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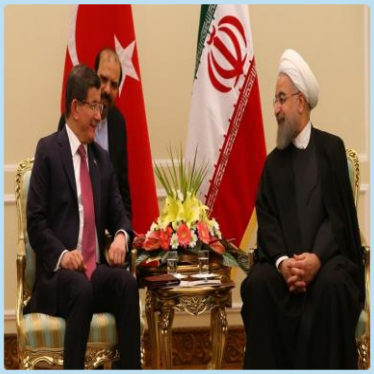
Turkey, Iran look to cooperate over regional issues

AA Energy Terminal, *05.03.2016*



Turkey, Iran have agreed to act together to bring stability to the region in spite of certain divisions between countries. "It is very important that Iran and Turkey develop certain joint perspectives in order to bring an end to ethnic and sectarian conflicts in our region," Turkish PM Davutoglu told.

Davutoglu visited the country as a prime minister. It is the first visit of a Turkish premier within the last two years. The visit also comes after the U.S. and the EU announced the lifting of international sanctions on Iran following the IEA's declaration that the country was complying with its nuclear-related obligations agreed upon last summer.

Speaking at a joint press conference with Iranian First Vice President Eshaq Jahangiri at Saadabad Palace, Davutoglu said: "We cannot leave the destiny of our region to extraterritorial actors." "We were standing together with Iran during its hard times and our further cooperation with Iran will be for the benefit of the both countries and the region," he added. He also pointed to a new era in relations after the recent Iranian elections.

Eshaq Jahangiri also mentioned his country's will to cooperate with Turkey to end conflicts in the region. "Even though we have some different views in some fields, we also have common views in many fields. We've decided to act together in order to bring stability to the region," Jahangiri told the media.

Ankara and Tehran see developments in Syria and Iraq from a different perspective. Tehran supports the Bashar al-Assad regime in Syria while Ankara believes the Syrian president should step down as soon as possible. "Iran and Turkey have always had good neighborly relations. These relations have gained strength during the [Justice and Development] AK Party era," the first vice president said. Davutoglu's visit bears the potential to be a turning point in terms of bilateral ties, he added.

Turkey and Iran share a 650-kilometer (404 miles) long border, which has remained unchanged for the past three centuries. The vice president also noted: "We aim to reach $30 billion of trade volume between the two countries." Stating that 2 million Iranians were going to Turkey for tourism reasons annually, he also called on Turkey to invest in the Iranian tourism industry. During his visit, Davutoglu is also scheduled to meet Iranian President Hassan Rouhani.

Petkim hits historic net profit of 639 million Turkish Liras

AA Energy Terminal, *05.03.2016*

Petkim announced that company increased its net profit to 639,2 million Turkish Liras. According to the announcement, the performance starting from the first quarter of the year and it reflected on the whole year and introduced a high profit margin of 14 percent.

Size of assets of the company, which has made a turnover over 4.55 billion TRY, has become 5.4 billion TRY. Sadettin Korkut, Director General of Petkim, said "In parallel with the higher production performance we have achieved thanks to the capacity increases and general maintenance shutdowns in previous period".

And added that, Petkim left behind a financial year in which company have achieved a historical profitability. "We have made use of high ethylene, naphtha margins at the maximum level with utilization from high capacity that competitive prices and dynamic planning brought," he added.

In addition, the company has made a turnover of 4.5 billion TRY within a period of 12 months and the gross profit of the company has reached 716,2 million TRY with a profit margin of 15.8 percent. Petkim's size of assets has also presented an increase of 44 percent compared to the previous year and has arisen to 5.4 million TRY. "Capacity utilization ratio of the company within the aforementioned period has arisen to the level of 87 percent," statement read.

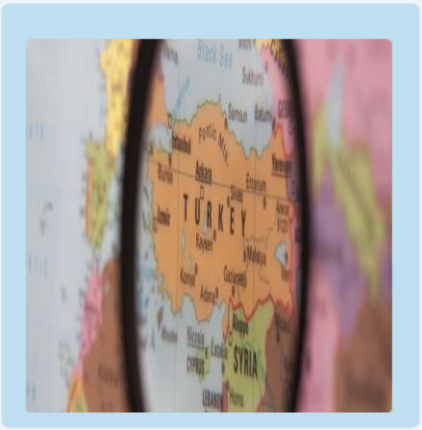
Korkut indicated that despite the economic ambiguities occurred in 2015 and fluctuations in foreign exchange rates force company to act rapid and agile actions. "Despite the financial ambiguities, the company has achieved high sales and profitability," he said added that effective, dynamic and fast acts to cover integration of sales, trading, production, procurement and maintenance plans in conformity with the customer demands and market requirements have been made," he explained.

Korkut stated that outcomes of works directed towards increasing the operational efficiency, better positioning taking the market requirements into consideration and improvements made on processes have directly affected 2015 performance, and added that fluctuating oil prices since 2014 have caused to look at the sector from a brand new point of view.

"We have achieved the maximum level in our production and sales rapidly adopting such new circumstances, and attaching special importance on being competitive. Depending on the raw material prices which fell down in 2015, petrochemical sector has been experiencing a good period. We aim to achieve a sustainable profitability level for the following periods making use of high capacity, he concluded.

Russia cuts gas to Turkey: Why now?

Natural Gas Europe, *07.03.2016*



In a statement to the press, a Turkish gas importer confirmed that Gazprom had requested a price increase for this year's exports and decided to reduce flows to Turkey when the private companies refused to pay a higher bill. There were reports that Gazprom sent a letter requesting the price review two weeks after Turkey shot down a Russian fighter jet.

If Russia reduced gas flows to Turkey following the price dispute with private importers and ultimately in retaliation for Turkey's action, why did it do so at the end of winter when the market was already oversupplied and consumption had plummeted because of above-average temperatures?

Observers and analysts reacted with alarm when Turkey downed the Russian Sukhoi SU-24 jet. They expected Gazprom to curtail gas flows to Turkey just as winter was setting in and gas demand was likely to soar.

Although demand did see a 1.66% year-on-year increase in December, Russian flows through the TransBalkan route were not just stable, but also on average 2mn m³/d above the contract quantities at the border

Russian flows at the western Malkoclar entry point hovered around 44mn m³/d both in December and January and even reached an unusual high of 47mn m³/d in January. In February flows dropped to 32.2mn m³/d and the reduction became obvious after February 11.

Turkish sources, including a government official quoted by Russia's news agency Interfax, maintained that Gazprom started reducing the gas after February 24 following the refusal of private importers to pay a higher bill. Turkish shippers say Gazprom and private importers had agreed on a discount to their oil-indexed prices in April 2015. The discount was expected to remain valid in 2016. Although Gazprom sent the price review request in December, the price invoiced in the January bill was in line with importers' expectations.

However, a few days after sending the first January invoice, importers received a second bill requesting an additional sum, which they refused to pay. If one were to follow a logical line of argument, one would have expected Russia to demand the price increase immediately after the downing of the plane and reduce, or cut the gas if importers refused to pay.

Instead, Russia increased its gas exports to Turkey and sent a first invoice for a price that was expected by the market. It then changed its mind and reportedly reduced the gas because private importers refused to pay. It is not known whether Russia had indeed reduced gas flows to Turkey because of the importers' unwillingness to pay a higher bill. Gas flows had been reduced at least ten days before 24 February, the date quoted by private importers and Turkish government official.

Gazprom simply stated it was interested in having ‘stable contractual relations’ with Turkish importers, declining to comment on the causes of the export reduction or the ongoing price dispute. In hindsight, the situation needs to be analysed both from the point of view of Turkish stakeholders as well as that of Gazprom. Let us consider the Turkish side first. By the time Russia reduced its gas flows, Turkey was already oversupplied with natural gas. It had received an estimated 1.9bn m^3 in the form of LNG in January, up from 1.5bn m^3 in January 2015 and 1.4bn m^3 in February, up from 1.2bn m^3 over the same period last year.

Furthermore, there were also unconfirmed reports that the Turkish state dominant importer Botas had stopped off-taking volumes from the TransBalkan, or western, route in February, leaving just private importers to nominate volumes at the border. Temperatures were also well above the seasonal average which meant that both electricity and gas demand had plummeted.

This was best reflected in the February day-ahead baseload price of electricity, which out-turned 30% below the market expectation for the month. On February 21 the spot price crashed to an all-time low of lire 22.93/MWh (€7.16/MWh), prompting fears that the electricity price would have to be propped up after it had been pressured by an oversupply of renewable generation and falling demand.

Four days later an unnamed Turkish government official told Interfax that Russia had reduced the gas to Turkey. The news exacerbated panic in the Turkish electricity market, which was already on tenterhooks about possible changes to the electricity day-ahead price.

Since February 25, day-ahead power has traded at or around lire 117.00/MWh. There is no evidence to suggest any links between the statements about the Russian gas reduction that were made in the press, the rumours about a possible price intervention that had circulated in the market, and the subsequent increase in electricity spot values.

Nevertheless, it is legitimate to ask why a Turkish government official thought fit to comment on matters that regarded purely the private sector and at a time when the market was already on alert about crashing prices. Falling electricity prices are not an isolated Turkish phenomenon.

All European countries have been facing falling and even negative prices on similar accounts: higher renewable production and falling demand linked to slowing economies. However, Turkey faces the challenge of requiring investments in its energy sector which according to the new energy minister Berat Albayrak would amount to $100bn in the medium term.

Although falling electricity prices are a natural consequence of underlying fundamentals, they are bound to send negative signals to potential investors. It is not surprising that under latest arrangements, Turkey is likely to put up for privatisation hydro rather than thermal plants that require spot electricity prices of at least lire 160/MWh to break even.

The privatisation of two state-owned gas-fired plants with a total capacity of 1.6 GW which was supposed to happen last year was postponed to February and, more recently, to March. Despite the fact that thermal production is facing serious headwinds, Turkey will face a supply gap in the next two years when long-term agreements for generation operating under public-private partnership will expire.

Some 5-6 GW of gas-fired capacity will be affected, which means that Turkey will still require thermal output. Given that Turkey currently pays on average €10.00/MWh more for its wholesale natural gas than the European hub equivalents while its electricity prices are now some of the cheapest in Europe, there is a pressing need for Turkey to push up electricity prices and cut gas prices. But Turkey's interests do not (necessarily) dovetail with Russia's, its largest supplier of gas.

To start with, Gazprom needs higher export prices. Its oil-indexed gas prices have seen a sharp drop in line with steep falls in the value of crude while the Russian economy has been battered by the global slump as well sanctions imposed in the aftermath of Russia's annexation of Crimea.

Although Ankara and Moscow have been at loggerheads over Syria, Turkey has never joined western countries in imposing sanctions against Russia nor taken any concrete steps to break its reliance on Gazprom. As a result, Russia has enough leeway to impose its will on Turkey, even at a time when its actions are significantly constrained in Europe.

Russia fully understands the value of Turkey and knows that any gas curtailments that would have triggered a supply crisis during the winter period would have prompted Turkey to act speedily to reduce its dependence on Gazprom. Even if Russia has now reduced gas flows to Turkey in retaliation for the importers' unwillingness to pay, the reduction is unlikely to egg Turkey into action. If anything, it has, ironically, helped Turkey to boost electricity prices.

Russia also knows that by putting pressure on the private sector to pay higher prices, it would ultimately draw the Turkish government back to the negotiation table. If private importers fail to negotiate a cheaper import price, Botas would undercut them. This would put paid to Turkey's private gas sector experiment.

To survive, private importers would have to lobby the government to grant Russia the concessions it desires. At this moment it is unclear what Russia's requests are. Moscow may try to force Turkey into renewing its support for the construction of Turk Stream, a pipeline that was proposed in 2014 and was expected to carry Russian gas to Turkey and European markets.

It was mothballed at the end of last year amid heavy opposition from the Turkish government. It may also try to stop Turkey from antagonising it over Syria, or Gazprom may simply wish to increase its presence in the Turkish private gas sector where it already owns a significant share.

More recently, the Turkish press reported that some private importers may go to arbitration over the latest price dispute. This would be an interesting twist in a long-running saga not least because it would give us a good indication of how much willingness and freedom of action Turkish private importers actually have in standing up to Russia.

Shale gas promises new energy resource for Turkey

Daily Sabah, *10.03.2016*

While continuing its rise among the world markets, shale gas is turning the balance and prices of various markets upside down, and it also has a huge part to play in the U.S.'s economy. The World Energy Council and its project partner Accenture Strategy discloses with a report titled "Shale gas is a global phenomenon" how shale gas affects the world's energy sector and what part it will play in the future.

The report focuses on its pace of progress in different countries. The study also indicates that Turkey, Mexico, Saudi Arabia, South Africa and Poland have promising shale gas potential.

According to the report, despite price instability, its growth potential and speed are not just affecting the U.S., but also China, Argentina and Algeria, which have potential close to the U.S.'s regarding shale gas production.

World Energy Council Secretary General Christoph Frei stresses that shale gas will cause changes within the natural gas market dynamics that will last decades. According to Frei, the shale gas spreading fast around the world has accessible prices for consumers, and their concerns regarding the safety of the resources have decreased.

"So far, the surprising resistance of the U.S. shale gas market has caused a burst in terms of its production. Even though other countries do not have the unique qualities of the United States, they will learn Liquefied Natural Gas [LNG] production and export, and this will change the global dynamics of the energy market," Frei added.

World Energy Council Turkish National Committee Chair Murat Mercan indicated that Turkey still does not have the necessary technical equipment to search for shale gas, but they had works in progress regarding the issue. He also stressed that the shale gas potential, which would be unearthed after the necessary research, could play a crucial part in terms of Turkey's energy security.

The "Shale gas is a global phenomenon" report indicates three global trends: First, because of the current price instability, the shareholders lead to more flexible and short-term investments rather that the deep drillings in the U.S. The second tendency shows the international growth of shale gas operators.

By realizing the global opportunities, operators from all around the world lead markets such as China, Australia and Argentina, whose effect will reveal itself by 2020. The third and last tendency reveals the situations in the connected markets.

Surplus in some countries has caused prices to stabilize, and also structural changes that cover the three regional centers of Asia, Europe and North America make them more global and transparent. The decrease in oil prices and Asia's demand has caused a decrease in the price margin between Japanese LNG and British markets in 2016. Additionally, because of the developing domestic resources, the prices in the U.S. have also followed a low level.

Turkey-Azerbaijan – not only energy affair

The Journal of Turkish Weekly, *10.03.2016*

Despite the complexity of regional dynamics, Turkey and Azerbaijan have succeeded to intensely improve their relations throughout the last quarter of century. Following the collapse of Soviet Union, one of the regions Turkey discovered was the Caucasus, the Central Asia with its historical, ethnic, cultural, linguistic and religious ties.

Azerbaijan's geopolitical and strategic location thereupon allowed and paved the way for Turkey to reach beyond the Caspian Sea and increase its long-time backward relations with the countries in the region in various spheres, including energy, commerce, and transportation.

Notwithstanding the fact that Turkey and Russia heretofore have sided with different parties between Azerbaijan and Armenia over the Nagorno-Karabakh dispute, Ankara and Baku both could have found ways to overcome their territorial limitations (Turkey borders Azerbaijan only through its exclave, Nakhchivan), and at the same time to advance the relations with Moscow.

However, Turkey and Russia's recent tense relations mostly derived from asymmetric interests in the regional conflicts from the Middle East to the Black Sea with a sustained understanding of an historical background of rivalry, and specifically emerged this time with downing of a Russian bomber by a Turkish jet on 24th November 2015 over the Turkey-Syria border, and likely to escalate more taking the diverging and increasingly opposing positions to each other in the Syrian crisis into account, seem to have spillover effects also on the South Caucasus and particularly on Turkish-Azerbaijani ties.

Politically Azerbaijan has always been the closest to Turkey country and administration among the post-Soviet republics. During the first years after the Cold War, the bilateral relations were formulated under the popular motto "one nation, two states", which mainly reverberated the enthusiasm in Turkish foreign policy at that time, rather than reflecting a wise and comprehensive strategy for upgrading the relations beyond the realities.

Ankara established diplomatic ties with Baku faster than any other country in early January of 1992, following the recognition of Azerbaijan's independence, just the day after the signing of the Belavezha Accords on December 8, 1991.

Throughout the 1990s Turkey has endeavored to integrate Azerbaijan into the Transatlantic and European political, security, and economic institutions. As a newly independent state, Azerbaijan also needed to constitute such ties with the remaining part of the world beyond the post-Soviet territory.

As most of the other former Soviet republics, Baku took a seat in Organization of Islamic Cooperation (OIC) in 1991, became a member of Organization for Security and Cooperation in Europe (OSCE) in 1992, signed the Partnership for Peace Framework Document with NATO in 1994, and was included in the TACIS program with the TRACECA and INOGATE projects of the European Union. Out of these, Baku also joined the Turkey-backed regional initiatives, Organization of the Black Sea Economic Cooperation (BSEC) and Economic Cooperation Organization (ECO) in 1992.

In all of these integration processes, Turkey encouraged Azerbaijan while it was emerging as a relatively new and sufficiently powerful 'political subject' in international relations. By becoming a part of these international political and economic communities, on one hand, Azerbaijan has adapted to the new conditions and its geopolitical environment in an easier way; on the other hand, aimed to get support from leading global and regional organizations and actors on its dispute over Nagorno-Karabakh with Armenia.

Turkish authorities have always interpreted Armenia's occupation of Azerbaijan territory, including Nagorno-Karabakh and seven other districts, not just through the prism of a foreign policy issue, but rather like a domestic problem, which found highly enough support from Turkish people as a consolidating factor.

In a similar vein, Turkey not only tried to extend its regional influence by defending Baku's position and standing up for its brother country in international diplomatic platforms, but also promoted and circulated widespread in the political lexicon its newly-defined interests in a broader territory from the South Caucasus to the Central Asia under Turkic-solidarity.

Ankara's ambitious efforts to strengthen these relations with these post-Soviet regions were embodied with the summits of Turkic-speaking countries in 1992, which more or less worked efficiently till the mid-1990s. Azerbaijan played a key role during these summits and gave Turkey room to much maneuver in its foreign policy activities at that time.

However, later on it became clear that none of these former Soviet republics needs a new 'big brother' to replace USSR/Russia. Non-binding provisions of the summits reflected that these newly independent states much more interested in equal cooperation and partnership with Ankara, other than running after unrealistic goals such as a creation of a union of Turkic-speaking countries with a kind of a political body under Turkey's leadership.

By facing this fact sooner rather than later, since the mid-90s Turkey has begun to follow a more pragmatic and realistic policy regarding the Caucasus and Central Asia, concentrating on projects, primarily in energy and trading. One of the main components between Turkey and Azerbaijan appeared in the energy in 1994 by signing a contract about the Western-backed Baku-Tbilisi-Ceyhan project, the first bypassing Russia oil pipeline in post-Soviet territory after the Cold War.

It was the first ‘game changer’ move, not only in links between Azerbaijan and European countries, but also in Moscow’s energy relations with the West actually. And exactly because of this reason, the project had to wait for a long time to be realized, and the oil pipeline began to operate just in 2006. Especially after this moment, Turkey-Georgia-Azerbaijan trilateral relations has gained a strategic character and also become vital for many Western partners.

In the course of time, Turkmenistan and Kazakhstan also started to pump oil to the pipeline, which gave an opportunity for diversification of oil export routes for these countries positioning Turkey in a more central role in their foreign and energy policies. Having mainly a transit country role for Azeri oil, Turkey imports almost 10 percent of its total oil consumption from Kazakhstan by now. On the other hand, Azerbaijan has accelerated its investments in Turkey’s oil sector in recent years.

Having acquired control of Petkim Holding, the leading petrochemical firm in Turkey, in 2008, Azeri state energy giant SOCAR is planning to invest $10 billion more in Turkish petrochemical market till 2023. After the construction of Star refinery in 2018, SOCAR will also be able to refine Azeri, Russian and Iraqi oil at the plant in Turkey. Evolving of the energy relations between Turkey and Azerbaijan into a cooperation of long-term investments forces both to pay more strategic importance to the bilateral ties.

The energy sphere is the driving force of the trilateral strategic cooperation between Turkey, Georgia, and Azerbaijan, which also has implications for Europe. In that context, Azerbaijan’s gas reserves in Caspian Sea have also had a critical role for both Turkey and the European countries.

With the operation of Baku-Tbilisi-Erzurum natural gas pipeline in late 2006, the strategic energy balance in the South Caucasus has substantially begun to change. Western-backed pipeline broke the hegemony of Russian energy power projections in the region. Azerbaijan is already supplying 12 percent (6 billion cubic meters) of Turkey’s total gas imports, and emerges as the third main gas supplier for Turkish market now, after Russia (%55) and Iran (%18).

Importing 99 percent of its gas needs from abroad, Turkey needs to diversify its gas supply routes for both possible political and economic reasons. Monopoly in energy relations creates obstacles in front of pricing. And also the political risks make the energy relations vulnerable, and Turkish-Russian partnership is not an exception. For that reason, strengthening the energy links with Azerbaijan through new projects such as TANAP was evaluated as a “necessity” from Ankara’s perspective even before the recent aircraft crisis with Moscow.

However, after the aircraft crisis, Turkish authorities began to see the TANAP project not through a prism of various different “preferences” but as a “must” for energy diversification strategies, and agreed with Baku on speeding up and finalizing the project in early 2018.

TANAP project with its further TAP foot from Greece to Italy paves the way to Turkey and Azerbaijan to diversify their export-import routes while also mitigating Europe’s dependency on Russian gas. After the operation of TANAP and further infrastructure expansion of the pipeline, Turkey’s dependency on Russian gas can decline to the level of 40 percent by 2026. Even if the other possible suppliers such as Israel, Greek Cyprus, Iraqi Kurdistan, and Qatar are going to be included into the “gas game” in the region in the following years, Russia’s energy leverage over Turkey can be bounded in a significant extent.

Azerbaijan, Georgia and Turkey are also interested in enhancing their transportation routes. Planned to be open in 2016, Baku-Tbilisi-Kars railway project will directly connect three countries and supply energy transfer by rail also. Furthermore, it will serve to increase the trade between Central Asian countries and Turkey, offering a more advantageous route than via Russia or Iran in economic terms.

It's a fact that Turkey's relations with Russia always had direct implications on Ankara's links with the post-Soviet republics. When Ankara had better relations with Moscow, it could get access to the South Caucasus and Central Asia in an easier and more effective way.

One of the main reasons of failing of the Turkic-solidarity project in 1990s was the continuing role of Russia in these countries. Just after the mid-2000s, when Ankara improved its relations with Moscow, Turkey's ties with these countries began to be updated and became stronger.

Summits with Turkic-speaking countries were renewed and later transformed into The Cooperation Council of Turkic Speaking States (Turkic Council) in 2009 with less politically ambitious goals. Apart from Turkey and Azerbaijan, Kazakhstan and Kyrgyzstan have a seat in Turkic Council, which both formally and informally differs from the first attempts of Ankara in the beginning of 1990s.

Even though Uzbekistan cautiously approaches to the Council and Turkmenistan still prefers bilateral axis to the multilateral format of relations, in any case, the Council gives an opportunity for Turkey to promote its energy and economic links with these countries.

As in the case of the creation of the Turkic Council, Turkey could have institutionalized its ties with post-Soviet republics followed by a positive momentum in relations with Moscow during the 2000s. After establishing a High Level Cooperation Council with Russia in 2010 functioning like a joint cabinet of ministers of both countries, Turkey realized similar mechanisms with Azerbaijan (2010), Kyrgyzstan (2011), and Kazakhstan (2012).

These mechanisms facilitate to boost the political ties and economic activities between the countries. Turkish and Azeri leaders signed 30 agreements just during the meetings of the first three years after activating the High Level Strategic Cooperation Council.

Today, these Turkish-Azerbaijani relations are passing through a new test with the deterioration of relations between Ankara and Moscow after 24th November 2015. The aircraft crisis seems to affect the position of Turkey not only in the South Caucasus, but in Central Asia as well. Azerbaijan, Kazakhstan and Kyrgyzstan do not want to be forced to prefer one or another partner between Turkey and Russia.

Staying in between two allies is harder for them than for any other country. Especially, Russia's increasing military presence and activities in Armenia in recent months and opening new credits on buying Russian military equipment by Erevan wonder Azerbaijan more, and pushes Baku to keep close military and economic ties with its northern, geographically natural and strategic neighbor.

A peaceful resolution of the Nagorno-Karabakh conflict seems to be delayed due to this military up-building in the South Caucasus and diminishing political trust between not only direct parties of the dispute but also possible and necessary mediators, Russia and Turkey.

On the other hand, Baku demonstrates solidarity and shares Ankara's concerns on its energy needs and tries to overcome this tension with a possible mediation in Turkey-Russia crisis. Time will show soon whether the "realpolitik" made a comeback again in Turkish-Russian relations, beginning not only in the Middle East politics, but also in the South Caucasus because of the region's close neighborhood to both actors.

When partnership cracks

Daily Sabah, *07.03.2016*

With tensions running high and warmongering intense, Turkish-Russian cooperation is increasingly losing its gained momentum. What looked stable and solid just months ago is falling apart at breathtaking speed. Russian President Putin declared that there is no state-to-state cooperation anymore at his nationwide press conference last December.

"I will not travel to Turkey, and advise you not to go there, too," Russia's FM Lavrov said addressing the Russian public at large. Days ago the Russian Duma initiated discussion on denouncing the 1921 Treaty of Moscow between Russia and Turkey that gained support of the Foreign Ministry.

The Russian establishment and society have fallen out of love with Turkey surprisingly fast after Turkey shot down a Russian Su-24 bomber over the Syrian border on Nov. 24, 2015. Not long ago Turkey enjoyed in Russia a status of the most preferred travel destination with more than 4 million Russians coming annually for vacation surpassing the long-term German champions. Today, Turkey has turned into a place that Russian travel agencies advise their clients not to go to and fear penalties for advertising trips to Turkey on their websites.

Construction is another part of the sanction Russia imposed on Turkey. Until very recently, Turkish contractors' professional approach and high quality of performance were well-appreciated in Russia. Today, the import of Turkish services is forbidden while red tape is back and restrictions are placed on contracts still under completion.

Last December more than 50 Turkish contractors were granted permission to carry on their ongoing projects in Russia, but Moscow's shutdown of the visa-free regime for Turkish nationals from Jan. 1, 2016 can only negatively affect their construction efforts. In addition, in January, Putin revealed plans to gradually replace Turkish contractors with domestic companies, which will further impede the Turkish presence in the Russian construction industry.

Trade is a loser as well with the ban imposed on the import of Turkish goods. Its volume experienced a dramatic increase during the past decade and rose from $6.8 billion to $32 billion by 2013, and was expected to go as high as $100 billion by 2023, a goal next to impossible to achieve under the present circumstances.

By the end of 2014, Turkish goods and commodities exports to Russia accounted for no more than $6 billion while imports of Russian petroleum and gas stood at $12.8 billion, taking the lion's share of Turkish-Russian trade turnover.

Energy cooperation has been the backbone of Turkish-Russian relations, in the field of natural gas in particular. Around 27 billion cubic meters (bcm) of Russian natural gas comes to Turkey annually to make it, as of January 2016, Russia's second-largest importer. A major consumer since the 1970s, Turkey became over dependent on the Russian supply with the launch of the Blue Stream submerged pipeline that today brings 16 bcm of natural gas annually along bottom of the Black Sea.

Commissioned in 2004, the pipeline opened a direct line of delivery from Russia to Turkey safe from bottlenecks and risks of transit through conflict-prone countries. Praised up until recently as a smart move of Turkish-Russian energy politics, the Blue Stream could well now become a hostage of intergovernmental friction. Russia's gas could flow to nowhere but Turkey while Turkey could receive the gas from nowhere but Russia through the Blue Stream.

The Blue Stream pipeline was masterminded by Russia in the mid-1990s and initially met conflicting reactions from Turkey. Concerns were expressed about the heavy reliance on a single source of gas, although it was never fully taken into consideration.

Today, Russia's share of Turkish natural gas imports reaches 60 percent while prospects are slim to meaningfully reduce it in the foreseeable future. On the other hand, gas is the prime source for development for the Turkish economy, and half of its imports continue going to power generation. There are expectations, however, that it will decrease to less than 40 percent in a couple of years.

During the past decade, reducing reliance on imports of Russian gas was high on Turkey's energy agenda, and certain progress was achieved. A breakthrough came in the 2007 launch of the Baku-Tbilisi-Erzurum South Caucasus Pipeline to bring Azerbaijani gas to Turkey, which reduced its overdependence on Russia, but accounts for just 10 percent of Turkish gas imports.

Nevertheless, the development has proved once again that further deliveries from the Caspian region have potential to ensure stable diversification of Turkey's natural gas supply. With sanctions removed, there is now potential for gas-rich Iran to enter the market.

Iran's market share of imports in Turkey stands at 20 percent. As of today, deliveries from the Caspian region continue to be modest in comparison to those coming from Russia, which is still Turkey's main source of natural gas.

Developments around the Blue Stream construction coincided with U.S.-backed plans to build the Trans-Caspian Gas Pipeline (TCP). It was masterminded to bring Turkmen gas to Turkey through Azerbaijan by crossing the bottom of the Caspian Sea. The TCP, which is proposed to have a capacity of 16 bcm, will be the Blue Stream's ultimate competitor.

The Turkish energy market of the late 1990s could not stomach more than one import pipeline - a fact fully appreciated both by Russia and the U.S. It was apparent as well that the market winner would be the earliest commissioned connector to start delivering gas to Turkey. Competition was tough and the pipeline race was intense.

In July 1996 in Moscow, Turkey and Russia made their first intergovernmental agreements on the construction of the Blue Stream, and in May 1998 in Washington, an original endorsement for the TCP project was given by the U.S. and Turkmen presidents.

Finally, in November 1999, on the outskirts of the Organization for Security and Co-operation in Europe (OSCE) summit in Istanbul, the presidents of Turkmenistan, Azerbaijan, Georgia and Turkey, with then U.S. President Bill Clinton as witness, signed an intergovernmental memorandum of understanding and framework declaration that laid the legal grounds for the TCP's construction.

Prior to that, Turkey had signed a purchasing agreement on Caspian gas to secure sufficient deliveries required to ensure the pipeline's feasibility. Clinton voiced the idea behind the project as an American dream coming true: "To ensure that our energy resources pass through multiple routes, not a single choking point."

The pipeline was to start from western Turkmenistan, cross the bottom of the Caspian Sea to the shore in Azerbaijan and continue to Turkey through Georgia. Upon delivering the Caspian gas to Turkey, it was to proceed to Bulgaria and eventually bring Turkmen and some Azerbaijani gas to Germany.

The TPC was masterminded as a high-profile plan to establish a southern export route for natural gas from the Caspian to Europe bypassing Russia in order to ease the pressure of Gazprom's dominance on European consumers. Sadly, it never happened.

The TPC project never took off, and shortly thereafter a flashy ceremony in Istanbul was shelved in the spring of 2000. Plans for its construction went into oblivion and the TCP was replaced with the South Caucasus Pipeline that eventually started bringing natural gas from Azerbaijan to northern Turkey in spring 2007. Needless to say, Turkmenistan, with the world's fourth-largest gas deposits, still continues to be out of reach of European consumers while it steadily supplies the Chinese market.

If the TCP had been built and Turkmen gas had started coming to Turkey as planned by the end of 2002, then the world would be a different place now. Not only would European countries have a new, southern export corridor established for its gas imports, the deliveries would have come from the Caspian region as an alternative to Russia and would have combined reserves from Azerbaijan, Turkmenistan and potentially Iran.

In turn, Turkey would have enjoyed the luxury of a balanced and diversified energy supply by receiving Russian gas from the western line crossing through Ukraine and Caspian gas from TCP and would not today be dependent on Russia for more than half of its energy supply.

Nevertheless, back in 2000, the EU and U.S. duly considered all the pros and cons associated with the TCP's construction and operation, and backed off to open the way for the Russia's planned Blue Stream. Russia grabbed the opportunity and successfully developed the Blue Stream, which resulted in launching an additional, southern export route for Russian gas deliveries to Turkey. This established connection strengthened Russia's position of a key natural gas supplier to world markets - the very position the EU and U.S. consider as undermining Europe's energy security.

The irony was that the U.S.'s idea of establishing a new export corridor in order to improve energy security on the southern borders of the former Soviet Union was brought to life by Russia for the opposite reason. The Blue Stream opened a new, southern export route for Russian gas - a corridor that Russia had never had before.

It also gave an opening to Russia's even more ambitious plans to build a mega pipeline with a 63 bcm installed capacity to be called the South Stream. By crossing 900 kilometers along the bottom of the Black Sea, it was to take Russian gas to Bulgaria and to proceed to Serbia, Slovenia and eventually Italy, on one side, and Hungary and finally Austria, on the other.

Nevertheless, in spring 2014 the South Stream project ran into serious disagreement with EU energy policies and Russia failed to receive the required project approvals and had to shut it down for good the same autumn. The developments immediately brought into life a new project of a submerged pipeline, this time from Russia to Turkey called the Turkish Stream.

Again with a proposed 63 bcm capacity, the projected pipeline is due to supply the Turkish market with half of its delivered volume of gas while carrying the rest to the Greek border where a gas hub for Southern European countries needs to be built. The highly ambitious plan could meet the interests of both Turkey and Russia, if put into life, but it, too, now faces an uncertain future due to the apparent deterioration of Turkish-Russian relations.

Source: Work on Iraq-Turkey oil pipeline to be complete 'in a day or two'

Reuters, *06.03.2016*

Work on a pipeline carrying oil from northern Iraq to Turkey should be complete "in a day or two", an industry source based in the Kurdistan region said on Sunday, with the outage now in its third week.

Flows through the pipeline, which carries around 600,000 barrels per day (bpd) of oil from fields in Iraq's Kurdistan region and Kirkuk to the Mediterranean port of Ceyhan, have been suspended since Feb. 17. The Turkish energy ministry said on Feb. 27 it had begun work to repair the pipeline. "They are working and should finish up in a day or two," said the source, who asked not be identified.

The pipeline runs through Turkey's restive southeast, which is engulfed in the worst violence since the 1990s after a two year-long ceasefire between the state and Kurdish militants broke down last July. Turkey's energy ministry said flows were initially suspended due to temporary security measures, and that militants from the Kurdistan Workers' Party (PKK) had subsequently blown up the pipeline.

A spokesman for the PKK, which has waged a three-decade insurgency in the southeast, denied the group was responsible for the current outage and said the accusations were part of a smear campaign by Turkish intelligence services. “Neither the guerrillas, nor the supporters of the PKK have done such a thing,” Zagros Hiwa told Reuters from the group’s Qandil mountain stronghold in northern Iraq.

Hiwa said Turkish intelligence services sought to create tension between the PKK and the government of Iraq’s Kurdistan region (KRG), which depends on revenues from its exports via the pipeline to survive. The PKK, considered a terrorist group by Turkey, the United States and the European Union, has in the past claimed responsibility for attacking the pipeline, condemning economic ties between the KRG and Ankara.

The outage, one of the longest in the past two years has deepened an economic crisis in the Kurdistan region (KRG), which has been hit hard by the global slump in oil prices and is unable to cover its own payroll. A KRG source told Reuters the outage had already cost the region $200 million.

Expert: Azerbaijan, Iran enjoy potential to be key gas suppliers to Europe

Azernews, *07.03.2016*

Azerbaijan and Iran, both nations enjoying huge natural gas reserves in the world, have a potential to become key suppliers of gas to the European market, Omid Shokri Kalehsar believes.

The energy analyst said in his article recently published in the Journal of Middle East Policy Council that the primary objective of the EU is the diversification of energy resources. The expert believes that Iran may involve itself as a player in the Trans-Anatolian and Trans-Adriatic gas-pipeline projects, inviting foreign companies to make investments in its energy sector in time for the post-sanctions era.

“Azerbaijani companies have a potential role in this also, investing in the current energy sector from a close, and therefore more knowledgeable, proximity. Energy cooperation could help both Iran and Azerbaijan to improve their mutual relations and develop ties,” he said. Kalehsar believes that both countries have an intention and an enough resource base in this regard. Azerbaijan began to present itself as a key ally in the European energy market, partly by retaining an interest in having a potential role in the Southern Gas Corridor.

The country, located within the South Caspian Sea Basin, is among the oldest oil producers in the world. Revenue from the production and export of oil and natural gas is a mainstay of the country’s economy.

Azerbaijan is one of the Caspian region's most important strategic oil and gas export routes to the West. The U.S. Energy Information Administration, which updated its report on the country in early 2014, said that Azerbaijan's proven natural gas reserves are estimated at approximately 35 trillion cubic feet. The Islamic Republic, in turn, has been planning to take its rightful share in the world energy market, primarily as a major natural-gas exporter.

The capacity of Iran's oil and gas production decreased dramatically under the sanctions placed on the country by the EU and the U.S. over Iran's alleged attempts to build a nuclear program. After the nuke deal, however, the country has begun to reinvigorate its oil and gas production and export capacity. Tehran is looking for markets to target, and Europe is interested.

Earlier Azerbaijan's Energy Minister Natig Aliyev said that Iran is interested in Baku's proposal to use Azerbaijan's infrastructure for transporting energy resources to the world markets. "Azerbaijan enjoys a developed pipeline infrastructure. Besides existing pipelines running to Russia, Georgia, Turkey and Iran, the Southern Gas Corridor project is being implemented. All this infrastructure should be used effectively not only by Azerbaijan, but also by other countries," the minister noted.

Many international transport routes, including the Baku-Tbilisi-Ceyhan, Baku-Supsa, Baku-Novorossiysk oil pipelines and Baku-Tbilisi-Erzurum, Azerbaijan-Georgia, Azerbaijan-Iran and Azerbaijan-Russia gas pipelines originate namely from Azerbaijan. Energy-rich Azerbaijan is considered by Tehran as a suitable route for the transit of Iran's massive natural gas resources to European consumers.

Iran's geographical location makes it possible for the country to bring its gas to markets in Europe via routes running through Turkey or Azerbaijan. It is believed that TANAP, which will later be linked to TAP, can become a reliable route for supplying Iranian gas to Europe. By joining TANAP, Iran is sure to strengthen Azerbaijan's regional position as a transit country. This will not only bring economic benefits, but also political dividends that will be much more significant.

The Southern Gas Corridor project envisages the transportation of the gas extracted at the giant Shah Deniz field in the Azerbaijani section of the Caspian Sea. Shah Deniz Stage 2 gas will make a 3,500 kilometer journey from the Caspian Sea into Europe. This requires upgrading the existing infrastructure and the development of a chain of new pipelines.

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 join the Trans-Adriatic Pipeline, which will take gas through Greece and Albania into Italy. The first gas supplies through the corridor to Georgia and Turkey are given a target date of late 2018. Gas deliveries to Europe are expected just over a year after the first gas is produced offshore in Azerbaijan. The Southern Gas Corridor pipeline system has been designed to be scalable to twice its initial capacity to accommodate additional gas supplies in the future.

GE oil chief weighing Iran opportunities in growth strategy

Bloomberg, *09.03.2016*

General Electric Co. is plotting a strategy for its oil and gas business in Iran as the U.S. eases sanctions with the petroleum-rich country. Lorenzo Simonelli, head of the company's crude division, said he visited Iran in recent weeks to "understand what was taking place in the country." GE will only proceed if government rules allow the company to do business there, he said.

"Iran is a big market from an oil and gas perspective," Simonelli said Wednesday in an interview at Bloomberg's New York headquarters. "We will abide by the sanctions, but it's a market where we used to transact."

Geographic expansion is part of a broad growth strategy for London-based GE Oil & Gas that may include acquisitions and more-advanced product offerings. Building out the division is central to Chief Executive Officer Jeffrey Immelt's transformation of GE into a more streamlined industrial manufacturer. The company has agreed to sell more than $150 billion of finance assets in the past year and is unloading the home-appliances unit.

For oil explorers and the service companies, Iran represents a huge bonanza. The Persian Gulf nation's 157.8 billion-barrel cache of untapped oil is more than four times the U.S. endowment, according to the Energy Information Administration in Washington. The country also boasts large natural gas reserves.

A number of nations eased trade restrictions with Iran in January as the Islamic Republic curbed its nuclear program. Remaining U.S. sanctions allow foreign subsidiaries of American companies to operate in Iran, but they require a separation of those projects from U.S. employees and offices.

GE's oil and gas division is one of the world's largest equipment manufacturers for crude explorers. Its gear is used on land to boost production in aging wells and sits on the seafloor under miles of water to regulate the stream of crude coming from below the Earth's crust.

GE is pursuing growth as it weathers a slowdown in global activity driven by the collapse in crude prices. Revenue in GE Oil & Gas fell 14 percent last year to $16.5 billion and may drop another 10 percent to 15 percent in 2016, the company has said. The division has reduced headcount to about 39,000 from 44,000 during the downturn, which is "in line with the industry," Simonelli said. "As we see the industry continuing to ebb and flow, we have to take the appropriate actions."

Energy companies slashed more than $100 billion in spending worldwide last year and cut 250,000 jobs amid the oil price decline. Brent, the global benchmark for crude, has fallen by almost two-thirds since June 2014.

The weakened industry may provide opportunities for GE Oil & Gas, division CEO Simonelli said. The business benefits from the resources of its parent company, which has forecast rising profit and sales this year despite contraction in the oil division.

“There’s no doubt that when you go through a down cycle, it’s good to be part of GE,” he said. The unit expects investment in research and development to remain constant through the slump, he said. The company has held talks to buy the drill-bits and drilling-services operations of Halliburton Co., which is divesting assets to win antitrust approval for its takeover of Baker Hughes Inc., people familiar with the matter said in December. The transaction was scheduled to close last year, but has been delayed amid reviews by U.S. and European antitrust regulators.

While Simonelli didn’t say whether GE would be interested in the Halliburton-Baker Hughes assets, he said his company wouldn’t shy away from doing deals if they make sense. “There are places that we can bolt on and bolster,” he said. He added that the company’s own digital technology could broaden product capabilities and boost organic growth. GE Oil & Gas is adding sensors to equipment to aid in data collection that will improve operations and reduce unplanned downtime, mirroring efforts in GE’s other businesses.

GE built up its oil and gas unit over the past decade through more than $10 billion in acquisitions, including a $3.3 billion deal in 2013 for Lufkin Industries Inc. While GE is a relatively new entrant to the global oil market, growth has helped the company establish a presence with customers, Simonelli said. “I think we’re becoming better known as truly an oil and gas industry player,” he said.

Saudi Arabia seeks up to $8 billion loan

WSJ, *09.03.2016*

Saudi Arabia is looking to borrow up to $8 billion from international banks and also could issue foreign bonds, said people familiar with the matter, to plug the kingdom’s widening fiscal deficit from cheap oil.

Saudi Arabia’s Ministry of Finance has asked foreign banks to submit proposals for the loan, which would be between $6 billion and $8 billion in size, two bankers told The WSJ. The ministry is expected to choose lenders within the next two weeks, one of the bankers said. The country is considering raising billions of additional dollars from an international bond offering after securing the loan, the bankers said.

Officials at the ministry weren’t available for comment. A foreign bank loan would be Saudi Arabia’s first international borrowing in more than a decade. The government’s interest in raising this capital is part of a broader effort to fortify its dollar reserves at a time when oil prices are down 64% from their 2014 peak, despite the recent rally that has lifted Brent crude prices above $41 a barrel on ICE Futures Europe, their highest level since early December.

Saudi Arabia also is weighing possibly listing part of its state oil giant, Saudi Arabian Oil Co., or Aramco, and it has considered creating a sovereign-wealth fund to invest some of its reserves more aggressively in hopes of generating higher returns, people familiar with the matter said.

The government's plans for raising more foreign capital suggests Saudi Arabia is taking steps to ride out any extended period of low oil prices without having to limit production. Despite pressure from other members of the Organization of the Petroleum Exporting Countries to cut back on output to boost oil prices, Saudi Arabia has held firm that it won't do more than freeze production at current levels, which are near record output.

"I don't think the Saudis needed to do this to make sure they could pay their bills," said Larry Goldstein, a director of the Energy Policy Research Foundation, which receives funding from the oil industry. "This is just another piece of a very consistent strategy of being as efficient and cost effective as possible in a very difficult and uncertain environment."

Saudi Arabia, among the world's biggest oil producers, has benefited from high crude prices in the past decade to build about $600 billion in reserves. Last year, Saudi Arabia ran a record deficit of nearly $100 billion as crude prices tumbled by more than half since the middle of 2014. The country announced austerity measures for this year, including spending and subsidy cuts, and said it would consider privatizing state assets.

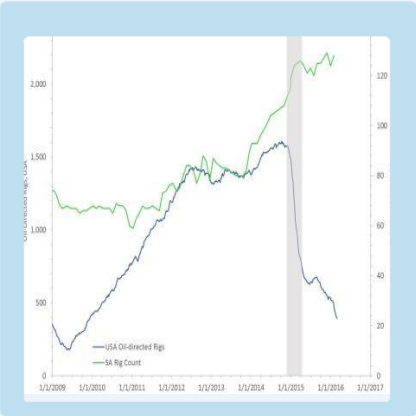
Ratings agency Standard & Poor's Ratings Services last month cut Saudi Arabia's sovereign credit rating, citing the impact of low oil prices on the country's finances and economy. It forecasts average growth of 2% between 2016 and 2019, down from 3%. Moody's Investors Service also recently put Saudi Arabia's rating on review for a possible downgrade while it assesses the impact of the low oil prices.

"The amount of borrowing that is on Saudi Arabia's balance sheet is effectively extremely low relative to its reserves and relative to its economy," said Karim Awad, chief executive officer of EFG Hermes, one of the Middle East's largest local investment banks, in a recent interview. "There's a lot of room to borrow, and it will help the economy as a whole," he said.

Saudi Arabia has issued domestic bonds worth tens of billions in recent months and tapped into its foreign reserves held by the central bank to bolster its finances. Oman and Qatar, two other Persian Gulf states, have also recently secured international loans.

Competing goals make Saudi oil policy hard to predict

Financial Times, *08.03.2016*



When Saudi Arabia announced with Russia and other big oil producers a conditional agreement to freeze production at current levels in the face of rock bottom prices, the decision was seen as an indication that it was changing policy.

Economics had finally trumped geopolitics. Where Riyadh's earlier decision not to cut output was seemingly spurred by geopolitical rivalry with Iran and Russia, economic hardship had catalysed co-operation. It is correct to focus on both economics and geopolitics. There is just one problem: most people get it back to front, concluding that geopolitics are the dominant driver when economics are, and vice versa.

In 2014 Saudi Arabia convinced other Opec members to abandon efforts to support prices by cutting output and to prioritise instead the protection of market share. This precipitated the dramatic price collapse of the past few months. Given Russian and Iranian support for, and Saudi opposition to, Syrian President Bashar al-Assad — and the growing possibility of a nuclear deal leading to the lifting of sanctions against Iran — analysts were inclined to see the Saudi-led decision as geopolitically inspired. The new approach unquestionably created more hardship for the kingdom's nemeses: Iran and Russia.

But the fact that something desirable results from an action does not necessarily mean it was the cause of it. In fact, the Saudis had little choice but to opt for a market share approach in 2014. Like others, they misjudged the depth of the price collapse to come. Yet they understood that US shale oil had created new dynamics that limited their choices.

The Saudis faced competition from a sector whose output could be ad-justed more swiftly in response to price fluctuations. They suspected that if they cut their own production to bolster price, the shale industry would respond by producing more, eroding any increased Saudi revenues by pulling the price back down. The Saudis would then be selling less oil and at a lower price. Here, prioritising market share over price made the most economic sense. The problems created for Tehran and Moscow were icing, but not the cake itself.

In contrast, the tentative agreement this year to freeze oil production was almost all about geopolitics, not economics. The clue is in the fine print, which says the freeze would take effect only if other producers, primarily Iraq and Iran, agreed to halt their own production increases. The really tall order was to convince Iran, newly freed from sanctions, to agree to this deal.

Not surprisingly, Iran balked. Although to many the initiative looked like a flop, the kingdom achieved its goals, which were geopolitical not economic in nature. Riyadh had the satisfaction of lining up two of Tehran's closest allies — Russia and Venezuela — in opposition to Iran's position.

More important, in making the proposal while holding out little hope that Iran would agree, the Saudis shifted the blame for low oil prices. Tehran became the new bad boy of the oil market. Both economics and geopolitics will shape Saudi oil policy in the days and months ahead. Geopolitics will be the main driver for actions that have an economic upside only. But where economics and geopolitics point in different directions, expect Riyadh to prioritise the first.

Faced with a gathering economic crisis, Saudi Arabia cannot afford expensive pot shots, even at regimes for which it has no love. Its strategy of prioritising market share will probably persist for a while. But, once the market starts to turn, and Iraq and Iran have shown their ability to bring new oil to market, production cuts could yet return.

Israel-Jordan gas pipeline to begin operating in 2017

Globes, *10.03.2016*

The first natural gas pipeline to Jordan is scheduled to begin operating in 2017, Israel Natural Gas Lines CEO Samuel Tordjman announced. The pipeline, currently being constructed in the Sdom area by the Dead Sea, will supply gas from the Tamar reservoir to private customers in Jordan.

A second pipeline to be built in the Beit Shean area is due to supply gas from the Leviathan reservoir to the NEPCO. In February, the Tamar partners signed a letter of intent with private customers in Jordan to supply 1.8 BCM over 10 years. In September 2014, the Leviathan partners also signed a letter of intent to supply 45 BCM of gas to NEPCO over 15 years.

The value of the contract is estimated at over $15 billion. The discussions of the gas plan in Israel, however, which have been taking place for a year, have stalled the negotiations between the two countries. A report by the German Marshall Fund of the US about the Jordanian gas sector states, “In business terms, Jordan is an obvious market for Israeli gas.

Pipeline distances are short; potential linkages between the Israeli pipeline network and Jordan’s are measured in mere tens of kilometers. The largest prospective customer, NEPCO, is a reliable partner with a reputation for ensuring its customers pay their bills.” Furthermore, “In the future, gas supplies from Israel could be supplemented by gas from the Gaza Marine field.”

According to the Marshall Fund, the difficulty in signing a final contract is due to two main problems: regulation in Israel and poor relations between Israel and the Hashemite Kingdom of Jordan. “Regulatory uncertainty in Israel has delayed the development of Leviathan and the expansion of Tamar. Meanwhile the political climate affecting relations between Israel and Jordan has deteriorated…

The United States and the European Union, which have an interest in regional stability, should continue to exercise discreet diplomacy with a view to seeing that the preliminary agreements on imports of gas from Israel that have been signed are fully implemented… energy cooperation can reinforce political links between Israel and Jordan and help bring a modicum of stability to a troubled region." Gas from the Leviathan reservoir is scheduled to begin flowing before the end of 2019.

During a tour today of the work on the eastern pipeline currently being built by Israel Natural Gas Lines, with the participation of Minister of National Infrastructure, Energy, and Water Resources Yuval Steinitz, Ministry of National Infrastructure, Energy, and Water Resources director general Shaul Meridor, Israel Natural Gas Authority acting director general Alexander Warshawsky, and Israel Natural Gas Lines directors, Israel Natural Gas Lines presented the progress made in construction of the pipelines to Jordan, as well as the plan to establish a marine installation for high-speed transmission of gas from new gas fields and a plan for underground natural gas storage.

As reported exclusively by "Globes" in November 2015, Israeli Natural Gas Lines is considering storage of natural gas in the Dead Sea at an estimated cost of $200 million. The natural gas stored in the reservoir can supply Israel's gas needs for 10 days.

Tordjman said, "Israel Natural Gas Lines is investing all the necessary resources to prepare for a constantly increasing demand for natural gas, and in the readiness of the national system to handle the gas from the Leviathan reservoir. 2016 is presenting us with many challenges, and we are continuing to build new gas lines during this period. We plan to double the existing lines and connect new customers all over Israel."

Steinitz said, "We are already beginning now to invest in a pipeline to export gas to Jordan, so that gas can be exported to Jordan from both Tamar and Leviathan on the shortest possible timetable." Meridor said, "For the Ministry of National Infrastructure, Energy, and Water Resources, developing a transmission system is one of the most important matters, and the decisions about where to send the natural gas and how to promote the connecting of industry and consumers to natural gas are on our agenda. Israel Natural Gas Lines is an example of a company whose good relations with the party supervising it are leading to good results for the sector, which is successfully progressing and developing."

How Japan and Russia cooperate in the Arctic

Diplomat, *10.03.2016*

Japanese policymakers expressed diplomatic interest in the Arctic – a region rapidly being transformed by climate change –as early as 2009, when the country officially submitted an application to become a Permanent Observer in the Arctic Council.

Japan's bid (supported by, surprise, Russia), was approved in May 2013, along with China and South Korea's. This instance of Russo-Japanese cooperation, particularly notable because Russia did not show such support for China, foreshadows the ways in which Japan will continue to try to leverage its ties with Russia in the Arctic.

Japan benefits from cooperating with Russia because doing so will increase resource-poor Japan's access to energy resources in and sea routes through the region. Japan did not really have a comprehensive strategy with regard to the Arctic until October 2015.

Even then, the "strategy" reads more like a laundry list of issues Japan had an interest in – global environment issues, indigenous peoples of the Arctic, science and technology, ensuring rule of law and international cooperation, the Arctic Sea Route, natural resources development, and national security – rather than a grand vision that outlines what Japan's priorities are.

However, Japan's Arctic strategy gained sharper focus with Kazuko Shiraishi's press conference in Moscow on February 29. Shiraishi is Japan's special ambassador in charge of Arctic affairs. According to Shiraishi, the three main areas of Russo-Japanese cooperation in the Arctic include: research, the Northern Sea Route, and the Yamal liquefied natural gas (LNG) project.

The Northern Sea Route (also known as the Northeast Passage) is important to Japan's strategic thinking because it is the shortest route from the Atlantic to the Pacific. The Northern Sea Route, traversing along the northern coast of Siberia, cuts travel time from China to Europe by at least 12 days compared to the Suez route.

It can be an alternative way for Japan to transport energy resources from the Middle East, reducing reliance on crowded and narrow routes such as the Strait of Hormuz and the Strait of Malacca. Russian Prime Minister Dmitry Medvedev signed an order to increase the Northern Sea Route's capacity from the current 4 million tons to 80 million tons in the next 15 years. Japan would definitely benefit from such a development. Japan is also trying to get involved with Russia's $27 billion Yamal LNG project, one of the largest industrial projects in the Russian Arctic. Novatek, Russia's largest independent natural gas producer, owns 60 percent share in the project, France's Total 20 percent, and China's China National Petroleum Corporation (CNPC) 20 percent.

Novatek chief executive Leonid Mikhelson told TASS, “We would welcome Japanese companies participating in this project as investors and as engineering companies and as suppliers.” Scheduled to start operations in 2017, the project is expected to have an annual capacity of 16.5 million metric tons of gas. The Yamal LNG project will extract gas from Yuzhno-Tambeysk natural gas field, which has estimated reserves of 907 billion cubic meters.

At the Russia-Japan Trade and Industry Dialogue in Tokyo, Denis Khramov, deputy chairman of the management committee of Novatek, hinted at Japanese involvement in the Arctic LNG project as well. He said, “Unlike Yamal LNG, the partnership on Arctic LNG has not been configured yet, and we consider it as a significant and serious option for Russian-Japanese cooperation. Now that the project is being prepared the possibility to join the project for Japanese companies is rather convincing, and maybe even unique.”

Climate change makes Arctic energy resources more available, a significant development because, as the U.S. Geological Survey estimated, more than 20 percent of the world’s undiscovered hydrocarbon reserves are located in the Arctic.

On the surface, neither Japanese nor Russian officials are willing to characterize their relationship with China in the Arctic in contentious terms. Shiraishi also stated at the press conference, “We don’t see any competition in China’s presence in the Arctic region,” and Russian Deputy Prime Minster Dmitry Rogozin expressed Russian encouragement for China to increase the use of the Northern Sea Route for cargo shipping.

However, it is undeniable that China is a key factor pushing Japan and Russia closer together – despite the continued impasse over Ukraine. Japan naturally would want to balance China with any willing partner, but Russia also has an incentive to cooperate with Japan. It’s partly economic, as Russia wants to expand the number of clients it exports energy to so it does not have to be dependent solely on Chinese demand (as unlikely as that is to be satiated anytime soon).

However, Russia’s motivations are partly military as well. Some observers hypothesized a connection between large-scale snap military inspections in Russia’s Far East and five Chinese naval vessels passing into the Sea of Okhotsk in July 2013. Last September, around the same time U.S. President Barack Obama visited Alaska, five Chinese naval vessels were spotted in the Bering Sea between Russia and Alaska for the first time.

Russo-Japanese cooperation in the Arctic is a region to keep an eye on, as there seems to be abundant possibility for international cooperation here – even as Russia’s diplomatic isolation continues.

EC advises of need to end national approach to energy

Natural Gas Europe, *04.03.2016*

The challenges that face the European Union's electricity market require a complete overhaul of the role of governments and regulators, the European Union's energy commissioner Miguel Arias Canete told the European Electricity Forum in Florence.

In a speech that called for an end to protectionism and national self-interest in energy markets in favour of integration, he said that the Agency for Cooperation of Energy Regulators might have to arrogate to itself powers that now lie with national regulators, which are often subordinate to their governments.

In order to bulldozer through the sort of changes that are needed if the EU is to meet the ambitious COP21 commitments to decarbonise, the EC "cannot wait for 28 national regulators to come to an agreement, or fail to do so," he said.

He said many countries had incentives to ensure generation adequacy that followed a "purely national logic and focus exclusively on introducing measures to remunerate national generation capacities, without taking account of the benefits of market integration."

This is not a viable approach, he said, and to avoid distorting the internal energy market the EC will propose a European or regional framework for capacity remuneration mechanisms. While market successes include more cross-border flows and more rapid trading, there have also been notable failures, such as the low cost of emissions trading allowances, and an inability to absorb the "massive roll-out" of variable renewable generation, he said.

Renewables will have to take on their own responsibilities for balancing the system and in turn help strengthen the price signal.Capacity mechanisms vary from country to country with no consideration of what is happening across political borders. "Prices need to steer investment to the right location. For this they need to reflect physical limitations in the transmission system rather than political borders," he said, and there should be no constraints on pricing.

"As co-operation between system operators will intensify and become more formal, Acer will need oversight over these new structures. And the same holds true for power exchanges, if they hold monopoly functions. We will need to strengthen Acer's powers accordingly," he said.

The EU has committed to producing half of its electricity from renewable sources by 2030 but there are obstacles in the form of depressed and sometimes capped prices for electricity and for emissions allowances.

Cutting the amount of emissions annually is one solution, although the two methods to be used will not take place until 2019, with the removal of the surplus allowances and in 2020 with the progressive annual reduction rising from 1.74% to 2.2%, a measure that will lead to a 43% cut in the amount allowed by 2030, compared with the pre-recession total of 2005.

U.S. energy agency sees lower global oil prices

WSJ, *08.03.2016*

The U.S. Energy Department lowered its price expectations for the global Brent crude contract, saying it expected supplies to grow more than previously anticipated because robust production has persisted despite the market collapse.

The U.S. EIA, said it expected Brent oil prices to average $34 a barrel in 2016 and $40 a barrel in 2017, down from $37 and $50, respectively, from its outlook. "Global inventories over the next two years are expected to grow more rapidly than previously expected because of higher world production and less oil demand due to weaker economic growth worldwide," EIA Administrator Adam Sieminski said.

"Higher growth in world oil inventories tends to delay the rebalancing of supply and demand in the global market, keeping prices low," Mr. Sieminksi said. That buildup in inventories is expected to translate into lower prices at the pump, with the EIA lowering its estimate of U.S. gasoline prices to an average of $1.89 a gallon in 2016, down 8 cents from its outlook a month ago and the lowest annual average since 2004. Retail gasoline prices averaged $2.43 a gallon in 2015.

Cheap prices are prompting drivers to hit the road more, with gasoline demand increasing 2.7% in 2015 to 9.2 million barrels a day, the highest level since the record demand of 9.3 million barrels a day in 2007. Robust U.S. production is also leading to abundant inventories and lower prices for natural gas, a key source of fuel for power plants and home heating and air conditioning in the U.S. Natural gas prices recently touched their lowest level in 17 years, and inventories at the end of the winter heating season this month are on track to be the highest in four years.

Can LNG exports help ailing US producers? Apparently not

Oilprice, *08.03.2016*

Growth in U.S. natural gas production may have been the catalyst for the development of massive LNG export projects that led to the first American exports setting sail in February, but market conditions today aren't as brilliant as they were when this all started out.

The latest report from the Energy Information Agency (EIA), released last Friday, paints a fairly bleak picture—at least from the comparative high of two years ago. "Market conditions have changed since many LNG export projects in the United States were initially proposed," according to the EIA.

Most significantly, these new terminals "face not only increased competition from other domestic and foreign terminals that have been completed, but they also face uncertainty in global LNG demand." The first export shipment of U.S. LNG left the brand new Sabine Pass terminal in Louisiana at the end of February.

And while operator Cheniere Energy should be proud of its accomplishment, LNG exports are unlikely to change the game for U.S. gas producers as a whole, as many would have hoped. Cheniere has been working on this project for years, and was the first company to get an export license for LNG.

The shale boom of the last decade led to a huge slump in natural gas prices, even though according to EIA data, the U.S. continues to be a net importer of the commodity. It has also been exporting some gas to Mexico by pipeline, and to the Pacific Rim by sea—but in tiny amounts.

Liquefaction terminals are now seen as the new hope for gas producers in shale, and even more optimistically, as an opportunity for the U.S. to find its place among the largest exporters of LNG, where the top two spots are currently held by Qatar and Australia. Eager to take advantage of this opportunity, gas producers are building liquefaction units and export terminals: there are two in construction in Texas, one in Louisiana, and a fourth in Maryland, plus about a dozen others proposed for construction, awaiting approval.

On the one hand, U.S. LNG exports could relieve Europe of its overwhelming dependence on Russian gas, meanwhile relieving the U.S. itself of the gas glut it has been suffering. This, however, is only a hypothetical possibility, because transporting LNG to a suitable delivery point, which means a special LNG facility, costs money. 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.

By the time U.S. LNG gets to Europe, it might be uneconomical to sell there at prices that can actually compete with Gazprom's. Not to mention that Iran has huge gas reserves, which are very likely to become pretty attractive for Europe now that the sanctions have been lifted.

The market situation is not too attractive in Asia, either, the other major potential destination for U.S. LNG. Demand is lagging behind supply on a global scale and in Asia in particular. This follows the spike in prices after the Fukushima disaster in 2011, when Japan shut down a lot of nuclear power generation capacity. This capacity, however, is starting to come back online, and regional demand for gas is dwindling.

Optimists, such as Platts and the Wall Street Journal, believe that sooner or later (probably later) the U.S. will become a force to reckon with on the global natural gas export scene. The "later" part, however, should worry industry players because it means not all of them will survive, and those that do will have to pour possibly tens of billions of dollars into building liquefaction capacity.

Australia is one more cause for pessimism: it recently launched production at the most expensive LNG project in the world, the Gorgon, which hopes to cement its place as a major—possibly even the top—gas exporter globally. The timing may not be ideal, given the current price environment, but there is no halting the momentum of this project, which has much longer term aspirations. In other words, the U.S., in its new role of a natural gas exporter, will face very stiff competition.

This competition will keep prices low for a prolonged period, so only the most resilient gas producers will survive, and eventually start to turn in a profit. As for the glut that is gripping the domestic U.S. market, its end is nowhere in sight for now—exports or no exports.

US stocks end higher on oil price gain

AA Energy Terminal, *10.03.2016*

The U.S. stock market closed higher Wednesday with a jump in crude oil prices. The Dow Jones industrial index rose 36.26 points to close the day at 17,000. The Nasdaq increased 25.55 points to end at 4,674 and the S&P 500 rose 10 points to close at 1,989. Rising oil prices was a major contributor in the increase.

The American benchmark West Texas Intermediate rose as high as $38.44 a barrel, from its previous close of $36.50 -- a 5 percent gain. Meanwhile, international benchmark Brent crude climbed to as high as $41 per barrel, from its previous close at $39.65 – just shy of gaining 4 percent.

The price surges was helped by falling U.S. gasoline stocks which declined 4.5 million barrels, or 1.8 percent, for the week ending March 4. "A sharp drop in inventories of gasoline seems to have captured the market's attention.

The fact that gasoline stocks slumped by such a large amount ... is a positive sign for demand," said Thomas Pugh, a commodities economist at London-based Capital Economics. The biggest stock winner was Chesapeake Energy -- one of the largest U.S. natural gas companies – rising nearly 8 percent. Another gas company, Devon Energy Corp., had its shares rise close to 7 percent percent, while shared of oil and gas exploration and production company Newfield Exploration Co. was up 5.76 percent.

Oil prices have been on an upward trend since last week as the global crude market has focused on the much-anticipated meeting between OPEC and non-OPEC oil producing countries on March 20 in Moscow. Venezuela, Qatar, Saudi Arabia and Russia are expected to discuss details of an oil production freeze, with the possibility of including more oil producing countries in the agreement.

Announcements & Reports

► *India's Oil Demand: On the Verge of 'Take-Off'?*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/indias-oil-demand/

► *The Cost of an Emerging National Oil Company*

Source : Chatham House
Weblink : https://www.chathamhouse.org/publication/cost-emerging-national-oil-company

► *Russian Gas Transit Across Ukraine Post-2019*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/russian-gas-transit-across-ukraine-post-2019-pipeline-scenarios-gas-flow-consequences-and-regulatory-constraints/

► *OPEC Bulletin*

Source : OPEC
Weblink : http://www.opec.org/opec_web/en/76.htm

► *Natural Gas Weekly Update*

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

► *This Week in Petroleum*

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

Upcoming Events

► *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