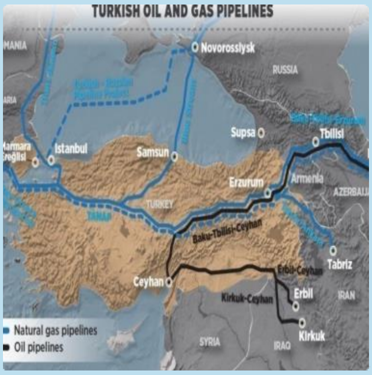
Oil & Gas Bulletin

▸ 18.03.2016

Oil flow from Kirkuk pipeline back to normal rate

AA Energy Terminal, *17.03.2016*



Oil flow from Kirkuk-Yumurtalik pipeline to Ceyhan port in the Mediterranean coast reached 528,000 barrels per day after the flow was halted due to terrorist attacks in February, a Turkish Energy Ministry official told Anadolu Agency.

The terrorist group PKK attacked the pipeline inside of Sanliurfa. Turkey's Energy and Natural Resources Ministry had announced that the same group once again attacked the Kirkuk-Yumurtalik oil pipeline. The official said after the pipeline became operational, an average of 22,000 barrels per hour of oil from KRG was transmitted from Kirkuk in Northern Iraq to the Ceyhan port totaling 528,000 bpd.

"Our cooperation with KRG maintains," the official said. Oil is one of the biggest sources of revenue for the KRG administration. The KRG earns $380 million from oil revenue each month. However, this revenue is precarious because of the attacks on the Kirkuk-Yumurtalik oil pipeline.

Turkish Energy Stock Market opens transparency platform

AA Energy Terminal, *16.03.2016*

The EPIAS started a trial version of the transparency platform for the data needs of energy market participants, EPIAS Chairman Hasan Huseyin Savas announced.

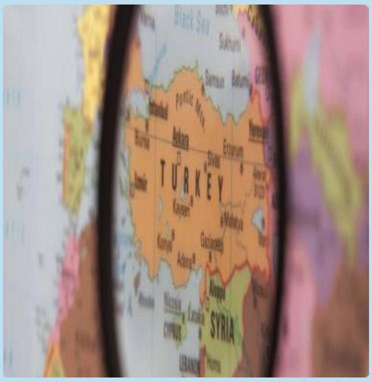
There are 868 participants active in Turkey's power market including representatives from state power companies, the Energy and Natural Resources Ministry and private power companies. Savas stressed the importance of the new platform and hailed it as a strategic step for Turkey's energy industry. "In addition to previously published data, we will now also serve our participants with hourly production and consumption data from the TEIAS," Savas told.

"With this platform, we will publish final electricity prices at 2:00 p.m. GMT +2 to enable participants to avail of this data," Savas underlined. EPIAS was given a 49-year-long operating license for the country's electricity market from Sept. 1, 2015 onwards.

TEIAS and state-owned Petroleum Pipeline Corporation (BOTAS) together hold a thirty percent share in the private corporation, EPIAS, while 30 percent was bought by Istanbul Stock Exchange (BIST). The remaining 40 percent of EPIAS' shareholders are private companies. Each firm will be offered up to a maximum of a four percent share to avoid monopolies.

Feature story: Russian interests to dictate Israel-Turkey deals

Natural Gas Europe, *17.03.2016*



Israel and Russia are about to agree upon a modus operandi in the East Mediterranean concerning weapons and natural gas deals. According to various assessments, the bottom line of such an agreement would be that Israel will not sell natural gas to Turkey and, in return, Russia won't supply S-300 anti-aircraft missiles and other advanced weapon systems to Iran and other regional enemies of Israel.

The basis for the agreement all started about six months ago when, in a surprise move, Russia deployed about 50 jet fighters, helicopters, and ground forces to a Syrian air base in the northwest of the country.

It was the first time in a generation that the Israeli Air Force had to confront an adversary as formidable as the Russian air force, and worse, Israel's interests were threatened by the might of the Russian state on its borders.

For Israel this represented a threat that it had to reduce as much as possible in order to avert a dangerous deterioration into any kind of confrontation, either diplomatic or military. That prudent policy led to the unusual phenomenon that when Russian jet fighters violated Israel's air space, no Israeli response was recorded. It was an unprecedented incident for one of the world's best air forces.

At the same time, relations between Russia and Turkey were rapidly deteriorating because of the two countries' contradicting goals in Syria: Turkey was seeking the removal of Bashar al-Assad, the Syrian president, while Russia was deploying its forces in Syria in order to support him.

Following the downing on of a Russian bomber by a Turkish F-16 on November 24 last year, the situation came to a head. Russia imposed sanctions on Turkey and relations sank to a new low. Since then the relationship between Turkey and Russia has remained frozen at best.

However all along Russia, Turkey's largest gas supplier with a market share of over 60%, has maintained its dominant position in the Turkish gas market. That threw up another potential conflict between Israel and Turkey:

A few people, in Israel as well as in Turkey, believed that the Leviathan gas field, which has yet to be developed, would be at least a partial alternative to Russian gas and could help Turkey to wean itself off its dependence on Russian natural gas. For Russia, that situation necessitated some quick political manoeuvring to get Israel on side.

Israel, for its part, faces difficult decisions: Does it prioritise gas deals at the price of its military considerations or should it shun a possibly lucrative gas deal to maintain its military relations with Russia?

A potential gas deal between Israel and Turkey has been months in the making. On December 27, Benjamin Netanyahu, Israel's prime minister, approved a new natural gas regulatory framework for the country. That same day, in the evening news on Channel 2, the most watched news broadcast in Israel, a leak revealed that secret negotiations between Israel and Turkey to end the six-year crisis in their relations are ongoing. Since Netanyahu is also the Foreign Minister, the source of the leak appeared to be quite clear as was its timing and purpose: Turkey was presented as the attractive destination for Israeli natural gas.

Now things began to get tangled. The negotiations between Israel and Turkey, always shrouded in secrecy, dragged on for weeks without end. The Israeli Defence Minister, Moshe Ya'alon, said a few times that Israel has its own red lines, which included the shutdown of Hamas command post in Turkey from which terror activities against Israel were ordered, according to Israel. His stance probably gave voice to the Israeli military establishment that prefers maintaining military cooperation with Russia over potential Israeli gas sales to Turkey if they hurt Russian interests and anger Putin.

Meanwhile, Netanyahu said nothing and the Turkish president, Recep Tayyip Erdogan, remained silent in the hope of achieving a deal with Israel that would secure him not only Israeli gas but, more importantly and urgently, Israeli weapons.

Two weeks ago a Kuwaiti newspaper, Al-Garida, which according to Israeli sources is regarded as close to Netanyahu, reported that Turkey was demanding sales of weapons from Israel, as part of the reconciliation agreement, while Israel was demanding that Turkey purchases gas from the Leviathan partnership.

It looks like a perfect deal for the former allies, especially for Turkey, which is seeking to break its diplomatic isolation in the Eastern Mediterranean. The American administration also supported that reconciliation agreement between its two most important allies in the East Med, a stance that was expressed by the US Vice President, Joe Biden, on his recent visit to the region.

However as long as the Russians remained in Syria, close to the Israeli border and with great influence on the East Med theatre, those plans were destined to remain pipe dreams, as sales of weapons and natural gas from Israel to Turkey would have contradicted Russia's interests in the region.

President Putin invited Israel's President, Reuven Rivlin, for a state visit to Russia. The presidency in Israel is no more than a ceremonial role on the one hand and the relationship between Netanyahu, the Prime Minister, and Rivlin, the President is mostly bitter. In normal times, Netanyahu would have tried to block that prestigious visit.

However, this time, he urged Rivlin to accept Putin's invitation and to cancel a planned state visit to Australia, causing diplomatic unpleasantness between the two countries. However when Putin invites an Israeli President, any answer apart from 'da' would be unacceptable as well as illogical.

So on March 16, just two days after Putin announced the withdrawal of Russian forces from Syria, the two presidents met in Moscow. The most important news item that came out of their meeting was of an impending meeting between Netanyahu and Putin.

Lately, Netanyahu and Putin see each other and communicate with each other frequently. Netanyahu's relations with the Kremlin are much better than with the White House. Following the deployment of Russian forces to Syria in September last year, Netanyahu rushed to Moscow to create a coordination mechanism between the Russian forces in Syria and the Israeli military.

Since then, the coordination mechanism has been effectively used and no incidents between military forces of the two countries have been reported, despite the extensive military activity in the region.

(Following the Russian surprise withdrawal from Syria, a new coordination mechanism has to be established between Russia and Israel since, despite the Russian withdrawal, Russian forces will continue to use the air base near Latakia, and the S-400 anti-aircraft missiles system will remain deployed and operational in their region.)

During the period of the first coordination mechanism, Putin, according to an Israelicommentator, said that he would like Russia to be involved with the Israeli natural gas industry, including having interests in the offshore gas fields. Such a move seems doomed because of American interests – American firm Noble Energy operates the Leviathan and Tamar fields, plus others in the area. However, with strengthening relations between Russia and Israel, the Russians are in a position to thwart any Israel-Turkey gas deals.

Russia is also interested in promoting its relationship with Iran following the lifting of the sanctions. A few weeks ago it was reported that Russia has agreed to complete the sale of an S-300 anti-aircraft missile system to Iran, a country which is regarded by Israeli officials as Israel's most dangerous enemy.

That deal has infuriated Israel; the Director General of Israel's Foreign Office flew to Moscow for a meeting with the Russian Foreign Minister, Sergei Lavrov. In that meeting, Lavrov said that Russia is disturbed by the recent Turkish-Israeli rapprochement, because of a possible deal between Turkey and Israel on natural gas resources. Nothing was reported about weapons sales but one can assume that this subject was also on the agenda.

Israel doesn't have many choices in how it proceeds. Good relations with Russia, when Russian forces are almost on its borders, seem to be more important to Netanyahu than gas deals with Turkey, despite the fact that Netanyahu is the prime mover behind the gas framework. However if the Russians were to accede to Israel's demands and abolish arms deals with Iran, Israel could reciprocate by not selling either arms or natural gas to Turkey. The rapprochement, and gas deals with it, will be delayed for another time.

As relations with Russia deteriorate, Turkey and Ukraine discuss gas

Natural Gas Europe, *11.03.2016*

Ankara and Kiev have announced plans to cooperate on energy including natural gas transit and the use of Ukraine's underground gas storage (UGS) facilities, Turkish media outlets and the Ukrainian government have reported.

According to Turkish newspaper Daily Sabah, Turkey's president, Recep Tayyip Erdogan, and his Ukrainian counterpart, Petro Poroshenko, signed a joint declaration to cooperate on politics, economy, education and tourism in Ankara at a high-level strategic council meeting. Additionally, the two sides agreed to evaluate gas export projects from Caspian to Europe, Ukraine's government press service said.

According to that release, Ukrainian and Turkish energy ministers Vladimir Demchishin and Berat Albayrak discussed ways to to deliver Caspian and Iranian gas to Ukraine as well as the possibility of allowing Turkey to access Ukraine's underground gas storage (UGS) projects.

Further in the energy discussions, the Ukrainian side also expressed a readiness to cooperate in the field of nuclear energy, inviting Turkish specialists to study at Ukrainian training centres, and in mining uranium ore and producing uranium concentrate.

According to the Ukrainian government press release, Turkey also expressed an interest in participating in the privatisation of Ukraine's energy assets, including coal mines. Turkey and Ukraine likely had fertile ground to discuss cooperation and the strengthening of their energy relations following the deterioration of both countries' relationships with Russia.

Historically, Ukraine has maintained an uneasy relationship with Russian suppliers. In February, Ukrainian state-owned Naftogaz said it was willing to go to court to settle the payment terms of 5mn m^3 of gas owed to Gazprom; and, earlier this week, it emerged that Gazprom had cut gas supply to Turkish gas importers once the importers refused to pay a higher price for gas supplied from Gazprom.

In that context, Ukraine and Turkey's discussion about the UGS projects could be revealing of a wish from both sides to mutually diversify away from Russian supply. Currently, Turkey imports Russian gas directly via the Blue Stream pipeline, which runs under the Black sea, and via the Trans-Balkan gas pipeline, which passes through Ukraine, Moldova, Romania and Bulgaria.

However, if Turkey is given access to Ukraine's UGS facilities, Turkey could potentially benefit from boosting its storage amounts. Turkey's annual gas consumption is above 45bn m3 a year but the country has a UGS capacity of less than 3bn m3 at present.

Accessing Ukraine's underground storage could mean that Turkey could store gas exported via the Trans-Balkan pipeline in Ukraine for winter supply or for another emergency situation. And, with start-up gas supply from the Caspian via the Trans-Anatolian pipeline scheduled to begin in 2018, Turkey could have excessive amount of gas that could be stored in Ukraine. It would potentially also have the opportunity to re-export that gas to other European countries via Ukraine's gas transportation system.

The arrangement could behove Ukraine, too, as it ramps up its efforts to pull away from Russian supply. Turkey is the second country Ukraine has held energy talks with in a week. Ukraine said 2016 would be a year of intensifying relations between Ukraine and Iran following a meeting in Tehran. During that meeting, Ukraine and Iran also discussed gas projects and ways of bringing Iranian gas to Europe through Ukraine.

Efforts continue to finish TANAP gas pipeline earlier than expected date, Erdoğan says

Daily Sabah, *15.03.2016*

The fifth Azerbaijan-Turkey High Strategic Cooperation Council was held in Ankara yesterday with Azerbaijan President Ilham Aliyev and President Recep Tayyip Erdoğan in attendance.

At the press conference the leaders of both countries said that they are considering mutual trade issues including energy, transportation, defense and military cooperation. Claiming that the most important project developed between the two countries is TANAP, Erdoğan said that the work on TANAP is progressing as planned and that both countries are striving for to have all work completed by the intended time.

President Erdoğan also said that Turkey is in coordination with all stakeholders regarding the southern gas corridor. The foundation of TANAP – worth $10 billion – which will decrease Europe's dependence on Russia and meeting Turkey's ever increasing gas demand and carry the gas from the Azerbaijani Shah Deniz field to Europe, had been laid on March 17, 2015 with the participation of the presidents of Turkey, Azerbaijan and Georgia.

Erdoğan said that trade relations between the two countries have accelerated due to the decreasing oil prices and other global relations and that at the meeting they decided to take "solid steps" but he didn't give any more details. Erdoğan also thanked Aliyev for his solidarity as Aliyev moved the meeting, which was supposed to be held in Baku, to Ankara, due to the terrorist attack that took place in Ankara.

Meanwhile, TANAP is expected to be completed by 2018, and it is estimated that $761 million worth of machines and equipment will be imported for the project and the project will provide employment opportunities for around 187 employees.

With the implementation of the project, the natural gas produced at the Şah Deniz 2 Natural Gas Production Site located in the Caspian Sea in Azerbaijan, in addition to other sites located south of the Caspian Sea, will first be transported to Turkey and then to Europe. TANAP will be a part of South Natural Gas Corridor, as it will connect with the South Caucasian Pipeline (SCP) and the Trans-Adriatic Pipeline (TAP).

The TANAP line will enter Turkey in the Türkgözü village of northeastern Ardahan province on the Turkish-Georgian border and will cross through 20 cities. The line will end in the İpsala district of Edirne located on Turkey's border with Greece. It will then connect with the TAP to transfer natural gas to Europe.

There will be two outlets within Turkey, one in Eskişehir and the other in the Thrace region for connecting to the national natural gas transmission network. In total, the TANAP will be 1,850 kilometers with surface installations, with 19 kilometers crossing under the Marmara Sea.

Furthermore, after the fifth High Strategic Cooperation Council Meeting, six agreements of cooperation between Turkey and Azerbaijan were signed. Presidents Erdoğan and Aliyev signed the "Common Declaration at the fifth High Strategic Cooperation Council Meeting between the Republic of Turkey and Azerbaijan."

Afterwards, the governments of the two counties signed five critical agreements, the first one being the "Protocol on Exchange of Military, Civil Employees for Social and Cultural Purposes."

At the signature ceremony, ministries from both countries signed the "Agreement on Family Members of Diplomatic Mission and Consulate Employees to be Employed in High-Earning Jobs," "Changing and Mutual Acceptance of Drivers' Licenses between the Republic of Turkey and Azerbaijan" and "Protocol on Technical Cooperation between the Republic of Turkey and Azerbaijan." After the meeting, President Erdoğan held a lunch in honor of his Azerbaijani counterpart at the presidential complex.

Turkey's independents consider LNG consortium

ICIS, *11.03.2016*

Turkey's independent gas companies are considering forming an LNG buying consortium to procure cargoes via the EgeGaz-operated Aliaga LNG terminal, sources in the country said.

The consortium could include as many as four companies. The main issue facing independent buyers is the ability to absorb an entire LNG cargo within 10 days as the operator of the terminal requires. No single independent buyer is capable of moving such large volumes at present into the downstream market, but the potential consortium could include companies that deliver gas by pipeline and truck.

The move largely comes on the back of the Turkish governmental directive that forces the incumbent gas importer BOTAS to purchase no more than 80% of take-or-pay volumes on the gas it imports from Russia. Russia's state-owned producer Gazprom is the largest supplier of gas to the Turkish market.

This directive follows a political and commercial dispute whereby Gazprom on unilateral basis cancelled a discount embedded into long-term contract. The new price, which is understood to be an increase of slightly more than 10%, is not being paid by the Turkish importers, so Gazprom, in turn, reduced the volume of gas exported to Turkey. This has resulted in unprecedented levels of spot LNG buying by BOTAS.

Given the bearish price environment on the global LNG markets, it could make commercial sense for the Turkish independents to source LNG rather than buy gas on the wholesale market or from BOTAS. The lowest gas contracts available for the upcoming summer range between US$190-200 per thousand cubic meters ($5.27-5.55/MMBtu). A summer cargo for delivery to Turkey can be secured in low-$4.00s/MMBtu, a seller active in Turkey said. The potential importers would need to lock in their margins after regasification and transmission.

"At the moment, importing spot LNG cargo works out with a slight profit margin," the market source in Turkey said. Summer, however, offers a better opportunity window as LNG prices are expected to drop further, while pipeline gas import prices in Turkey are linked to crude oil and products and undergo quarterly adjustments. However, the source in Turkey also said that BOTAS could reduce its wholesale gas price. There is also significant risk of importing US-dollar denominated volumes and selling them on Turkish-lira basis. While there is currently no deep derivative market now to control currency risk exposure in Turkey, traders said, some downstream contracts have been denominated in US dollars as well. ICIS currently assesses Turkey's LNG prices at a $0.60/MMBtu premium to UK's NBP market for delivery in April and $0.30/MMBtu premium for delivery in May.

While BOTAS typically bids for a cargo either on fixed-price or Brent-linked basis, the sellers view the Turkish market as an opportunity cost of theoretically diverting Atlantic Basin-sourced cargo away from a hub. With exception of volumes sourced from Qatar's RasGas, Turkey has been sourcing spot volumes from the Atlantic basin, including Trinidad, US Gulf, Nigeria and Norway, ICIS analytical platform LNG Edge shows.

Turkish shippers criticise BOTAS for proposed balancing changes

ICIS, *15.03.2016*

Turkish shippers have opposed proposals to change the network code so that the transmission company BOTAS be exempt from buying volumes to help companies in long positions balance their portfolios.

Under current arrangements, if companies are in short or long positions, they approach BOTAS at the end of the month with a request to buy or sell volumes to the system to balance their portfolios. However, BOTAS proposed to change the arrangements, offering to store the extra volumes in the system and return them to companies at a later date subject to their requirements, according to three shippers.

The practice is known in Turkish as 'emanet gaz'. The first shipper said BOTAS had refused to pay for the surplus gas in February because the price it would have had to stump up was higher than the price for imported gas.

BOTAS buys the surplus volumes from the private sector at a balancing price that is set by itself every month. In February that price stood at Turkish lira (TL) 782.38/kscm ($271.95/kscm). Current import prices reportedly stand at or below $200.00/kscm, although the information cannot be confirmed.

"All companies prefer to close their accounts at the end of each month," a second shipper said. "We don't want two months to get mixed up. BOTAS briefly introduced this system [offering to store gas] at the end of March last year. "It created some problems with the regulator because we submitted our monthly figures to EPDK [the regulator], but our quantities did not match what BOTAS had," he explained.

A third shipper said companies had repeatedly asked BOTAS to clarify their position regarding the proposed changes to the network code, but have not had a response yet. "I hope they [BOTAS] will pay for the gas," the third source said. "Otherwise it will create many problems." The first shipper said BOTAS may be forced to backtrack, at least for now, because demand had started to increase on the back of colder weather and a supply shortage.

Russian volumes at the western Malkoclar entry point have been reduced since mid-February amid a pricing dispute between Gazprom and Turkey's private importers. In an e-mail to ICIS, a source at BOTAS admitted that there had been proposals to amend the network code to allow the company to store gas in the system. However, he could not comment on the reasons underpinning the proposed amendment.

Turkish importers win dispute over Gazprom allocated gas

ICIS, *17.03.2016*

Turkish private importers have won a dispute over the allocation of Russian gas volumes after Gazprom delivered less gas to independents, but held its exports to the public company BOTAS at normal levels, two sources close to discussions told ICIS.

Turkish shippers said the way gas volumes had been allocated to private importers and BOTAS violated the allocation procedure agreed by all counterparties. Both BOTAS and private importers offtake Russian gas from the Western Line, which transits Ukraine, Romania and Bulgaria before entering western Turkey.

This discrepancy between nominations and actual offtakes meant that importers could not send out their invoices to customers until the allocation issue was solved. Invoices are typically sent out at the beginning of each month, but this month they had to be sent out some 10 days later than usual because of the allocation dispute.

"Gazprom Export (GPE) had delivered less gas to the private importers than they had nominated, while still delivering to BOTAS what BOTAS had nominated," the first source said. "The allocation protocol signed by all importers and GPE states that if the total amount entering the Western Line is lower than the sum of the nominations of the importers, then the importers will be allocated the received gas pro rata their daily contract quantity.

"Importers were able to sign the protocol after having GPE make necessary corrections to the daily volumes to get in line with values entered on the [local] electronic bulletin board," he said. A second source noted that volumes to private importers had been reduced by approximately 15% since 24 February. He said the issues became particularly acute, because BOTAS did not offtake any gas on 24 and 25 February.

He said daily volumes would now be allocated pro rata. Gas flows at the western Malkoclar entry point had been hovering at an average 28 million cubic metres (mcm)/day since the second half of February. Daily volumes at the border typically stand at 42mcm.

Turkish shippers previously argued that Gazprom reduced volumes after private importers refused to pay an increase on this year's import price. Two sources close to discussions said negotiations over this year's import price were ongoing. Gazprom declined to comment. BOTAS did not comment by Thursday afternoon.

Sources: Iraq halts pumping of Kirkuk oil into Turkey pipeline

Reuters, *14.03.2016*

Iraq's state-run North Oil Company has stopped pumping crude produced at fields it operates in the Kirkuk area through a pipeline to Turkey, three sources said on Monday.

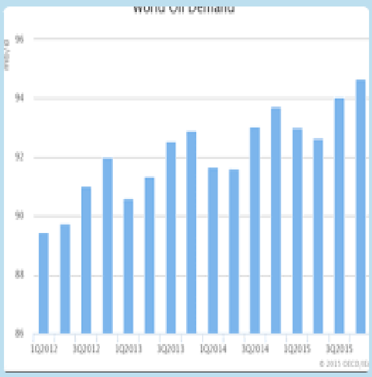
The pipeline carries crude to the Mediterranean port of Ceyhan, where the Kurds have been selling it independently on the international market, along with oil produced in their autonomous region. North Oil normally exports 150,000 barrels a day. The order to halt pumping through the pipeline came from the oil ministry in Baghdad, according to an NOC official, who asked not be identified. "There is no technical failure, it's a decision from Baghdad," he said.

The oil ministry was not immediately available for comment. Kurdish forces took control of the long-disputed Kirkuk and its oil fields in June 2014 after the Iraqi army's northern divisions disintegrated as Islamic State militants overran a third of the country.

Since then, NOC has continued pumping crude through the pipeline, which was idle for more than three weeks. Ahmed Askari, the head of the energy and industry committee in the Kirkuk provincial council said flows were halted hours after the pipeline reopened. North Oil is continuing to produce the crude, but storing it in Kirkuk instead of exporting it through the pipeline, the NOC source said.

How volatility and uncertainty characterized February oil markets

Oilprice, *17.03.2016*



In February, oil prices were characterized by volatility. In particular, the Brent benchmark opened at $34.9/b, reached its lowest at $31.42/b (February 9) and closed at $36.62/b, while WTI opened at around $33.14/b, touched bottom at $29.75/b (February 10), and concluded at $33.97/b.

During the first half of February, the Euro appreciated against the USD, moving from 1.08 €/$ to the maximum of 1.13 €/$ (February 11). The €/$ exchange rate trend then turned about and stabilized at 1.08 €/$ showing that, in this case, the reciprocal ratio between the dollar and the barrel did not appear.

Furthermore, the €/$ tendency reflected the possibility that the Federal Reserve revised its program of political economy, which foresaw 4 increases of the interest rates during 2016, due to the worsening of the U.S. macroeconomic situation as well explained by the Vice President of FED's Executive Board, William Dudle. If this is the situation, I hope there won't be a fourth program of quantitative easing because, according to data, monetarism doesn't seem to be the magic wand that can resolve all the problems of the Western economies only with the help of a magical formula announced by a Central Bank.

According to the Oil Market Report (February 9), oil demand peaked at a five-year high of 1.6 million b/d in 2015, and is forecast to slowly increase by 1.2 million b/d in 2016. In the first quarter of 2016, demand is estimated at 94.5 million b/d. Global oil supply dropped by 0.2 million b/d to 96.5 million b/d in January, as higher OPEC output only partly offsets lower non-OPEC production.

Therefore, the current surplus of the supply over demand is approximately 2 million b/d. At present, U.S. crude production is at around 9.1 million b/d, but the unconventional oil & gas output has been decreasing in conformity with the EIA Drilling Productivity Report. According to Baker Hughes, the number of active U.S. oil rigs has been dropping to the lowest (400) since December 2009 and by less than 1/3 year to year. At the same time, American stockpiles have risen to the highest in more than eighty years.

The world's two biggest crude conventional producers stated that they do not want to increase oil output. In particular, they decided to freeze their productions to January's 2016 levels. Along with Russia and Saudi Arabia, Qatar and Venezuela have agreed to freeze their output at January levels too.

According to Russia's Energy Minister "a deal will be reached if other producers join the initiative", while his Saudi counterpart stated "we don't want significant gyrations in prices. We do not want a reduction in supply. We want to meet demand.

We want a stable oil price". Because of the following adherence to the Doha arrangement by Ecuador, Algeria, Nigeria, Oman, Kuwait and the United Arab Emirates, approximately 73 percent of the world oil production might be frozen. Iran and Iraq welcomed the initiative, but did not joint it.

If we look deeper, the Russian Federation will freeze its output at 10.99 million b/d, which is the record high since the collapse of the Soviet Union. Saudi Arabia will stabilize its production at 9.95 million b/d and OPEC at 32.335 million b/d, a little bit under the historic maximum of 32.426 million b/d reached two months ago.

Having said that, the limited recovery in prices from February 17 until the end of the month has to do with a technical issue too. Olivier Jakob, analyst at Petromatrix, pointed out the involuntary disruption of supplies from a pipeline in Iraqi Kurdistan that was recently pumping about 600.000 b/d, which led to a crude output fall of 280.000 b/d during the second half of the month.

In spite of the fact that the Iranian Energy Minister, Bijan Namdar Zanganeh, called the Doha arrangement "ridiculous", the number of countries that have joined it, makes Iran's involvement unnecessary in obtaining the goal of freezing the oil production.

At the same time, Tehran is planning to sell 300.000 b/d to the European market, using the euro instead of the dollar. "Many European companies are rushing to Iran for business opportunities, so it makes sense to have revenue in euros", said Robin Mills, chief executive of Dubai-based Qamar Energy. Rating agency Standard & Poor has cut Saudi Arabia's rating by two notches from A+ to A-, saying falling crude prices continue to hit the Kingdom's finances. On February 23, at the IHS CERA Week conference, Oil Minister Ali al-Naimi says, "The producers of these high-cost barrels [unconventional] must find a way to lower their costs, borrow cash or liquidate".

In spite of the fact that it is the first time al-Naimi has so openly talked about Saudi Arabia's oil policy against fracking, this is not news. He possibly wanted to highlight Saudi's disappointment over the cease-fire reached by Russia and the United States in Syria.

According to China's General Administration of Customs, Russian oil exports to China increased by 15 percent in January, while Beijing's crude imports from Saudi Arabia decreased at the same time. China bought 3.36 million tons of crude oil from Russia last month which is a 15 percent increase from the year before. January imports from Saudi Arabia fell to 4.23 million tons from 4.47 million tons in December.

The Russian Federation has been tackling the decrease in its revenues derived from the fall in oil prices by devaluating the rubble in the short term and increasing crude exports to China. 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.

Furthermore, due to restrictions on borrowing from Western banks, Russian companies are turning to Chinese Banks, as demonstrated by the deal reached between Gazprom and Bank of China Limited, London Branch with an amount of €2 billion over a period of five years.

In regards the U.S. unconventional production, at the International Petroleum Week forum, the head of France’s Total, Patrick Pouyanne, said, “Since March 2015 we are witnessing a decline in oil shale output in the United States, which has been reduced by 500,000 barrels per day. We don’t know how fast it will fall but we know that two-thirds of drilling rigs is no more working there”.

About one third of the world’s independent oil producers are facing bankruptcy this year, as low commodity prices have limited their access to cash and affected their ability to cut debt, according to a report from auditors Deloitte, quoted by Reuters. Among them, the second largest U.S. shale gas producer, Chesapeake, is at risk.

Moreover, the interest rates on energy junk bond have surpassed 20 percent for the first time, a level that is higher than that reached during the peak of the 2008/9 crisis (17 percent) and the hedges are running out. Nationally, just 15 percent of oil and gas production is hedged in 2016, compared with 28 percent of production in the fourth quarter of 2015: “Today our goal is to survive’, said Danny Campbell, chairman of the Permian Basin Petroleum Association.

In spite of this data and taking into account the social consequences of the oil fall, on February 21, the International Energy Agency released a medium-term report stating that U.S. tight and shale output will start growing again from 2018: “Anybody who believes that we have seen the last of rising should think again”.

According to Snam Rete Gas, after 4 years of uninterrupted contractions, Italy increased its 2015 natural gas consumptions by 5.4 Gmc3, totaling 65.4 Gmc3 (+9 percent year to year). However, this figure is still far from that reached in 2008, before the beginning of the crisis (-17.2 Gmc3, -21 percent). The highest rise registered in the thermoelectric sector – 20.2 Gmc3, +2.9 Gmc3 in comparison with 2014 (+17 percent) – because of an expansion of the electricity demand and the residential sector – 30.6 Gmc3 (+2.5 Gmc3, +9 percent y-to-y 2014) – due to a colder winter.

On the contrary, the consumption of natural gas in the industrial sector, 12.4 Gmc3 in 2015, has decreased, both in comparison with 2014 (-0.4 Gmc3, -3 percent), 2013 (-0.4 Gmc3, -3 percent), and 2008, 14.2 Gmc3 (-1.8 Gmc3, -13 percent).

Unfortunately, this latter data shows the negative process of the Italian deindustrialization that has been started with the current crisis, which has led the country to lose approximately 18 percent of its manufacturing sector.

Snam estimated that the Italian natural gas consumption will reach 74.8 Gmc3 only in 2024. According to the numbers provided by the Italian Ministry of the Economic Development, the 2015 natural gas imports, which covered 90.6 percent of the total consumption, increased by +5.3 Gmc3, moving from 54.5 Gmc3 to 59.8 Gmc3. With regard to the origin of the imports, the Italian suppliers are (percentage calculated in term of imports):

a. The Russian Federation 49 percent;

b. Holland and Norway 17 percent;

c. Algeria 12 percent;

d. Libya 12 percent;

e. LNG 10 percent

Among the gas suppliers, only the Russian Federation have increased its exports to Italy since the beginning of the crisis. Preliminary 2016 data estimates that this trend has been carrying on. Between January 1 and 20 2016, the gas exports grew by 24.5 percent versus the same period of 2015.

Furthermore, in 2016 Gazprom plans to boost its gas supplies to Turkey and the EU to 162.6 Gmc3, up from 159.4 Gmc3 in 2015 (31 percent of Europe’s natural gas consumptions) and above the record of 161.5 Gmc3 in 2013. Bloomberg cited the company’s non-public budget, which according to the agency is “more ambitious than public statements by the company to maintain supply”.

In spite of all the attempts to substitute the Russian “blue gold’, I would like to suggest to the Italian and the European politicians that diversification must become a priority in order to reduce the current dependence on the Russian Federation’s gas. That said, it may be difficult for them to diversify while maintaining current shares.

Saudi Arabia's destructive oil freeze

Foreign Policy, *14.03.2016*

At OPEC's December meeting in Vienna, the delegation from Saudi Arabia ignored the pleas of some of the bloc's more economically fragile members, whose ranks include Nigeria and Venezuela, to cut output in order to halt the drop in crude oil prices.

Instead, the Saudis insisted on maintaining production at its current levels. In the two months that followed, prices of Brent crude oil promptly fell from $40 per barrel to a low of $27 per barrel. Since then, Saudi Arabia has agreed to "freeze" crude oil production at January levels, in an effort to stabilize global prices.

But its strategy of helping drive that price down to $30 per barrel represents a serious miscalculation in its efforts to maintain control of the market. By taking advantage of an economic slowdown — primarily in China, where GDP growth has fallen by 30 percent — and pushing prices so low that very little new exploration makes commercial sense, Riyadh is planting the seeds of the next supply shortage.

That shortage is likely to produce a much steeper price recovery than would otherwise occur. This means that prices could rise to a level that would prompt substantial new investment in exploration — precisely what the Saudis are trying to avoid (or discourage). They would, in fact, be better served by less volatility and a price that is reasonable but not so high that it either encourages more expensive shale and deep-water oil projects or unduly enriches their enemies.

Instead, in response to $30 oil, public and private sector oil companies around the world are deferring or canceling billions of dollars in new projects and cutting billions in new exploration and development capital expenditures while laying off — and losing — technical capacity.

The impact of those decisions on supply is only now becoming evident here in the United States, where the number of drilling rigs in operation has fallen from a high of 1,800 in 2014 to below 500 in 2016, according to oil services firm Baker Hughes. However, it will be abundantly clear to the rest of the world by 2017. The extreme economic distress now felt by both major- and minor-producing countries, and the inevitable tightening of budgets, will also contribute significantly to the shortage.

If you're part of the Saudi government, perhaps you think that's a good thing, since one of the objectives of supporting a price collapse is to reduce non-OPEC supply and inflict great damage on U.S.-based shale oil producers. Riyadh is succeeding on that front, as evinced by the fact that production from seven big U.S. shale plays is predicted to decrease by 106,000 barrels a day in April from March. It is also grabbing more market share by overproducing on its OPEC quota and discounting the price of its barrels, so as to undercut the Iranians, Russians, and others.

Some Saudis are likely to argue that, historically, when there has been excess supply, they served as the “swing producer,” cutting production to restore balance. When they played that role in recent years, like in 2009 during the global economic crisis, they lost market share to others.

So why, Riyadh might ask, should it not take advantage of the fact that Saudi Arabia is one of the lowest-cost producers, in order to increase its market share in a low-price environment? It’s an understandable, if extremely short-sighted, position.It’s an understandable, if extremely short-sighted, position.

The cumulative impact of both the public and private sector capital expenditure reductions across the globe could result in as much as a 5 percent reduction in supply, which, at current production levels, amounts to nearly 5 million barrels a day. Even if the reduction winds up being less than 5 percent, with very modest growth in global demand, a sizable gap between supply and demand will emerge — one that cannot be easily filled.

The Saudis would be happy to fill that gap, but they don’t appear to have much additional capacity readily available. The Saudis have, roughly, 1.5 to 2 million barrels a day of additional production capacity. But 500,000 barrels are sour — meaning that they contain too much sulfur, or heavy crude, which can only be refined in a few places like the United States. The other million barrels require new drilling and infrastructure.

The Iranians, Libyans, Iraqis, and Russians all have some additional capacity, but it takes time and capital to reach that potential, and capital is in short supply. At the right price, U.S. shale producers who survive this collapse will be back out in force. However, it will also take time for them to arrest the erosion of supply and begin restoring production. (You can’t simply turn on a spigot.

That’s because oil is a declining and depleting resource. Instead, you rebuild it through new drilling.) As a consequence, there’s nowhere to turn quickly to fill the gap. When that becomes apparent, prices will rise sharply.

A smarter strategy for the Saudis would have been to manage a price in the range of $40 to $60 per barrel, a level at which many shale areas are not very profitable, particularly if the costs of rigs, oil-field services, and pipes — which have declined by some 30 percent over the past year — start to rebound. Indeed, some of the more capital-intensive, large reserves, such as the “pre-salt formation” off the coast of Brazil, or the oil sands in Canada, struggle for real profitability at $40 to $60 per barrel.

Over the past 18 months, as the price of crude has fallen from $100 per barrel to under $30 per barrel, analysts and commentators have grown fond of predicting that, unlike the last few oil price declines that were followed by sharp recoveries, this time is different. This time, they say, the price will stay “lower for longer.”

If the Saudis had not pursued their current strategy of flooding the market and driving prices down so far, that probably would have been the case. If the Saudis had not pursued their current strategy of flooding the market and driving prices down so far, that probably would have been the case. But the damage has largely been done.

Unless the price quickly jumps back up to about $70 per barrel and the surplus barrels currently hanging over the market disappear quickly. Given the shortage the Saudis are helping create, we may be bound for yet another boom-bust-boom cycle.

Such cycles are unhealthy. They cause massive swings in the cost of energy and other commodities, as well as in public and private sector budgeting, investing, and employment. And since the last swing, the oil and gas industry has undergone revolutionary change, thanks to the advent of shale production.

In a global market that is less susceptible to manipulation, the price of crude should be determined by the marginal cost of producing new shale barrels. However, the Saudis are not ready to accept that idea, because with it comes the realization that the influence and control that OPEC has wielded over crude markets for the past 40 years is shifting from the Persian Gulf to North and South America. Riyadh may be able to delay that day, but it can't avoid it. In the meantime, it has done serious damage to the global economy, and to itself.

"Iran's return to the oil markets less damaging than expected"

Oilprice, *16.03.2016*

While the IEA released its latest report showing an easing of global oil supplies and a slight let up in OPEC crude oil production, it also warns that this is not necessarily the "light at the end of the tunnel"; and indeed, it isn't.

The faintest hint of trouble—such as Iran's exclusion from a planned output freeze—sends oil back down, as it did on Monday, despite the fact that this really came as no surprise to anyone. According to the IEA, global oil supplies eased by 180,000 barrels per day in February, down to 96.5 million barrels per day. The reason for the slight easing was slightly lower global production, including OPEC and non-OPEC.

Total production is 1.8 million barrels per day more than it was a year ago, though. Despite the February decline, OPEC overall has gained. For this year, the IEA is estimating an overall decline in production by 750,000 barrels per day for non-OPEC countries, to reach 57 million barrels per day—or 100,000 barrels per day less than the IEA's February report.

For last month, OPEC's crude oil production dropped 90,000 barrels per day, on some small losses in Iraq, Nigeria and the United Arab Emirates, but new production from Iran and the maintenance of the production status quo in Saudi Arabia has kept losses to an overall minimum. Production from Iraqi, Nigeria and UAE combined fell by 350,000 barrels per day in February. We could also expect continued declines of exports coming from Iraq in March as the game over oil-rich Kirkuk heats up.

Kirkuk likes in the disputed territories between the Kurdistan Regional Government (KRG) in northern Iraq and the rest of Iraq, controlled by the central government in Baghdad. The local government of Kirkuk got the KRG's support to break away from Iraq's state-run North Oil Company and form their own Kirkuk oil company. Then, on Monday, the state-run North Oil Company said it had stopped feeding the pipeline to Turkey with crude three days prior. Production hasn't stopped—it's just being stored instead of exported, and we're talking about 150,000 bpd.

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. This OPEC decline has been offset by Iran's return to the scene, with Iranian output rising by an estimated 187,800 bpd to 3.132 million bpd in February.

At the same time, the IEA noted, commercial inventories in the OECD countries rose by 20.2 million barrels in January, while global refinery throughputs were estimated at 79.1 million bpd in the first quarter of this year.

When it comes to talks of an output freeze—which were further diluted late last week when Iran said it would not join in a freeze until reached production of 4 million bpd—the IEA is not optimistic. Instead, it says that it is "unlikely that an agreement will affect the supply/demand balance substantially in the first half of 2016". However, it also noted that production is falling to some extent with or without a freeze agreement, and Iran's return to the market "has been less dramatic than the Iranians said it would be."

Russia, Iran strive for larger energy cooperation

Azernews, *17.03.2016*

Lifting sanctions in fact opened large opportunities for the resource-rich Islamic state to push forward its long stagnated industry. Intensified visits to Tehran in an effort to find a deserved place in the perspective Iranian market are reality of the past few months.

But could Russia really become the favorite partners in the oil and gas industry of Iran is now debated by experts unambiguously. Iran and Russia have recently voiced their intention to develop all-out cooperation in the energy sector - from swapping oil and gas to involving Russian companies in the development of Iran's oil and gas fields.

The removal of the international sanctions on Iran and the recent improvement of Tehran's relations with the Western countries have tackled the competition among the energy companies for the vast Iranian market. Russia is among these states.

Russian companies are keen on participating in the development of oil and gas fields in Iran and eye projects for increasing Iranian oilfields' recovery rate. After the 5+1 agreement with Iran and lifting of sanctions over the Islamic Republic's energy sector, Iran officially invited all foreign companies to invest in the country's oil and natural gas, LNG, petrochemical sectors. Gazprom, Lukoil and other Russia companies were active in Iran as well.

Energy analyst Omid Shokri Kalehsar said that after 5+1 agreement, the CEO of Lukoil has announced that Lukoil is to reopen it office in Tehran. "Gazprom is also ready to get back Iran giant South Pars filed. Russia firms are also active in Iran nuclear sector. And Iran is planning to made agreement with Rosatom to build new nuclear power plant in Iran," he told Azernews.

Iran's Oil Minister Bijan Namdar Zanganeh expressed his country's interest in intensifying energy cooperation with Russia in the post-sanctions era. Such a statement was made at a meeting with Russian Energy Minister Alexander Novak in Tehran. Novak, who addressed the journalists after the meeting with Zanganeh said that Iran has right to be exempted from crude output cuts to stabilize the market "with an aim to remedy the losses inflicted on its economy from international sanctions."

"Since Iran's production decreased under sanctions, we totally understand Iran's position to increase production and revive its share in the global markets," he noted. Energy ministers of Russia, Saudi Arabia, Venezuela and Qatar agreed to freeze the oil output after the negotiations in Doha. They decided to stabilize oil output at the level of January 11, if other major exporters follow the suit.

Such a decision was aimed at dealing with decreasing oil prices and relieving the glut on the world oil market. Kuwait and UAE also joined this deal. James Dorsey, a senior fellow at Nanyang Technological University's S. Rajaratnam School of International Studies, believes that believes that the Islamic Republic has made clear that it will not subject itself to quotas "as such it is likely to win market share if others voluntarily cut production."

Kalehsar, in turn, noted that Iran's first priority is to recover its oil production capacity at the level of before sanctions. "Before the EU and the U.S. imposed economic sanctions on Iran, the Islamic Republic produced some 4.5 million barrels of oil per day and now, the country is planning to produce such amount of oil in a short term. Iran does not care more about oil prices. Iran expects from OPEC and non-OPEC members to free oil production, but allow Iran to produce more oil and recover its oil production capacity," he noted.

The Islamic Republic, after the removal of international sanctions, is planning to take its rightful share in the world energy market, primarily as a major natural-gas exporter. Iran with the world's second largest gas reserves and the fourth largest oil deposits, has already declared its readiness to re-enter the global oil and gas market.

Tehran is looking for markets to target, and Europe is interested in Iranian gas as the primary objective of the EU is the diversification of energy resources and decrease of gas dependence on Russia. One can expect that the relations between Tehran and Moscow will worsen if Europe replaces Russian gas to Iranian blue fuel.

However, Dorsey believes that Russia will have to balance its differences with Iran over energy with its other interests in the region that involve Iran such as Syria. “As a result, it is unlikely to put those other interests at risk,” he said.

Kalehsar, in turn, said that exporting natural gas to the European consumers is Iran’s long term plan as Iran needs about 6 billion euros of investment for construction of relevant pipeline. “It is clear that the EU energy demand is decreasing, and the EU is planning to import LNG from the U.S. to decrease its dependency on Russia gas. Sooner or later Iran will export gas to the EU as Iran needs market for its gas. Iran is also planning to use Oman LNG facilities to produce LNG in Oman and export it to the EU,” he stated.

Tehran has been considering various destinations for diversifying energy supply routes and transporting its natural gas to Europe. Ukraine, which has energy refining and export infrastructure, could take a significant share on the Iranian market by meeting the needs of a post-sanctions Iran.

Also, Ukraine’s potential to transit Iranian blue fuel to Europe, is the most important factor for Iran, which has been working to figure out ways to enter the European gas market. Commenting on the affect of such a transit operation to Tehran’s ties with Moscow, Dorsey said Russia realizes that Iran makes a point of acting in its own interest and not easily buckling down to pressure.

“Russia needs Iran as much as Iran needs Russia. As a result, oil exports to Ukraine are not going to make Moscow happy but unlikely to create a breaking point. Moreover, Russia realizes that Ukraine will no longer accept dependency on Russia,” he added. Kalehsar, however, is pessimistic on the possibility of this transit.

“The main question is in which pipeline Iran can export gas or other fuels to Ukraine. Iran has to build pipeline but due to the Ukraine’s security and stability problem, I am not sure that foreign companies will invest in such projects,” he said.

5 reasons Iran will be able to wait out low oil prices

Al Monitor, *17.03.2016*

Iranian officials have repeatedly rebuffed calls by other oil producers to halt or cut production. Tehran appears determined to reclaim market share lost as a result of EU and US sanctions imposed in recent years over its nuclear program.

Oil Minister Zangeneh has ridiculed the idea of a production freeze, calling it a "joke." In his telling, Iran will only join talks to this end after it has reached its pre-sanctions output of 4 million bpd. In fact, since the Jan. 16 implementation day of the Joint Comprehensive Plan of Action, Tehran has followed through and increased production.

Though slower than predicted, some 300,000 bpd have been added to Iran's output, which now amounts to 3.2 million bpd. This has enhanced the oversupply in the international markets, thereby contributing to the prolonging of the low oil price cycle. Indeed, the dramatic oil price decline since mid-2014 has obviously hurt Iran, which is a major oil producer. Income from oil exports has crumbled accordingly, putting the Iranian government under severe pressure.

However, compared with other major oil producers, Iran finds itself in a somewhat better position to cope with low oil prices — at least in the long run. Time is particularly on Iran's side when compared to its major regional rival, Saudi Arabia. In this vein, a number of factors play into Iran's hand — if managed properly by the government.

First, Iran experienced the major fiscal shock to its budget earlier than other oil producers. Already since 2011, Tehran was confronted with a drastic decline in oil revenue. Harsh energy and financial sanctions by the European Union and the United States halved Iranian exports to 1.3 million bpd in 2013. In the meantime, Iran launched a series of mitigation policies under the label of the "Resistance Economy." These comprise the increase of taxation as well as the promotion of non-oil economic growth.

Second, Iran's economy is more diversified as its energy sector has increasingly integrated into the country's economy. In the 1970s, more than 90% of Iran's combined oil and natural gas production was exported, with only less than 10% consumed at home. In stark contrast, in 2014, domestic consumption accounted for 76% of the oil and natural gas produced in Iran.

Of note, in absolute terms, domestic oil and natural gas demand increased by almost nine times between 1970 and 2014. Though parts of this increase are related to population growth and overconsumption, the integration of the energy sector into the economy was nevertheless accompanied by the rise of non-oil economic activity. By 2014, Iran's real gross domestic product had grown by 2.7 times compared with 1988, when the eight-year-long Iran-Iraq War ended.

Based on the domestic consumption of energy, Iran has begun to industrialize — particularly in energy-intensive branches such as petrochemicals, cement and steel. Third, Iran’s non-oil trade deficit is narrowing. Increasing economic activity outside the energy sector has allowed Iran to expand the export of non-oil products.

As a result, by the Iranian year 1393 (2014-15), the non-oil trade deficit had shrunk to $2.7 billion, down from $33.8 billion only five years earlier. Unlike in the past, Iran today requires only comparably little hard currency from oil exports to offset its non-oil trade deficit.

Fourth, based on non-oil economic growth, Iran’s state budget can resort to other means of finance such as taxation or asset sales. Despite the increasing integration of the energy sector into the country’s political economy, large portions of Iran’s government budget continue to be based on oil revenue.

Although somewhat declining and already well below the level of other oil-exporting countries, the International Monetary Fund estimates that oil revenues are still accounting for some 29% of government revenue in the current Iranian year, ending March 19.

But unlike most other oil-exporting countries with little economic activity outside the energy sector, the reasons behind this are more political and less economic. Successive administrations have failed to substantially increase the highly unpopular taxes. Moreover, most parastatal organizations, which play a significant role in the Iranian economy, have enjoyed tax exemptions.

However, as pressure on the government budget mounted, the administration of President Hassan Rouhani has increased taxation. The government has also announced that it will make the parastatal organizations eventually subject to taxation — although the question of enforcement remains on the table.

Fifth, in the short term, Iran is benefitting from the release of frozen assets as part of the implementation of the JCPOA. EU and US sanctions over the Iranian nuclear program prevented Iran from accessing funds and assets abroad, which are estimated to amount to some $100 billion. With the implementation of the nuclear deal, these funds are now becoming available to Iran. Though only a one-off measure, this is easing the burden of falling oil prices in the short term.

In all, these factors should not be taken as to suggest that Iran is not suffering from the decline in oil prices. As a significant portion of government income continues to stem from oil revenue, there is no doubt that the Rouhani administration is facing pressure. Moreover, fundamental economic reform is complicated by a series of factors, including widespread corruption, nontransparency, deficient law enforcement and the grip of parastatal — but not government-controlled — organizations over large swaths of the economy.

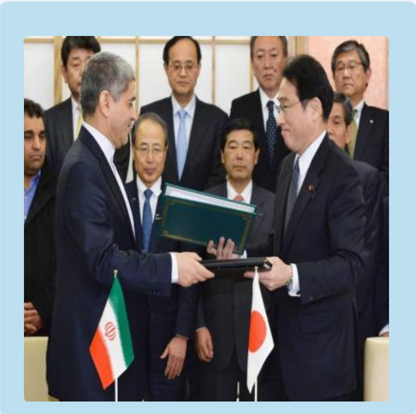
Nevertheless, it appears in the long run as if Iran is better positioned to endure low oil prices than most of the other oil-exporting countries in the Middle East and North Africa. In particular, Iran’s regional rival Saudi Arabia is experiencing rather extreme challenges. Some 80% of the kingdom’s government income comes from oil exports, and alternative sources yet need to be developed. While Riyadh’s financial reserves are still vast, amounting to $620 billion in early 2016, they are rapidly shrinking: Only last year, they declined by some $100 billion.

Against this backdrop, the effect of low oil prices might go beyond the borders of the oil-producing countries and also affect regional political dynamics. Iranian and Saudi spending to support allies and proxies, a major component of their projection of power throughout the region, is obviously a function not only of intentions in Riyadh and Tehran, but also of the financial means at their disposal. Assuming that Iran is better positioned to endure low oil prices in the long run than Saudi Arabia, as argued here, the question of when oil prices will climb again could therefore be of crucial importance for the geopolitics of the region.

Certainly, Iran's decision not to take action against low oil prices is primarily motivated by the ambition to reclaim market share. The fact that Iran's major regional rival, Saudi Arabia, is about to suffer comparably more from low oil prices, however, has not gone unnoticed in Tehran.

Sanctions eased but Japan Inc. treads warily in return to Iran

Japan Times, *16.03.2016*



Optimism prevailed when UN sanctions against Iran were lifted in mid-January. Since the historic nuclear deal was reached last July between Iran and six global powers, companies, including those in Japan, had been vying for economic opportunities in a Middle Eastern market rich in natural resources.

But Japanese firms are still taking a wait-and-see approach because U.S. restrictions remain against financing businesses in Iran. The nuclear deal laid the groundwork for global investment in the economically challenged country. It gives Tehran access to its frozen assets.

And the country can now engage in oil and gas sales, which would bring foreign capital. International financial institutions can resume their operations since the United States lifted the sanctions imposed on non-U.S. banks doing business with Iran.

Global investment is likely to also gain momentum at a time when Iranian President Hassan Rouhani is projected to strengthen his political power base following elections last month for the Iranian Parliament and the Assembly of Experts, a clerical body that appoints the supreme leader. Rouhani, who came to power in 2013, wants to jump-start Iran's devastated economy by seeking more foreign investment.

"Rouhani's government is interested in how smoothly foreign companies will actually enter the Iranian market," said Sachi Sakanashi, a senior researcher at The Institute of Energy Economics, Japan. "At issue is the speed. If the speed of investment is too slow, President Rouhani could lose his support base."

Chinese President Xi Jinping became the first world leader to visit Iran after the historic nuclear deal was completed, in a bid to deepen China's footprint in the Iranian oil and natural gas sector. The Japanese government was quick to follow.

Soon after Tokyo lifted its sanctions, Japan signed a bilateral investment pact in early February. Tokyo also announced a business facilitation mechanism under which the Iranian government would guarantee $10 billion in investment projects financed by the Japan Bank for International Cooperation (JBIC) and insured by Nippon Export and Investment Insurance. Japanese companies welcomed the move as the government's backing would make it easier for them to re-enter the Iranian market and launch big projects.

Holding a large stake in Iran's Azadegan oil field, Japan had been on good terms with Iran until sanctions were imposed by the United Nations in 2006. The U.S., on the other hand, severed diplomatic relations with Iran in 1980. The U.S. sanctions on Iran in 2010 led Japan to substantially cut its stake in Azadegan and sever economic ties with the country.

Since the historic nuclear deal was reached, however, a group of Japanese companies made a trip to Iran last November to attend an Iranian government investment seminar. Eying a market of 78 million people, the Japan External Trade Organization (JETRO) also organized three trips to Tehran for Japanese companies. Five investment seminars that JETRO has hosted since the nuclear deal was agreed were fully booked.

Yet few Japanese companies have signed official business deals. Risks and uncertainties remain for big-ticket projects, especially when banks have not officially resumed business to facilitate such projects. Even though Washington lifted sanctions on non-U.S. banks, experts say banks will still face challenges in financing big projects unless the U.S. lifts sanctions entirely.

"Most of the banks are adopting a very cautious approach, even though they are under, we are all told, some pressure from the (Japanese) government to move the process on," said Jonathan Silver, head of the law firm Clyde & Co's operations in the Middle East and North Africa. Silver gave a talk at the Iran infrastructure seminar at JETRO and met with Japanese companies in Tokyo. For one, companies still face U.S. sanctions if any American citizen or green card holder is involved in deals with Iran. The U.S. still prohibits Americans and American companies from engaging in business with Tehran.

Since the U.S. government keeps other sanctions on Iran's human rights policies and support for terrorism, companies face due diligence that requires them to determine if anyone they deal with in Iran is listed as "Specially Designated Nationals" under the U.S. Treasury Department's Office of Foreign Assets Control.

The U.S. sanctions also cover any company that is owned 50 percent or more by a blocked person or entity, even if the company itself is not on the SDN list. Especially difficult is the case for the Islamic Revolutionary Guard Corps, as the branch of Iran's armed forces is on the list and has interests throughout the Iranian economy. Lawyers say due diligence can prevent companies from being penalized, but the process may be extremely difficult because Iranian public records cannot be trusted. "In many respects, it (Iran) is in a different position from the rest of the world, particularly in relation to compliance and governance. That sort of culture does not exist in Iran," said Silver.

The stakes are also high when a company does do business with Iran. BNP Paribas, France's largest bank, was fined almost $9 billion by the U.S. government after it admitted it concealed banned transactions from 2004 to 2012 involving Sudan, Iran and Cuba.

"In fact, you might say (the nuclear deal) is a nightmare for most banks because with anticipated upticks in trades, there is much more money moving through the system that might somehow be connected with Iran," said Patrick Murphy, a Dubai-based partner at Clyde & Co. who was also at the JETRO seminar in Tokyo. "That's why there is very, very slow movement for banks."

Some Japanese banks have offices in Iran, but if they do not resume regular operations, it would be difficult for JBIC to start projects. A JBIC spokesman said that in order for JBIC to finance a project, commercial banks have to participate. "We can start considering each project only when a remittances system is established," the spokesman said.

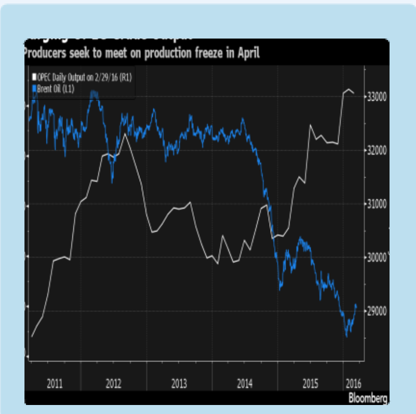
There is also the possibility that sanctions could be re-imposed if Iran violates the agreement. Yet experts say the chances of a breach are fairly slim as Iran has invested a lot of political capital in the nuclear deal and it has no desire to jeopardize the benefits it can gain from future trade.

This year's U.S. presidential election also poses potential risks for investments in Iran. The Republican front-runner, Donald Trump, slammed the nuclear deal. Democratic front-runner Hillary Clinton supported the deal, but she called for new sanctions after a defiant Iran carried out a missile test.

Experts said the next U.S. president could re-impose sanctions that could cause problems for companies doing business in Iran. "Everybody is looking at Iran, but everybody is cautious," said Richard Thompson, editorial director at the Middle East Economic Digest.

Crude oil extends drop as Iran spurns production freeze accord

Bloomberg, *15.03.2016*



Oil dropped for a second day as Iran bolstered crude exports and Russia signaled the Persian Gulf nation won't join major producers in freezing output to reduce a global glut.

Futures fell 2.3 percent in New York adding to Monday's 3.4 percent decline. Iran has "reasonable arguments" for not joining an alliance to cap output now, Russian Energy Minister Alexander Novak said after meeting with his Iranian counterpart. Iranian production climbed last month by the most in almost two decades following the end of sanctions, OPEC said on Monday. U.S. supplies probably rose last week, keeping stockpiles at the highest since 1930.

“Recent Iranian statements make it crystal clear to the market that they aren’t about to freeze production,” said Mike Wittner, head of oil markets at Societe Generale SA in New York. “There had been questions about how significant a freeze would be even if they took part. A freeze excluding Iran will do next to nothing about supply.”

Oil has rebounded after slumping to a 12-year low this year on speculation stronger demand and falling U.S. output will ease a surplus. Talks on the freeze are most likely to occur in Qatar’s capital Doha next month, according to Gulf Organization of Petroleum Exporting Countries delegates.

West Texas Intermediate oil for April delivery dropped 84 cents to close at $36.34 a barrel on the New York Mercantile Exchange. It’s the lowest settlement since March 4. Declines eased after the settlement when the American Petroleum Institute was said to report U.S. crude supplies rose 1.5 million barrels last week. WTI traded at $36.72 as of 4:49 p.m.

Brent for May settlement declined 79 cents, or 2 percent, to $38.74 a barrel on the London-based ICE Futures Europe exchange. The global benchmark closed at a 66-cent premium to WTI for May delivery. No countries have received invitations or an agenda for a meeting in Doha, said four OPEC delegates, who asked not to be identified because the matter isn’t public. The Qatari capital is one option as a location for the talks, said Russia’s Novak at the Russian embassy in Tehran, adding that he hopes Iran’s Oil Minister Bijan Namdar Zanganeh will participate.

Iran increased output by 187,800 barrels a day to 3.13 million a day in February, the biggest monthly gain since 1997, OPEC said in its report. “There’s a lot of bearish news battering the market,” said John Kilduff, a partner at Again Capital LLC, a New York-based hedge fund that focuses on energy. “Iran’s rejection of the freeze deal and the rise in Iranian production have put an end to the rally.”

U.S. crude inventories probably rose by 3.2 million barrels last week, according to a Bloomberg survey before an Energy Information Administration report. Stockpiles of gasoline and distillate fuel probably declined while crude inventories at the Cushing, Oklahoma hub climbed, according to the Bloomberg survey. The Bloomberg Commodity Index, a gauge of 22 raw materials, declined as much as 1.1 percent.

The Obama administration is reversing course with a new proposal to bar oil and gas drilling in Atlantic waters, according to an Interior Department statement. The plan sets the stage for selling oil and gas leases in the Arctic waters of the Chukchi and Beaufort seas, as well as Alaska’s Cook Inlet and the Gulf of Mexico, where 10 auctions were tentatively scheduled from 2017 to 2022.

Update: UK announces major North Sea tax cuts

Natural Gas Europe, *08.03.2016*

UK Chancellor of the Exchequer George Osborne announced major tax cuts for North Sea producers in his March 16 Budget. He said that he would cut the supplementary tax charge on oil and gas companies from 20% to 10%. He is also abolishing Petroleum Revenue Tax, which applies to older fields. Both changes are backdated to the start of the year.

This is the second year in a row the Treasury has cut taxes in response to falling wholesale oil and gas prices. Last year the supplementary charge was cut by 10% and PRT was reduced. PRT applies to fields that had development consent given before March 1993.

Osborne told parliament in his Budget speech: “In my Budget a year ago, I made major reductions to their taxes. But the oil price has continued to fall. So we need to act now for the long term.” Oil prices have slumped from $100/b to $30-40/b in recent years, leaving operators complaining their facilities will struggle to remain economic.

Industry association Oil & Gas UK had been calling for greater cuts this year of 20%. A recent study by the lobby found that approvals for new investment offshore the UK are likely to fall to less than £1bn this year, from a typical £8bn/year over the last five years. “We welcome any steps to reduce the heavy tax burden on the oil and gas industry,” the group said on Twitter immediately following the Budget.

Osborne also announced £730m of auction funding to support renewable energy technology, and invited bids to help develop a new generation of small modular reactors. The future of the government’s planned giant new 3,200 MW nuclear plant at Hinkley has come under question recently. The finance director of the lead project developer, French generator EDF, resigned over concerns about the cost. There have been some calls for a new wave of smaller plants instead, with the added benefit that parts for smaller reactors could be manufactured within the UK, supporting local industry.

Gas storage gets less attractive in US due to low prices

AA Energy Terminal, *18.03.2016*

Natural gas storage has become less attractive in the U.S. as abundant natural gas supply renders the financial gains from storage negligible, according to the country's Energy Information Administration (EIA).

Increasing production of natural gas from shale resources, low gas prices, and higher temperatures in the winter season have led to almost no new gas storage facilities being built in the U.S. for the second year in a row, the said EIA. "In recent years, natural gas prices have been exhibiting decreased seasonality, making some kinds of underground storage less financially attractive," the EIA said.

Gas storage facilities serve as a hedge against high gas prices during the winter season. With storage, gas distributors or large gas consumers can buy and store less-expensive gas during the summer, and withdraw it later in the winter when prices are usually higher due to higher demand.

However, high gas production levels and low prices are "affecting markets for seasonal natural gas storage, including the value of additional storage capacity," according to the EIA. Another reason for absence of constructing storage facilities is traditional gas storage offering slower rates to fill and withdraw, compared to a new and increasingly popular type method -- salt cavern storage.

Mostly along the U.S.' Gulf Coast, this consists of leached caverns in salt deposits, according to the EIA. "While far smaller in volume, salt storage can be cycled in and out many times a year, allowing the stored natural gas to be withdrawn quickly to meet market needs, such as to provide heating during cold snaps or to take advantage of arbitrage when prices spike for other reasons," it explained.

"Salt facilities in the South Central region saw a significant increase in demonstrated working gas volumes between November 2014 and November 2015, rising by 5.8 percent, as many salt facilities hit new peak levels in November 2015," the administration noted.

Announcements & Reports

► *Petroleum Developments in The World Market and Member Countries*

Source : OAPEC
Weblink : http://www.oapecorg.org/Home/Publications/Reports/Petroleum-Developments-in-the-World-Market-and-Member-Countries

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

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

► *Monthly Oil Market Report*

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

► *Natural Gas Weekly Update*

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

► *This Week in Petroleum*

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

Upcoming Events

► *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