Forum

Date : 10 June 2016
Place : Istanbul, Turkey
Website : www.iicec.sabanciunic.edu

► Energy Systems Conference 2016

Date : 14 - 15 June 2016
Place : London, UK
Website : www.energysystemsconference.com

► World National Oil Companies Congress

Date : 15 - 16 June 2016
Place : London, UK
Website : http://www.terrapinn.com

► ERRA Summer School: Introduction to Energy Regulation

Date : 20 - 24 June 2016
Place : Budapest, Hungary
Website : http://erranet.org

► 9th SE Europe Energy Dialogue

Date : 29 – 30 June 2016
Place : Thessaloniki, Greece
Website : www.iene.eu

► Global Oil & Gas - Black Sea and Mediterranean

Date : 22 – 23 September 2016
Place : Athens, Greece
Website : www.iene.eu

► 23rd World Energy Congress

Date : 09 - 13 October 2016
Place : Istanbul, Turkey
Website : http://wec2016istanbul.org.tr/

► 15th ERRA Energy Investment & Regulation Conference

Date : 17 - 18 October 2016
Place : Budapest, Hungary
Website : http://erranet.org/InvestmentConferences/2016

► 21st IENE National Conference "Energy and Development 2016"

Date : 24 - 25 October 2016
Place : Athens, Greece
Website : www.iene.eu

► European Autumn Gas Conference 2016

Date : 15 – 17 November 2016
Place : Hague, Netherlands
Website : http://www.theeagc.com/

► 5th Cyprus Energy Symposium

Date : 29 - 30 November 2016
Place : Nicosia, Cyprus
Website : www.iene.eu