Oil & Gas Bulletin

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Reports: Israeli cabinet to discuss deal with Turkey

AA Energy Terminal, *24.06.2016*

Israel's security cabinet is set to convene next week to consider an agreement with Turkey, Haaretz daily reported. Unnamed senior official speaking to the newspaper said the agreement would be finalized Sunday and the security cabinet would approve the deal next Wednesday.

Senior officials said the official signing would take place several weeks later, according to Haaretz. Jerusalem Post, also claimed diplomats from the two countries would meet in Europe. Turkish-Israeli relations were suspended in 2010 after Israeli commandos stormed a Turkish humanitarian aid ship, as it attempted to lift Israel's blockade of the Gaza Strip.

Ten Turkish activists were killed. Ankara demanded a formal apology, monetary compensation for the families of those killed and that Israel lift the blockade against Gaza. While Israeli Prime Minister Benjamin Netanyahu in 2013 voiced his "regret" for what happened, the other two conditions have yet to be met.

Turkey's energy watchdog fines oil fuel firms TL10m

AA Energy Terminal, *23.06.2016*

Turkish Energy Market Regulatory Authority, EMRA, fined 20 oil fuel stations a total of approx. 10 million Turkish liras (about $3.46 million), Turkish Official Gazette showed.

EMRA detected unlawful practices during regular inspections to oil stations they perform accompanied with Turkish security forces and officials from several related ministries. EMRA discovered several illegal activities, including hidden oil tanks, hacked automation machines to prevent showing the correct sales amount, additional by-products to mix with oil, fuel smuggling and the absence of an obligatory managing director on the premises to oversee activities.

In addition to cash fines, EMRA started judicial proceedings for station officials who were involved with fuel smuggling, an official announcement in Turkish official gazette said. Smugglers who are found guilty, will be sentenced to at least one to five years in prison. However if the goods are oil related, the minimum prison term is three years, according to Turkey's anti-smuggling law.

Furthermore, EMRA served a legal notification on the serving of investigation reports which were sent to 13 other firms for illegal activities. The firms are legally obliged to send in their defense statements within 15 days after the notice is served, otherwise, the investigations will be concluded without defense statements.

NATO: Turkey acquires special role with TAP and TANAP

AA Energy Terminal, *20.06.2016*

Turkey will take on a vital role with the Trans Adriatic Pipeline (TAP) and Trans Anatolian Natural Gas Pipeline (TANAP) in the overall objective of diversifying energy supplies to Europe, said Michael Ruehle, head of the Energy Security Section of NATO's Emerging Security Challenges Division.

Ruehle said energy cooperation is an area where the EU and Turkey share similar interests. "We are making the energy market in Europe more diverse, more competitive and TAP and TANAP play a major role in this, in particular for the countries of Southeastern Europe, where the energy situation is not as good as those in other parts of Europe.

So having gas coming from the Caspian looks like a very interesting option for them," Ruehle said. TAP will transfer natural gas from Azerbaijan's Shah Deniz II field to Europe. The 878 kilometer-long pipeline will connect with TANAP at the Turkish-Greek border, cross Greece and Albania and the Adriatic Sea before coming ashore in Southern Italy.

The first gas sales are targeted for Turkey and Georgia in late 2018, while first deliveries to Europe are due to follow in early 2020. He also underlined that Russia will remain a major gas supplier for Europe, but will now understand the importance of playing by the rules. "Russia will remain a major supplier to Europe, simply because the pipelines exist and because Russia can, if it wants to, be very competitive in terms of pricing. But what these additional suppliers like Azerbaijan, or LNG suppliers like Qatar and Norway and others mean is that Russia has to play by the rules. It cannot dictate its own rules," he said.

The Nord Stream II project is another example of a Russian-motivated project that is subject to European Commission's rulings. Ruehle said that the European Commission will ultimately have to come out with a verdict on the pipeline's expansion to allow Russian gas to Europe through Germany, as they did with the decommissioned South Stream project.

The South Stream natural gas pipeline project which would have carried Russian gas to Europe via the Black Sea through Bulgaria was cancelled in late 2014 due to objections from the European Union which deemed the project in contravention of the EU's anti-trust rules.

The annexation of Crimea from Ukraine followed by the imposition of economic sanctions upon Russia deepened the disagreement in the project between Moscow and Brussels. As an alternative to these, Russia offered to build additional lines to the Nord Stream under the Baltic Sea to Germany, named the 'Nord Stream II.' Recently, a big debate in Europe arose on the viability of this project in which criticism stemmed from concerns over the EU's dependence on Russian gas and the economic effects of such a project on Ukraine.

"The viability of the project [Nord Stream II] is judged by those who want to build it in terms of purely financial and economic interests. But I think the viability of such a project always has a geopolitical angle as well. So how the EU Commission will maneuver between these different ideas remains to be seen." he said.

He also pointed to the Ukrainian crisis, "I think one of the problems that has been identified about the Nord Stream is that it will basically go around Ukraine. I think this is one of the biggest issues right now. Thus far, Ukraine is a major transit country and is making money through the transit. Circumventing Ukraine would deprive the country of this money."

Ruehle contended that there is a strong geopolitical argument that supports keeping the current arrangements so that Ukraine is not bypassed. "Whether this ultimately will be the argument that the EU Commission uses, we have to see," he added.

On the topic of the most immediate risks in terms of energy security for NATO, Ruehle said cyber threats remains the biggest risk. "Energy distribution networks are highly computerized and cyber-attacks could cause enormous damage.

About 50 percent of all known cyber-attacks are against the energy sector and I think for a reason. So it is very important that the nations who have the responsibility for the protection of infrastructure invest sufficiently in cyber defense," Ruehle said.

Assistant Secretary General for Emerging Security Challenges Sorin Ducaru also said that energy security is one of the important themes among the emerging challenges for NATO. "When it comes to protection of energy infrastructure in modern days, you have a number of links that you need to consider. One is the terrorist link because terrorists can be sources of attack against the infrastructure," Ducaru explained.

Examples of where attacks to energy infrastructure have occurred include Turkey and Ukraine, and according to Ducaru, Turkey can contribute in many ways to the protection of critical infrastructure. "We had the example in Ukraine against the electricity grid and also there was an event some years ago against the Turkish pipeline.

Because we have an Emerging Security Challenges division where we keep very close cooperation within the different entities and we have the Science for Peace and Security (SPS) program which is an integrator, Turkey can contribute in many ways," he said.

“We can always organize workshops with a NATO ally like Turkey, a partner that can bring some of the most up to date knowledge based on some good analysis of what potential threats are and what is the best way to restore energy infrastructure,” he explained.

Turkey has a Center of Excellence in Ankara since 2006 - a NATO-accredited international military organization that trains and educates leaders and specialists from NATO members and partner countries. The center’s focus is on ‘defense against terrorism’ which also provides training in energy infrastructure protection.

Underlining that NATO is not a decision making authority in energy, Ducaru said any initiative that leads to the diversification of sources and transit routes of energy is highly supported by NATO, with the TANAP being one such project. “It [TANAP] was really appreciated as one of the ways to diversify both transit routes and sources because both are important. If you just change the route but depend on the same source, it is not the soundest approach. So the idea of diversification should consider both sources and routes,” he added.

Offshore wind turbines would reduce Turkey’s energy dependence

Daily Sabah, *19.06.2016*

Offshore wind power appears to be more efficient according to experts. However, building offshore wind power plants requires a more investment compared to onshore plants.

Despite the cost, offshore plants pay back more. With a long Mediterranean coastline, Turkey has the potential to generate its own energy. While the resource-poor country focuses on renewable energy projects to reduce its dependency, investors expect a tariff deal to be determined to make a smart business move. Clean energy fans can enjoy the good news that some countries are set to build renewables to meet a larger proportion of energy demand.

Many countries in Europe invest in wind power, as the landscape is suitable. Denmark produces almost 35 percent of its electricity from wind farms and the U.K. has a target of 15 percent by 2020, and is close to exceeding this target, generating over 35,000 gigawatt hours of electricity. Turkey has the advantage of solar power when it comes to renewables. In Antalya, 2,200 kilowatts per square meter of power is supplied by the sun, which is the most in Europe.

Onshore wind power is a rather poor choice and is only profitable for a small region of the country. Also, wind is mostly blocked by the landscape unless they are placed on high mountains. That is why increasing energy demand should be met with offshore wind turbines, as they get a denser and more stable wind flow.

Offshore wind turbines are also larger than onshore ones and therefore generate more energy. Turkey has one of the longest coastlines in Europe but there are no offshore wind farms despite the strong wind.

The offshore wind turbine industry is one of the fastest growing in the world. Turkey can and should take the lead in developing offshore wind farms in the Mediterranean, especially in developing the latest floating bed foundation technology that future wind farms will use, Kamran Ghouri, a lecturer at International Antalya University and an expert on wind power, told Daily Sabah.

Structural elements made of composite materials can be produced in Antalya, İzmir or any other city where yachts are produced, Ghouri suggested, adding that other parts could also be produced or partially produced and assembled in Turkey.

A 160 megawatt (MW) offshore wind farm would payback in less than 10 years, delivering free, clean energy to 300,000 homes and generating a profit of approximately 185 million euros every year into the tax office if the government funded it. “There is not a better energy-related investment today than offshore wind farms,’ Ghouri said.

The first offshore wind turbine conference in Turkey was held in Antalya last December. Since then, European manufacturers and the European Bank for Reconstruction and Development (EBRD) are investigating the market in Turkey.

One of the areas that all potential investors want clarified is what the offshore wind tariff will be so that they can work out a viable business model. Turkey’s first offshore wind farm project may be realized in a short time after the tariff agreement is done.

How Turkish energy giant’s plans to light up Iran could boost Rouhani

Al Monitor, *21.06.2016*

While the seven power installations will certainly help improve Turkish-Iranian commercial and economic relations, Unit International is no stranger to energy markets in Iran and elsewhere. Since 1982, the company has built five power plants in Iran with a total output of 3,200 megawatts, four in Turkey and two in Europe.

Construction for the new plants is expected to start in the first quarter of 2017. Unit International will manage the installations under a build-operate-transfer license for 20 years. In the first six years after they come online, the plants will sell their output to Iran at a fixed price.

Thereafter, Unit International will either export electricity to neighboring countries or sell to Iranian consumers. The Turkish-built plants will be a major boon for Iran's electric network. According to Unal Aysal, the founder and chairman of Unit International's board of directors and former president of the Istanbul-based soccer powerhouse Galatasaray SK, the planned power stations will operate at more than 60% productivity (up from Iran's average of 32%), adding over 6,000 megawatts to Iran's grid and meeting 10% of its energy needs.

Unit International also intends to invest in an 840-megawatt natural gas power plant in Iraqi Kurdistan. All this is good news for Turkey and Iran. Although Turkish-Iranian trade rose to $21.9 billion in 2012, the US-induced global sanctions on the Islamic Republic and the chill between Ankara and Tehran over Syria brought that figure below $10 billion by 2015. On June 16, Turkish Customs and Trade Minister Bulent Tufenkci stated that Ankara wants to "triple trade with Iran to $30 billion as quickly as possible."

But it is not clear whether signature projects such as the one by Unit International could lead to closer energy cooperation between Ankara and Tehran, boost Turkish-Iranian trade and break Turkey's addiction to Russian gas.

Volkan Emre, an international energy expert and founder of the World Energy Security Analysis Platform in Washington, is cautious. Emre told Al-Monitor, "Although Turkey and Iran are trying to improve their energy ties despite all odds, given external factors and the dynamics between the two states and Turkish and Iranian private corporations, it is hard for Turkey to obtain a bigger slice of the Iranian [hydrocarbon] pie."

One primary difference between the two countries, Emre pointed out, is "Iran's wish to export liquefied natural gas [LNG] to Asian markets, especially India, and Turkey's desire to buy gas on the cheap through pipelines."

He said the bigger problem is the poor state of Iran's energy infrastructure. He said Iran's major energy infrastructure issue is developing "its production capacity, an area in which Turkish companies cannot offer much. Indian, Chinese, German and French firms can and will grab a piece of that pie — even US companies that specialize in LNG are seeking to enter Iran."

Emre points to an even bigger challenge forecast by the Turkish economist and energy expert Fatih Birol, the executive director of the International Energy Agency. Birol recently said, "Massive quantities of LNG exports [are] coming on line while demand, despite lower gas prices, continues to soften," adding that global LNG capacity will increase 45% by 2021, further decreasing prices.

As a result, Emre said, "Iran could only make use of its gas for domestic consumption, especially electricity production," which is good news for Turkey. He said that a third of Turkey's electricity production comes from natural gas plants and that "80% of the process is handled by private companies."

He said this experience dealing with such a vast infrastructure shows that "Unit International and other Turkish companies could enter and succeed in the electricity production and distribution business in Iran."

According to Hamed Mohsen, a Tehran-based journalist and analyst, the Iranian government's agreement with Unit International is part of a much wider effort to boost foreign investment in the Islamic Republic.

Mohsen told Al-Monitor, "The Iranian state wants foreign direct investment but it wants quality projects. These projects should aim for production, technology transfer and end products that could be sold on the Iranian market, but more importantly, exported abroad." In that respect, he said, "There is an idea to build 'Turkish organized industrial zones' in Iran similar to the ones in Turkey."

Although electricity is not a conventional industrial product, Mohsen points out that Unit International's initiative and those by similar Turkish companies fits the "investment-production-export" model. He said, "Iran's electricity production and distribution situation is good, but many of its neighbors — especially Iraq, Afghanistan and Pakistan — need electricity, which such power plants could provide."

Tehran's choice of Unit International is no coincidence — the company has engaged in cross-national electricity trade for years and is one of the 42 companies from 35 countries that are part of the European Network of Transmission System Operators for Electricity.

Yet Mohsen points out two major challenges to greater Turkish investment in Iran. "President Hassan Rouhani's administration wants these investments to happen very quickly. The investments should start arriving in a month or two because although the Iranian economy is in better shape compared to 2013 when Rouhani came to power, for him to get re-elected in 2017, he needs noticeable improvements in the economy.

American and European companies are still worried about the sanctions after 'Barjam' [the Iran nuclear deal — officially the Joint Comprehensive Plan of Action] and cannot come that quickly — but Turkish companies could."

According to Mohsen, Syria is the bigger issue. "Tehran will demand concessions from Ankara, especially in Syria, to offer contracts to Turkish companies and natural gas to Turkey. Does Turkey want to buy more gas from and more business in Iran? Yes, but can [Turkish] President [Recep Tayyip] Erdogan take a step back in Syria, I am not so sure," he said. Turkey and Iran's fates are tied more closely than ever. Whether their leaders can act on that remains to be seen.

Turkey's rising oil relationship with Iran awaits U.S. presidential election outcome

Hurriyet Daily News, *21.06.2016*

Iran has emerged as a swing oil supplier for Turkey in 2016, enabling Ankara to significantly reduce the amount of crude oil purchased from Russia.

Iran has been able to play this vital role for Turkey because of the remarkable jump in Iranian oil production that has occurred since the January implementation of the Joint Comprehensive Plan of Action agreement between Iran and the P5+1 countries that lifted international sanctions against Iran's oil industry. However, for Iran to continue to play this strategic role in alleviating Turkey's need for Russian oil exports, Tehran will need to further increase oil production.

Whether Iran can do so, and in what timeframe, depends – to a great extent – on the U.S. presidential elections. Although Iraq was Turkey's top crude oil supplier in 2015, accounting for 46 percent of Turkish imports, Iran and Russia were the next largest exporters of crude oil to Turkey, collectively supplying 39 percent of Turkey's imported crude oil.

According to Turkey's Energy Market Regulatory Authority (EMRA), Iranian oil accounted for 20 percent in 2015 while Russia accounted for 19 percent. However, in first the quarter of 2016, Turkey's oil imports from Russia dropped to 10.5 percent while imports from Iran increased to 23.5 percent of Turkey's imported oil supply mix.

Although Turkey also increased its oil imports from Saudi Arabia, Tehran's contribution to Turkey's oil supply is more than double that of Riyadh. Tehran became in a position to increase exports to Turkey because of the dramatic rise in post-sanctions Iran's oil production. Prior to the 2012 sanctions on Tehran, Iran was producing about 4.4 million barrels a day (mbd).

In January, its production stood at about 2.8 mbd, or 64 percent of the pre-sanctions level. Since the January removal of sanctions under the JCPOA, Iran has increased its crude oil output to 3.8 mbd, about 53 percent of which is exported, and is on track to reach an output level of 4 mbd by the end of 2016.

In 1Q 2016, Turkey also began to import crude oil from Kuwait, becoming Turkey's fifth-largest supplier and accounting for 8.3 percent of Turkish oil imports. However, the new Kuwaiti imports largely offset a decline in the amounts of oil Turkey imported from its more traditional suppliers Iraq, Egypt, Kazakhstan and Italy. Nonetheless, Iran's contribution to Turkey's oil supply is still greater than Saudi Arabia and Kuwait combined. However, for Iran to continue to be Turkey's swing exporter, foreign investment is the key – both to enhance recovery in Iran's aging oil fields and in the development of its new fields, and the timetable of each is being affected by the current U.S. presidential election.

While Iran needs to improve the terms of its new oil contract model to attract investors, European international oil companies (IOCs), particularly some of those which were present in Iran's energy sector such as BP, Eni, Repsol, Shell, Statoil and Total, are eager to invest in Iran.

But these IOCs are waiting to see what level of continuity will exist between the policies of the next U.S. president and those of current U.S. President Barack Obama. With one of the two major presidential candidates having declared that he would "renegotiate" the Iran deal, there is too much uncertainty for foreign companies to finalize their investment decisions.

The next president's term begins on Jan. 20, 2017, and his/her policy toward Iran will likely crystalize sometime during the first three months in office. If U.S. policy toward Iran continues on its current overall trajectory, investment decisions in Iran's energy sector could be finalized by the end of 2017 or in 2018.

As Turkey seeks to maintain a reduced level of oil imports from Russia, whether Turkey's oil relations tilt more toward Iran or the Arab states of the Gulf could in large measure be determined at the American ballot box.

Reports of Turkish accord raise hopes for Israeli gas sector

Haaretz, *22.06.2016*

Israeli energy shares rose on Tuesday amid reports that Israel and Turkey are due to wind up talks aimed at normalizing relations on Sunday, a move that could unlock the giant Turkish energy market to Israeli natural gas exports.

"If a reconciliation agreement with Turkey is indeed signed, the impact of Leviathan could be significant. It could be a real win-win situation," said Noam Pinko. "For the Turks it would mean paying lower prices than they pay the Russians and Iranians today; from Leviathan's perspective, it would be a major anchor and prices would be higher than in the contracts it is supposed to sign with Egypt."

Unnamed Turkish officials told Turkey's Hurriyet Daily News that Israeli and Turkish negotiating teams would likely conclude a deal at a Sunday meeting at an unnamed European capital. If final terms are reached, an agreement would be officially signed in July.

The news lifted all the shares of the Leviathan partners on the Tel Aviv Stock Exchange: Avner ended up 1.7% at 2.48 shekels (64 cents), Delek Drilling was up 1.5% at 13.39, and Ratio was ahead 3.5% to 29 agorot. Trading in Texas-based Noble Energy, the leading partner, was more restrained, with shares up just 0.2% to $36.81 by late afternoon local time in New York.

Reports about ongoing talks have been circulating, which has caused the TASE Oil and Gas index to climb about 10% in the last six weeks, compared with just 1% for the benchmark TA-100 index. Turkey represents a potentially huge market for Israel. It uses about 50 billion cubic meters of natural gas annually, nearly all of it imported. Most of the gas comes from Russia, with whom Turkey has had strained relations since Russia intervened in the Syrian civil war, as well as from Algeria, Qatar, Nigeria and Iran.

In the past it was paying about $10 per million British thermal units, but with the collapse of world energy prices Turkey is now believed to be paying something closer to the $5 per MBTU that Europeans pay for Russian gas.

Turkey is a natural market for Leviathan gas, which can be piped underwater from Israel. But prospects for Israeli exports were scuttled in 2010 after Israeli commandos raided the Turkish ship Mavi Marama when it tried to break Israel's Gaza blockade, leaving 10 dead.

"We believe Turkey's need for diverse energy sources and Israel's ability to supply significant quantities [of gas] from Leviathan were the major triggers for advancing the reconciliation talks that had been going on for six years since the Mavi Marama," said Gal Reiter, energy analyst at the Bank of Jerusalem. "Its dispute with Russia moved things along faster, but even before the deterioration of relations Turkey had a problem."

Leviathan is not yet in production. Under the partners' development plan, they will be spending as much as $4 billion to bring capacity to 12 BCM by 2019-2020, with plans to sell the gas domestically as well as to Jordan and the Palestinian Authority. The second phase calls for boosting production another 9 BCM for export to more distant markets, with Egypt and Turkey being the most likely destinations.

"After signing an export contract with Jordan, which is already under negotiation, the central scenario is still exports to liquefied natural gas plants in Egypt, but Turkey is an option and could even be an additional market," said Liran Lublin, energy analyst at IBI Israel brokerage & Investments.

Pinko warned, however, that a diplomatic agreement does not automatically translate into a gas accord. "The road from a reconciliation agreement to a gas agreement with Turkey is going to be long and there are number of obstacles along the way – first and foremost is that the pipeline would have to pass through Cyprus island, whose relations with Turkey have been very problematic," he said.

Israel looking into building an offshore port for Gaza

Oilprice, *22.06.2016*

Necessity is the mother of invention, as Israel's Transportation Minister Yisrael Katz has recently demonstrated, pushing forward with his idea for a detachable offshore port to be built in Gaza.

Katz first put forward his idea in 2011, when he estimated that the project would cost $10 billion. It was perhaps because of the price tag that the idea didn't progress any further at that time. Now Katz is saying a detachable seaport, later to possibly include an airport as well, will cost $5 billion. He has backing from Israeli Defense Force officials and Construction Minister Yoav Gallant, a former IDF senior officer.

The idea is being discussed by the security cabinet, and Katz told media that he hoped it will soon be voted on by the Knesset. Katz's proposal envisages the construction of a seaport in the international waters near the Gaza Strip, to be located on a 5-km-long artificial island.

The port will be connected to the land by a detachable bridge, which will be under Israeli supervision. Should Hamas or anyone else give cause for concern to the supervisors, the bridge will be detached from the land. According to Katz, the major concern is arms smuggling for Hamas.

The Transportation Minister believes this will be a mutually beneficial solution to at least some of the problems that Israelis and Palestinians have with each other. On the one hand, he says, Gazans will gain some economic independence despite the blockade installed by Israel and Egypt after Hamas took power in 2007. On the other, Israel will supervise security, making sure this independence doesn't backfire.

As an idea, this may sound good, but it has had its critics. The Palestinian Authority of Mahmud Abbas, for one, does not seem too happy with the port. One aide to President Abbas said such a project will cut the final strings connecting Gaza to the rest of the Palestinian territories, adding that the motivation behind it was political.

Israeli commentator Martin Sherman slammed the idea as "harebrained" and "absurd", arguing at length that its supporters are mistaking causes for effects and basing their plans on this wrong notion.

Katz's stated aim is to improve the wellbeing of Gazans. Sherman refers to senior IDF officials backing the project as explaining that the better life Gazans have, the less they would be willing to support Hamas and its terrorist activities. He calls the idea preposterous, saying this reasoning is just as far-fetched as the idea that plunging Gazans into deeper poverty will prompt them to rise and remove Hamas from power.

Whatever the doubts regarding the motivation behind the idea of a detachable port, there are purely practical concerns that need to be addressed should the project be approved by Israel's legislators. The state is unwilling to foot the bill, so it will be looking for international investors to fund the construction.

The Financial Post quotes Katz as suggesting the money could come from Saudi Arabia or China, but no further details are given. In any case, the project is at a very early stage with no blueprints or timeframes for its possible completion, so chances are, what is happening right now is that this 2011 idea is getting an airing to see if it will get more support than it garnered last time.

Saudi Arabia has declared an end to its oil war with the US

Quartz, *23.06.2016*

Two years after quietly declaring war on upstart US shale, Saudi Arabia says the need for the fighting is over. In remarks to journalists while on a US visit, Saudi Arabian energy minister Khalid Al-Falih said that the worldwide oil glut has vanished, signaling an end to Saudi Arabia's strategy of flooding the global market with oil to try to put American drillers out of business.

The implication was that Saudi Arabia owned the victory. But a three-week-long resurgence of US oil drilling after 21 months of decline suggests that Saudi and the US fought to a draw.

Falih noted that a record volume of oil remains in storage in the US and around the world (paywall), built up during the glut, but once much of that is sold off, the kingdom can resume its traditional role managing supply and demand. "We are out of it," Falih told the Houston Chronicle. "The oversupply has disappeared. We just have to carry the overhang of inventory for a while until the system works it out."

The Saudis went to war in June 2014 after a sudden, 4-million-barrel-a-day surge in US shale oil production. The surge put a fright into the Saudis, who saw that the OPEC oil cartel was losing its four-decade-long influence over global oil prices.

As a result, they decided to sweat out US drillers by flooding the market and forcing down oil prices. When Russia did the same thing, oil prices plunged below $27 a barrel by March 2015, down from an average over $100 a barrel from 2011 through 2014.

In trading today, Brent, was as high as $50.90 a barrel. Along the way, the low prices triggered a bloodbath in the US shale patch, and in Canada's as well. As of the end of May, 81 North American oil companies had declared bankruptcy, according to Haynes Boone.

The number of oil rigs in service in the US plunged as well (see chart below), to 316 at the end of May from a peak of 1,609 in October 2014. Oil production plunged to about 8.7 million barrels a day from 9.7 million at the peak in March 2015. But the resurgence of oil prices has resulted in a turnaround in rigs, too–last week, they rose by nine to 337, according to Baker Hughes, an oil services firm.

With prices over $50 a barrel, more US oil appears to be on the way. In a June 22 note to clients, Citi analyst Edward Morse reported that there are nearly 2,000 drilled but not completely constructed wells in the US oil patch. With higher prices, companies will begin to bring those into production. Morse forecasts that those wells could bring US production back to 9 million barrels a day by this time next year.

Just three weeks ago, Falih had said that Saudi Arabia will not set price targets. But in his new remarks, he suggested that the kingdom would step in to manage supplies, which could add up to the same thing.

“Despite the surplus in global oil production and lower prices, the focus of attention remains on countries such as Saudi Arabia which, due to its strategic importance, will be expected to balance supply and demand once market conditions recover,” he said. “The question now is how fast you will work off the global inventory overhang,” Falih said. “That will remain to put a cap on the rate at which oil prices recover. We just have to wait for the second half of the year and next year to see how that works out.”

Saudi Arabia: Oil glut is fading where you would least expect

Bloomberg, *24.06.2016*

Saudi Arabia is offering one of the strongest signs yet that the glut that has plagued the oil market since 2014 is coming to an end. Despite near record production, the kingdom’s oil inventories have declined for six consecutive months, the longest stretch since the Joint Organisations Data Initiative started tracking Saudi supply levels nearly 15 years ago.

“The drop in Saudi crude stocks signals the rebalancing has started,” said Amrita Sen, chief oil analyst at consulting firm Energy Aspects Ltd. in London. “Crude stocks are coming off in places where either the data is opaque or the market isn’t paying as much attention.”

With oil traders focusing on supply changes in the U.S. and to a lesser extent in Europe and Japan, the drop in Saudi inventories has gone largely unnoticed. Since October stocks have fallen by 38.6 million barrels as the kingdom provided more crude to the market than it pumped from its oilfields. Over the same period, U.S. crude stocks increased by nearly 61 million barrels.

“Saudi Arabia cannot continue to draw down stocks forever,” said Olivier Jakob at consulting firm Petromatrix GmbH in Switzerland. With inventories down, Riyadh “will contribute to the rebalancing” of the oil market in the second half of the year and in 2017, he said. Saudi Arabia’s new energy minister has offered his own opinion that the market is emerging from the global glut.

“The worst is clearly behind us,” Energy Minister Khalid Al-Falih told Bloomberg television when OPEC met in Vienna. “We see a balanced market, we see supply and demand converging. We may have started inventory drawdowns that will continue for the foreseeable future.”

The amount of Saudi crude in domestic and overseas storage facilities stood at 290.9 million barrels at the end of April, the lowest level since August 2014, according to JODI data. In addition to tanks within the kingdom, Saudi Arabia keeps crude in large storage facilities in Sidi Kerir in Egypt, Okinawa in Japan, and Rotterdam.

At current trends, Saudi crude stocks are set to fall further, analysts and traders said. In April, the kingdom supplied the market -- a mix of crude exports, domestic refinery consumption and direct burn at power plants -- with roughly 10.5 million barrels a day, compared with production of just 10.2 million, leading to a drop in stocks, according to JODI data. Preliminary data for May point to the seventh consecutive monthly drop in crude inventories, with stocks down another 5.6 million barrels.

Unless the kingdom increases production or reduces exports, the stock draw will deepen as Saudi Arabia uses significantly more crude between June and September to produce electricity for cooling during the sweltering summer months. Within the last year, Saudi Arabia has increased its refining capacity, too, further adding to crude demand.

“The seasonal increase in crude burn from April and the higher base of refinery runs imply further sharp stock draws or higher production to maintain exports,” said Seth Kleinman, an oil analyst at Citigroup Inc. in London. The kingdom burned 500,000 barrels a day at its power stations in April, the most for the month since at least 2009.

Traditionally Saudi crude burn reaches a peak in July to August at around double the rate of April. Even if Riyadh raises its oil production this summer to the all-time high of 10.56 million barrels a day set in June 2015, stocks may fall further, depending on whether current export levels and refinery intakes are maintained.

The International Energy Agency said earlier this month that Saudi Arabia could increase production beginning in June to cover increased power needs during the summer. The kingdom’s production has been around 10.2 million barrels since the start of the year. “They’re not in a hurry to ramp up for the time being and that has shown in stocks coming off,” said Abhishek Deshpande, an analyst at Natixis SA in London. “It’s very strategic, what the Saudis are doing. They don’t want to give any shocks to a very fragile market.”

Saudi Arabia's first step is admitting it has an oil problem

Foreign Policy, *23.06.2016*

The Saudi royal family has gambled its prestige on a bold economic reform plan, meant to revive an economy battered by sharply lower oil revenues. But the prescriptions of "Saudi Vision 2030" are fraught with risk, not least because it threatens to dissolve the social contract that binds the House of Saud to the Saudi people.

Vision 2030, formally ratified by the Saudi cabinet as the National Transformation Program, provides a blueprint for a kingdom that offers less charity and more austerity. It calls to reduce its dependence on the energy sector, privatize state-owned enterprises, and cut state largesse.

The long-term objective is to prepare Saudi society for life in the twilight of the oil age. "We have an addiction to oil," admitted Deputy Crown Prince Mohammed bin Salman"We have an addiction to oil," admitted Deputy Crown Prince Mohammed bin Salman, who leads the pro-reform camp within the ruling House of Saud. "

This is dangerous. It has delayed the development of other sectors." He hopes that, within two decades, the world's greatest petro-state will derive most of its revenues from global investments and a diverse range of industries rather than energy.

The initiative amounts to future shock for a conservative society. Specific targets include tripling non-oil revenue by 2020, to roughly $141 billion, and the creation of 450,000 jobs outside the government sector.

In a country where two-thirds of workers are on the state payroll, public sector wages will be reduced to 40 percent of the budget, down from the current level of 45 percent, over the same time frame. To finance these changes, public debt is expected to substantially rise by $200 billion over the next five years. No explanation was offered as to how any of these targets could be realistically achieved within their timeframe.

Saudi Arabia is adopting Vision 2030 for the very simple reason that its current economic model is unsustainable. In the two years since oil prices tanked, wreaking havoc on the economies of major energy exporters, the kingdom finds itself trapped by the rising waters of a liquidity crisis.

Last year, the country's gross domestic product shrank 13 percent and net foreign assets plunged $115 billion as the government burned through cash to plug a $100 billion budget deficit. Though oil prices have rebounded to around $50 per barrel, the national budget calls for a break-even price of $66.70 this year — sharply down from last year's $94.80 and a sign of the urgency to bring spending under control.

In an effort to stem the hemorrhaging, the Saudi government in March signaled its willingness to take out billions in bank loans. Even so, the IMF issued a dire prediction of national bankruptcy in four years if current patterns of spending continued.

Saudi Arabia's fiscal woes date back to its ill-fated decision in the fall of 2014 to pump surplus crude into a buyer's market. Though oil prices were set to tumble anyway — the market was oversupplied and consumer demand had slowed — Saudi intervention accelerated and intensified the collapse, driving prices down to levels not seen since the early years of the century.

The Saudis insisted their action was motivated by the need to defend market share, but never hid their glee that lower prices would hurt the economies of geopolitical foes Iran and Russia (not to mention production rivals, especially the United States). But prices tumbled much lower and for far longer than they predicted, blowing a hole in state finances.

The situation was made worse by the fact that Saudi coffers had already been drained by a raft of new social and defense expenditures. Three years earlier, fearing the spread of the Arab Spring revolts against authoritarian rule, the Saudi royal family had announced lavish new subsidies and welfare programs estimated to cost $130 billion.

The U.S. decision to not rescue traditional allies, like Egyptian President Hosni Mubarak, prompted Riyadh to launch a conservative counter-revolution — pouring tens of billions of dollars in aid and arms to allies threatened by social, political, and religious unrest.

The kingdom committed billions more to defense expenditures meant to counter its archrival, Iran. This year, Saudi Arabia replaced Russia as the world's third-biggest military spender, with $56 billion allocated to equip its armed forces.

Saudi Arabia's spending binge coincided with the emergence of the ailing King Salman's young son, Deputy Crown Prince Mohammed, as the pre-eminent voice dictating policy in the kingdom. In less than a year, and to the obvious distaste of older members of the royal house, the ambitious, voluble 30-year-old prince has pushed for changes on issues ranging from the economy and defense to women's rights and political reform. Germany's intelligence service warned in a leaked report of the "latent risk that in seeking to establish himself in the line of succession in his father's lifetime, [Mohammed] may overreach."

Some say he already has. In addition to his role as second in line to the throne and chief of the royal court, Prince Mohammed's decisive interventions in military and economic affairs have earned him the moniker "the prince of war and oil."Prince Mohammed's decisive interventions in military and economic affairs have earned him the moniker "the prince of war and oil."

With no apparent experience in military affairs, foreign policy, or strategy, his decision to take over the defense portfolio placed his family's prestige and reputation squarely on the outcome of two open-ended wars in Syria and Yemen. It was a remarkable gamble: He did this knowing that the kingdom ranked well down the global pecking order in terms of military effectiveness. In Yemen, the Saudi Air Force — a sort of flying club for princes — has earned a reputation for brutal incompetence as it bombs and strafes residential areas and civilian targets.

One of the most notorious incidents, among many others, are two Saudi-led coalition airstrikes on March 15 that struck a crowded market in the village of Mastaba, leaving 97 dead. To the intense embarrassment of the government and its Western arms suppliers, Amnesty International and Human Rights Watch have charged the Saudis with committing war crimes resulting in thousands of deaths and the displacement of 2.5 million people. “There is barely a single corner of Yemen or a single soul that hasn’t in some way been touched and scarred by this war,” reported Foreign Policy.

But it’s in the economic realm where Prince Mohammed’s influence has been felt most acutely. With a bachelor’s degree in law under his belt, the prince decided that he should not only lead the effort to restore short-term fiscal solvency but embark on the monumental task of transforming Saudi Arabia from a rentier state to an industrialized economy freed from the constraints of the commodity markets. And his goal couldn’t be more ambitious: Saudi Arabia, he predicted, will be weaned off oil revenues within a generation.

The Saudi template for reform titled “Vision 2030” mirrors an earlier report that appeared in December on the website of McKinsey & Co., a global consulting company that provides neoliberal solutions for real-world problems. Salman has admitted that the Saudi government works closely with the company. Saudi critics — and there are many — sneer that the Planning Ministry should be renamed the “McKinsey Ministry.”

In recent years, McKinsey has cultivated a generation of young Arab princelings enamored with Western-style economic reforms, and with thoroughly mixed results. As one of the company’s more trenchant critics recently pointed out, “Many of the countries who drank the McKinsey Kool-Aid became epicenters of the Arab Spring. Bahrain, Egypt, Libya, Yemen — each was convulsed by demonstrations, often animated by economic grievances.”

McKinsey’s approach to reforming foreign governments is dangerously flawed. The company’s school-lunch approach to economic reform — one size fits all, regardless of appetite and culture — makes no effort to consider each country’s unique history or social background. It also fails to consider whether the recipient’s political structures are robust enough to withstand the unrest that often emanates from job losses, privatization of state-owned enterprises and social services, subsidy cuts, and increases in the cost of living.

Authoritarian regimes — and absolutist monarchies in particular — appear more formidable than they really are. With power concentrated in one or a few hands, and with few if any independent outlets available for popular expression, the buildup of pressure from below has the potential to be explosive. The social contracts that trade state largesse for popular loyalty are fragile yet essential for maintaining stability.

The shah of Iran learned this the hard way in the late 1970s, when he encouraged his ill-fated austerity program to stave off a fiscal crisis, ironically caused by an unexpected shortfall in oil revenues.

His fatal mistake was to pursue wide-ranging economic reforms without putting in place the sort of independent, autonomous judicial and political framework that could shoulder the load in the event of a sudden internal crisis.The shah’s downfall haunts the older generation of Saudi princes. The shah’s downfall haunts the older generation of Saudi princes.

They understand the fragility of a monarchy whose brittle pillars rest on the quiescence of conservative clerics and a merchant class hostile to the free-market reforms that will undercut their privileges.

They recall the traumas of 1964, when the spendthrift King Saud was ousted by his brothers, the assassination in 1975 of his successor King Faisal, the violent takeover of Mecca's Holy Mosque in 1979 by religious extremists, and Iraq's 1990 invasion of Kuwait.

In an interview with the Economist, Salman declared himself an admirer of former British Prime Minister Margaret Thatcher. But unlike Britain in the 1980s, Saudi Arabia today has no free press, no elected parliament, and no right to assembly. It lacks flexible political structures that might absorb and channel explosive social energies away from the center. Was the prince aware that even with these systems in place, his idol was eventually deposed? He did not say.

Nor did the prince offer a convincing answer when asked if the Saudi people would continue to accept taxation without representation. "This is not a decision from the government against the people," he insisted. "This is the decision of Saudi Arabia. With the government that represents the people." Boiled down to its essence, that amounts to the classic autocrat's response: "L'état, c'est moi."

Nord Stream 2 moving ahead with procurement

Natural Gas Europe, *23.06.2016*

Nord Stream 2 is moving ahead on the procurement front and the 55bn m³/yr planned pipeline project will help Europe meet its gas import needs, projected to grow by 140bn m³/yr by 2035, CFO Paul Corcoran told. It is a shorter route to market; it links the Yamal Peninsula with northwest Europe – where production is declining – and it will have lower transport tariffs than the onshore routes.

"It is absolutely compatible with the Energy Union," Corcoran – who had the same role in Nord Stream 1 – told delegates. It will be sustainable, affordable and help security of supply, he said.

It will increase liquidity in Europe but nobody will be forced to buy the gas, which will be priced against hubs. "That should be the stimulus for the EU: the gas can go anywhere." Having awarded the linepipe tenders in March and paid some $100mn to the steel mills to set up their plant to meet the project needs, among the next tasks for 50% shareholder Gazprom will be to evaluate the bids for the concrete coating the lines will need. That should be in July, Corcoran told NGE, with the work itself starting in January, the pipes being delivered from September.

For the actual laying, six companies have bid, and the company will award the contract in September, contingent on the offshore permits being granted. And given that Nord Stream 1 (NS1) received the permits, and that NS2 follows substantially the same route, no problems are expected, he said. Survey vessels are now surveying the sea bed to provide data for the environmental impact assessment.

The legal framework governing the line will be the same as for Nord Stream 1 (NS1) and as the same management team has moved into equivalent Nord Stream 2 roles, he is not expecting any difficulties.

The UN Convention on Laws of the Seas grants cable and pipe-laying across countries' exclusive economic zones, provided the infrastructure complies with the environmental requirements of each. As with NS1, these are: Russia, Finland, Denmark, Sweden and Germany.

Financing is expected to be concluded by the end of 2017, with first gas two years later. Like NS1, NS2 is devised of two pipelines, each of 27.5bn m^3/yr capacity. The first of the two will start up at some point in Q4 2019 and the second line a month later. "Everything is on time to meet construction," he said. Debt will cover 70% of the total amount of $9.9bn, of which $1.9bn is interest and fees for the construction. French bank Societe Generale and Italy's Unicredit will be advising. The payback period will be 12 years and yield $14bn, half to Gazprom, and to its five partners:

Anglo-Dutch Shell, Austrian OMV, German Uniper and BASF, and French Engie. Transit fees will be cheaper than existing onshore routes, he said, partly because of the shorter distance and the much greater pressure it will operate at – 200 bar – saving on fuel gas.

As has been said before, NS2 is an entry point into the European Union which has stipulated separate ownership of supply and transport, and once onshore, gas transport agreements will be subject to the local rules, as set by the German grid regulator, Bundesnetzagentur. The EU has a very good framework in place for gas markets, he said.

Energy in the Black Sea region: Markets know best

Natural Gas Europe, *20.06.2016*

In the second of two recent panel discussions at the Atlantic Council dedicated to energy and security issues in the countries around the Black Sea, top energy experts from the fields of economics, exploration and production and energy security offered their observations on the state of the region's energy industry.

And these experts also showed their observations regarding hydrocarbons potential, energy security concerns, and dished up some suggestions on how to move forward in Ukraine, Romania, Bulgaria, Moldova, Turkey, Georgia and Russia.

Edward Chow, Senior Fellow, Energy and National Security Program, Center for Strategic and International Studies, said that in terms of energy the region was still suffering under the legacy of the Soviet Union and centrally planned economies, where it was "the responsibility of the state" – ie, not left to markets.

"It has been used as a way of preserving post Soviet legacy of how industry operates and how it is organized," he said, adding that there wasn't enough economics and business underpinning decisions in the sector, nor for policies that governments pursue in the region. State monopolies, he explained, were maintained and governments saw them as a rent extraction machine for the elite.

Ukraine, he offered, was a classic example, but was now changing; this is also the case, he said, in Moldova and Bulgaria. "In Romania, they're finally prosecuting corruption," said Chow, "including in the energy sector." Meanwhile, in Russia high energy prices had allowed for re centralization of the energy sector into state hands, in the form of Rosneft and Gazprom, according to him.

He continued, "Over politicization tends to block good projects. There's a tendency to devote too much energy and political capital on fantasy projects." According to Chow, the last time he was in Romania there was still talk of one of those fantasy projects:

The Azerbaijan–Georgia–Romania Interconnector ("AGRI"). The lack of positive reform, he explained, had damaged the energy sector in the region. Speaking of hydrocarbons in countries around the Black Sea, Steve Nicandros, CEO Frontera Resources, cited the huge resource potential of Ukraine, discoveries in Georgia, and offshore potential in both Romania and Bulgaria.

He said there was a huge future that awaited in exploration and eventually development for energy in the region, which he added could provide a tremendous amount of energy to the surrounding area and could even be a contributing gas hub for Europe, contributing to the growth of the continent by becoming a market and providing an integral part of the pipeline network.

Ukraine, he said, had a huge potential to be a laboratory for such a renaissance. According to Nicandros, in the 1970s and 80s the country had produced 70bn m^3/yr. “Today they’ve done well with all the problems to maintain about 30bn m^3/yr,” he said.

However, the difference, he said, was meaningful to the industry. He termed it an “artificial decline” for an area like the Black Sea region which was rich in natural resources. He explained, “With assurances of long term stability investment comes back and can help push that huge potential to be developed.” That, he added, also required innovation, but to draw it countries needed to install proper reforms to secure such investments.

The challenge, said Nicandros, would be for Ukraine to accelerate its invitations for foreign investors, because when the indigenous oil and gas made it into the marketplace there could be great benefits to Ukraine’s economy.

According to Edward Chow, Crimea is an opportunity, despite the annexation of the area by Russia from Ukraine in March of 2014. He recalled that the offshore prospects that ExxonMobil and others had been interested in had not been drilled, nor had seismic been conducted.

“It’s very hard,” he explained, “to do offshore projects in conflict zones unless you’re willing to bear all of the risks by yourself and have the full technology to do everything you need.” Only Russia, he said, would be interested in pursuing that under the current political conditions. Still, Ukraine’s loss of the potential had not changed the region’s energy dynamic that much.

To get gas to Ukraine, instead of an LNG terminal in the Black Sea, the Atlantic Council’s David Koranyi, Director, Eurasian Energy Futures Initiative, suggested regasification in Croatia (via a proposes floating storage and regasification unit) traversing existing pipelines through Hungary, where reverse flow would be utilised with Ukraine. He said, “All you need to do is put a compressor station in place on the Croatian side to make sure reverse flow happens.

“Don’t think big, about these monster projects with LNG into the Black Sea, but about expanding the integrating European market to beyond the EU, and make sure that Turkey, Ukraine, Moldova, and others in the Balkans are connected to that.”

Regarding the justification of the Black Sea region hosting an LNG receiving terminal, Chow said the case would be better if the countries in the region were better interconnected. Such interconnector projects, he continued, could be the building blocks for larger projects. “Politicians love to talk about big projects,” he remarked.

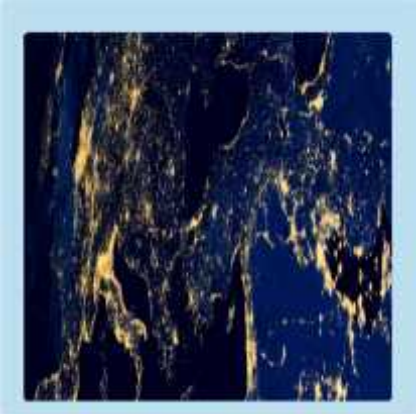
He opined that it was folly for a country like Bulgaria to think it could become a gas hub, as it had no gas storage facilities and struggles with rule of law. However, building the Interconnector Greece-Bulgaria served to construct one regional market.

The Black Sea region needed to see a shared destiny, instead of, for example, Romania only seeing its offshore gas potential as for its own domestic needs rather than allow market pricing to distribute such gas to wherever the highest market value was. “That kind of mindset is missing in the region,” Chow noted, referring to the ability to diversify sources of natural gas.

Of countries in the Balkans, he queried, “How much diversity of supply can Croatia afford by itself? Very little. But if integrated into the regional market and you have the sense that your economic destiny is shared, where the European Union can make a major contribution, then I think you could have energy projects that build on larger regional economic integration.” Physical security, he added, would be a pre-condition for that.

Europe and its options

Natural Gas Europe, *24.06.2016*



The gas price has fallen by a quarter to $4.10/mn Btu in the last year, a downward price trend caused by several factors but mainly: the low oil price scenario and its effect on the oil-indexed pipeline contracts, weak internal demand and global , coal’s cheapness, and a significant shift toward renewables.

In 2015 the EU saw 1.6% growth according to IMF, a low level that affects particularly the power sector and so gas demand. Too much of one thing is good for nothing. Energy security is still at the top of the agenda; the EU is struggling to diversify its dependence on pipeline suppliers, and reduce imports from Russia in particular.

This is discussed in the following paragraphs. The region can boast pipeline capacity of around 450bn m³/year (Entsog 2016) and investments in reverse flow have further reduced dependency (for example, in Poland and Austria). Regional LNG capacity is around 200bn m³/year (Entsog 2016) but in it has been less than 30% used in 2013 and 2014.

Looking at gascontracts we can divide them into four main categories, following the example of Timera Energy: Inflexible (pipeline or LNG - Norway, Russia or Algeria), Flexible from Norway, Flexible LNG & Russian spot (gas flowing for arbitrage reasons), Flexible pipeline gas (mainly Russian in origin), The last three create different price dynamics, as we will clarify later on.

BP’s energy outlook this year foresees a compound annual growth rate of gas demand at 1.8% until 2035. In the OECD, this growth results from the coal-to-gas transition in power generation. The US major ExxonMobil supports this view, forecasting gas will account for 30% of the power sector and will equal coal by 2040.

Gas in Europe is mainly used for heating and power generation (half of it in combined heat and power plants), while industry accounts for about a quarter of demand. The EU has set an aggressive target for renewables and reduction of CO2 emissions’ (see COP 21), these impact gas demand in the future. In this view, gas is the natural bridge for the transition process (from coal mainly). Having said this, it is important to underline the better capabilities of gas turbines, more suitable to be combined with renewables to address peak loads and guarantee the proper flexibility to the system. For example, earlier in June, EDF launched the world’s most efficient gas-fired power generator which can power up fully in half an hour and produce 600 MW at 62.25% efficiency.

Timera Energy has estimated 50+bn m³/yr of power generation converted from coal in the actual price scenario. Well begun is half done: Europe received its first cargo of US LNG in April this year; 80bn m³/yr of US LNG capacity is actually contracted and under construction, expected to come in operation in 2020. This represents a tectonic shift for the gas trading globally and for EU in particular, even if for the next two years the volume of gas from US is be expected to be small.

However the flow from US to EU will be driven by the price differential between the western and eastern sides of the Atlantic. This means that in future the flow of gas may be directed toward other destinations than the EU. In particular, it will depend also on the reaction of Russian's gas. Which strategy Russia will decide to take in the EU, if starting a price war and keeping the market share or not, is not obvious.

The US LNG is putting downward pressure on EU regional prices, squeezing flexible contracts (Norway and LNG) and also Russian spot gas: here buyers are interested in bringing gas supplies at the minimum take-or-pay level.

The recent gas exports from Russia to Europe have ranged between 150 – 180bn m³/year, the overall pipeline capacity is 240bn m³/year of which 120bn m³.yr passes through Ukraine. Russia is facing a strategic issue if and eventually how to diversify Ukrainian routes to Europe. The contract in force between Gazprom and Naftogaz will end on New Year's Eve, 2019.

The volume of exports from Gazprom has been affected by price trends in EU area, data from the Oxford Institute of Energy Studies show that sales peaked in 2007-2008 between 171 – 174bn m³/yr, then after the economic crisis 2008 – 2013 they fell to 151-162bn m³/yr.

Indeed during this last window, also the price difference between oil-linked contracts and European hubs went down. In 2013 Gazprom reduced the price of gas sold under oil-linked contracts, and sales picked up again to 2008 levels. The EU market is moving toward a greater proportion of spot contracts, with customers lowering the number of contracts that run for a decade or more.

If Gazprom does decide to stop any flow across Ukraine, we can estimate this flow of 54bn m³/yr. Will LNG replace it? From US, Qatar and Mediterranean Hub? Regarding the gas availability from Med Hub, it is quite difficult in a short term and it will be discussed later on in a dedicated point. Saying is one thing, doing is another.

The real question is if Russia will shut down completely the flow across Ukraine, as it has said it would several times, including at the St Petersburg International Economic Forum. Alexei Miller said there was no sense in maintaining the transit flows, and would start decommissioning the compressor stations to in order to keep just 15-20bn m³/yr of working capacity.

The US LNG is arriving in the EU, and Gazprom has two main options: lose market share, or cut selling prices and protect market share. The second option involves relaxing the Ukrainian case, and the predominance of a sense of pragmatism.

If Gazprom persists in its position (closing the Ukrainian transit) it has to consider another point: the EU's decision to lift or not, the capacity constraint on the Opal pipeline, which transports gas from Nord Stream 1. If the EU removes this constraint, the market share lost for Gazprom is not so low.

If EU grants Gazprom the right to more than 50% of the capacity of Opal, that must guarantee between 70% and 85% of take-or-pay volumes. Gazprom can lose “only” between 6.6 – 33.6bn m^3/yr (from Oxford Institute of Energy Studies). If the EU sets a limit of 50% in Opal, then the loss can range between 23.6 – 50.6bn m^3/yr.

The prisoners’ exchange between Russia and Ukraine in May 2016 is an encouraging signal of dialogue. Algeria is important for its production, Egypt for its demand and both, along with Libya, represent important potential for gas discoveries.

In 2014 Algeria’s demand was about 1.5 trillion ft^3/year, while production was 3 trillion ft^3/year (EIA), overall its pipeline capacity to Europe has a spare of additional 2 trillion ft^3/year, so Algeria can easily boost its gas to Europe (if gas is available).

Egypt in 2013 produced almost as much as it consumed, at a level of 2 trillion ft^3/year (EIA). In a recent interview to Reuters (April 2016), the energy minister has stated that last level of gas production achieved, was 3.9bn ft^3/day (1.4 trillion ft^3/year). This means that in 3 years the country has “lost” 1.6bn ft^3/day production.

The three largest gas projects (including the giant, Zohr), are expected to boost production from 2019, with additional 4.6bn ft^3/day. So they can cover the lost 1.6bn ft^3/day “lost” and having 3bn ft^3/day (31bn m^3/yr) to cover rising demand and restart exports: a fundamental source of cash flow for Egypt. Egypt has spare LNG capacity of 17bn m^3/yr. So there is a margin to send gas to Europe, and there is gas available.

Now we come to the last point: the Mediterranean Gas Hub. A lot of discussion is revolving around the Mediterranean Gas Hub: with new discoveries from Egypt, Israel and Cyprus, there is a real possibility of its inception and consequently how to link it with Europe. We have to say that the political obstacles are huge and probably it will take more time than we think.

Israel is expecting Leviathan to come on stream in 2019. Initially, Egypt, thirsty for gas was the natural market, but things can change fast and that, was before the Egyptian energy renaissance. Israel, by connecting with Cyprus, can send its gas to Turkey and connect to the 31bn m^3/yr TransAnatolian Pipeline and the 20bn m^3/yr TransAdriatic Pipeline, expected to be ready in 2020.

Or, as alternative it can send gas to Egypt (there is already a pipe available, the Arab Gas Pipeline) and from Egypt to Europe, as LNG. The paper has not considered the potential supplies from Iran, Turkmenistan, Iraq that can be connected to the Southern Gas Corridor (SGC), or Libya’s gas potential.

All these aspects will introduce others players in the game but expected in the mid-long term. The gas market in Europe is undergoing to a great transition in the near future. we have analysed what are the main forces playing at today.

The first steps are always the hardest. EU needs to strengthen its policy on ‘one voice’ in three areas: energy security, environmental targets and energy prices. It can be difficult if Poland (and Germany) need to preserve coal-fired power stations, or France bans US-LNG or national interests still prevail.

The North-South Corridor as supported by Atlantic Council and the development of a Mediterranean Gas Hub are strategic targets to increase security of supplies, unlock the potentiality of central Europe and increase trade and hence economic growth in Africa and Europe. It is not excluded that Russia will come also with its stake in the Mediterranean Gas Hub, it can bring in security. It will take time to find a perfect equilibrium for all stakeholders but it is feasible and, profitable.

Giving up on oil recovery, European banks head for exit on loans

Bloomberg, *23.06.2016*

After hanging on for two years of depressed energy prices, some European banks that lent to the oil and gas industry are starting to scale down their exposure.

Lenders including UniCredit SpA, HSBC Holdings Plc have either sold some of the loans they made to energy companies in the past two months or held discussions with potential buyers, according to people familiar with the situations, who asked not to be identified because they weren't authorized to discuss them publicly. New loans to energy companies in the region have also fallen by more than 50 percent this year, data compiled by Bloomberg show.

Banks are losing hope that a recent pickup in crude will be enough for them to dodge losses on energy-industry loans originally made when oil was at double today's prices. That's making them rethink whether maintaining corporate-banking relationships is worth the potential credit risks.

"European banks have been extending the debt for one or two years thinking that the market would repair itself, just like it did in 2009-10," said Alex Brooks, an analyst at Canaccord Genuity Group Inc. in London. "It's clear that it's not going to happen."

UniCredit sold about $100 million of loans made to Prosafe SE, an operator of offshore-rig accommodation units, at a 55 percent discount, two people with knowledge of the matter said. ING and ABN Amro Group NV have also talked to potential buyers in an effort to sell their exposure to the Oslo-listed company's $1.4 billion credit facilities, according to people familiar with the situations.

HSBC in recent months considered selling its loan exposure to Premier Oil Plc and lenders to driller Fred Olsen Energy ASA have been talking about selling their loans to potential investors, said separate people.

Spokespeople for UniCredit, ABN Amro, ING, HSBC, Prosafe, Premier Oil declined to comment on loan sales. Officials at Fred Olsen didn't reply to calls and e-mails seeking comment on the potential sales.

European banks have been slow to cut exposure to oil and gas companies, partly because borrowers in the region can better withstand lower energy prices compared with many of their U.S. counterparts, who have higher expenses because they rely more on costly shale production. Industry borrowers in Europe also include more service providers that are cushioned against swings in crude by long-term contracts.

U.S. energy producers also tend to borrow more in bond markets than their European competitors, which means when times get tough, the companies have little flexibility to negotiate new borrowing terms. By contrast, European banks have been more willing to support energy companies, and have been reluctant to sell loans, because of long-term prospects, such as potential fees from underwriting and acquisitions.

“When it comes to selling loans, a bank has to weigh everything,” said Lewis Grimm, a lawyer specializing in risky companies’ debt at Jones Day. “The relationship it has with the client is critical.” Banks have only lent $3 billion to oil companies in Europe since April 1, set for the lowest quarterly tally in almost a decade, according to data compiled by Bloomberg. Brent crude prices are hovering around $50 a barrel even after jumping 36 percent this year. They were at $115 a barrel two years ago, according to data compiled by Bloomberg.

Banks haven’t entirely abandoned the European energy sector. Premier Oil’s lenders approved the debt-backed acquisition of EON SE’s North Sea assets, Chief Executive Officer Tony Durrant said last month. Corral Petroleum Holdings AB, owner of Sweden’s largest oil refiner Preem AB, got refinancing for $1.6 billion of revolving credit facilities in February.

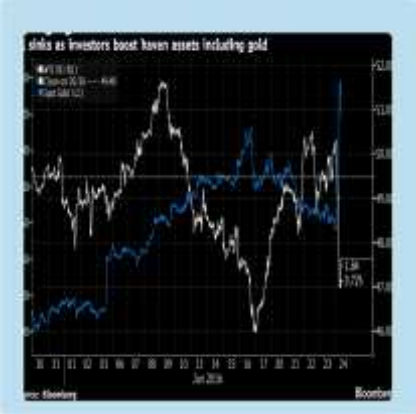
Tullow Oil Plc’s lenders renewed $3.5 billion of credit lines linked to oil reserves earlier this year even as the London-based oil explorer warned about possible loan-term breaches this year or next year. HSBC considered selling about $120 million of unsecured loans made to Premier Oil last month, according to two people familiar with the matter. The debt, part of a $2.05 billion revolving credit facility, hasn’t sold because bids were below the offer price of about 65 cents on the dollar, they said. The U.K. oil company has opened talks with a committee of banks about loosening loan terms.

HSBC has placed energy debt under “enhanced monitoring,” according to its annual report. It got rid of loans made to Petroceltic International Plc at about 30 percent of face value in March as the Irish oil explorer filed for creditor protection in Dublin, people familiar with the matter said at the time.

“Bank-loan sales may become more frequent in the next quarters,” said Sondre Dale Stormyr, a Danske Bank A/S analyst in Oslo. “Even if oil prices recover from the bottom, several European banks are reconsidering their exposure to the industry.”

Oil tumbles amid market turmoil as BBC calls UK vote to leave

Bloomberg, *24.06.2016*



Oil tumbled with most commodities amid a global flight from risky assets as the U.K. voted to leave the European Union. Futures plunged more than 6.6 percent in New York and London, the biggest intraday drop in more than two months. Haven assets such as gold and the yen surged.

Crude will likely be affected by a stronger U.S. dollar and slower global economic expansion in the near-term, Morgan Stanley said. A boost in the currency crimps the appeal of commodities priced in the dollar. Oil slid with industrial metals as the pound plunged to the lowest since 1985 and European equities slumped as the U.K. voted to quit the EU.

Central banks and governments have warned an exit will hurt economic growth and trigger volatility in financial markets. Almost 52 percent of voters sided with the “Leave” campaign. “If the Brexit vote progresses and spills over into a much bigger global recessionary concern which hurts global demand, that’s probably the biggest risk for oil,” said Angus Nicholson, a markets analyst in Melbourne at IG Ltd. “It’s going to be a very difficult and long process for the U.K. to untangle itself from EU laws and every minor debate holds a major selloff risk.”

West Texas Intermediate for August delivery fell as much as $3.41, or 6.8 percent, to $46.70 a barrel on the New York Mercantile Exchange and was at $47.62 at 7:58 a.m. London time. Total volume traded was almost six times above the 100-day average. WTI is down 0.7 percent this week, set for a second weekly drop.

Brent for August settlement dropped as much as $3.37, or 6.6 percent, to $47.54 on the London-based ICE Futures Europe exchange. Prices are 1.6 percent lower this week. The global benchmark crude traded at a premium of 77 cents to WTI.

Oil will face a wave of risk aversion, but the market’s shift from oversupply to balance will overwhelm the currency impact of a leave vote, Societe Generale SA said in report June 21. Crude in New York has advanced more than 75 percent from the lowest level in 12 years in February as disruptions from Nigeria to Canada and falling output in the U.S. eased a global surplus.

Britain may face winter with record low gas stocks after outage

Reuters, *22.06.2016*

The shutdown of Britain's largest gas storage facility for 42-days sent wholesale gas prices surging on the possibility the country could head into winter with record low inventories.

In an already volatile day of trading driven by expectations of cuts in Dutch gas output and worries over Thursday's UK referendum on EU membership, Centrica Storage's announcement that the Rough facility would shut pushed gas prices for this winter more than eight percent higher. In March last year, Centrica imposed reductions on how much gas could be stored at Rough as a safety precaution after identifying potential issues with well integrity.

"In the course of conducting these works, CSL (Centrica Storage Limited) has identified an additional issue on one of the wells tested," Centrica said in a market update on its website. Testing on the affected well is expected to last until Aug. 3, it said. "The Rough outage is a significant event that means the UK will likely go into next winter with record low storage inventory," Thomson Reuters senior gas analyst Oliver Sanderson said.

Britain depends in large part on stored reserves to manage winter demand spikes while domestic stockpiles also help ensure security of energy supplies. Reserves are typically replenished during summer months when demand and prices are low.

The site accounts for around 72 percent of Britain's gas storage capacity, National Grid data shows, and news of the cut to available storage sparked heavy buying of forward gas contracts, pushing up next winter gas prices. "With less gas in storage the risk of not being able to meet peak demand days in winter using UK storage increases and exposure to a cold winter also increases significantly," Sanderson said.

In the shorter-term, reduced demand to refill storage sites this summer could create a glut of supply, pushing down prices and necessitating large-scale exports to Europe via a gas link with Belgium. Winter supply itself may be adequate even in tight periods by drawing on Norway, continental Europe, offshore fields and liquefied natural gas (LNG) import terminals. Britain can import LNG via three terminals served by producers such as Qatar, the UK's biggest provider, at a time when global supply of LNG is growing and new U.S. producers are cranking up exports.

The era of cheap oil is coming to an end

Foreign Policy, *14.06.2016*

In the past two years, a flood of crude has pushed down oil prices, battering corporate balance sheets and wreaking havoc with budgets in oil-dependent countries from Russia to Iraq.

That's beginning to change thanks to the double whammy of rising demand and pinched supplies of oil — especially unplanned outages and disruptions in places like Canada, Nigeria, and Libya. Expect prices to start rising in response. On Tuesday, the International Energy Agency said it expects the oil market to be balanced for the rest of the year, meaning the world will pump roughly as much oil as it consumes.

That should nudge prices higher. Oil is currently trading around $50 a barrel, double the nadir reached earlier this year. If the oil market is getting closer to a normal balance of supply and demand, it's no thanks to major producers inside OPEC — especially Saudi Arabia — that have kept pumping with abandon even as prices plummeted.

Rather, the market can thank global disruptions of oil supplies, which in May reached their highest level in five years. The production declines were in large part due to wildfires in Canada that knocked some oil sands production in Alberta offline.

Other oil-producing regions have also been reeling: A new generation of militants in the Niger delta in southern Nigeria are targeting crude production facilities there, while Libya's continued political disintegration has kept oil production and exports there at a fraction of prewar levels. Other major oil-producing countries, especially Venezuela, face severe economic and political stresses; plenty of energy experts figure Venezuelan exports could tumble sharply later this year.

Altogether, those outages, attacks, and wildfires knocked 3.7 million barrels of oil production a day offline. That helped push oil prices to their yearly high. For the past two years, the world was so awash in oil that the market could afford to shrug off the virtual disappearance of the Libyan oil industry, for example, or watch the return of Nigerian rebels with equanimity. Now, though, outages are set to cause bigger ripples in a tighter market.

"We aren't yet back to the situation where every potential supply hiccup puts a couple of dollars on the price, but the market is definitely awake to geopolitics again," said Richard Mallinson, an analyst at Energy Aspects, a consultancy in London. While the wildfires in Canada, which at their worst took off more than 1 million barrels a day of production, are winding down, disruptions in Nigeria and Libya are likely to be long lasting, the IEA said. And those outages have done what OPEC chose not to do: Close the spigot a bit. "The spate of disruptions have helped put a more solid floor under crude prices and accelerated the rebalancing in global supply and demand," said Robert McNally, founder and president of the Rapidan Group, an energy consultancy.

Nigeria is a particular concern because of both the scope of the disruption — vandalism and attacks knocked out close to 1 million barrels per day of production in May — and because the new generation of militants seems unwilling to negotiate with the government as their predecessors did. Mallinson said Nigeria faces the "potential for prolonged disruptions of the type seen in 2006-09," when militants systematically targeted foreign oil companies and their production in Nigeria.

Those outages by themselves wouldn't necessarily be cause for concern, or at least they haven't been for the past two years. But now that demand for oil is also rebounding — that's particularly true in India as well as in the world's two-biggest oil consumers, China and the United States — there's less slack in the system if something goes wrong.

And that's especially the case given Saudi Arabia's flat-out oil production policy. The kingdom is still pumping oil at near-record levels, producing 10.2 million barrels a day. That means Saudi Arabia has a lot less ability to "surge" oil production to meet global needs; the more it pumps on a daily basis, the less spare production capacity there is inside OPEC.

And since spare capacity is essentially the shock absorber for the global oil market, the world could soon be in for a very bumpy ride. "Prices will be jumpier as well, spiking in response to disruptions or the risk of disruptions, given Saudi Arabia's very low spare production capacity," McNally said.

US: Wall Street closes higher as oil soars

AA Energy Terminal, *20.06.2016*

Wall Street closed higher Monday as crude prices soared around 2.5 percent and investors become less concerned about a possible British exit from the European Union. The Dow added 130 points to reach 18,805 and the S&P 500 increased 12 points to climb to 2,083. Both indices had their highest daily percentile gains since May 25.

At the final bell, the American benchmark West Texas Intermediate was trading at $49.80 a barrel with a 2.6 percent rise, and the international benchmark Brent crude was up 2.5 percent at $50.42 per barrel. With the rise in crude prices, stock value of U.S.-based energy companies also increased.

Shares of Marathon Oil gained 10 percent, while Southwestern Energy Co. shares climbed six percent. In addition, fears of investors about the U.K. leaving the EU, also known as Brexit, have subsided since latest polls that showed voters are more likely to choose to stay in Europe, according to analysts. The market will focus on the Federal Reserve Chair Janet Yellen's semiannual testimony in Congress on Tuesday and Wednesday, and will then closely watch the results of the Brexit referendum.

Announcements & Reports

► *Business Model For Cross-Border Interconnections in The Mediterranean Basin*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/business-model-cross-border-interconnections-mediterranean-basin/

► *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

► *FLNG World Congress 2016*

Date : 28 - 29 June 2016
Place : One Farrer Hotel, Singapore
Website : http://www.flngworldcongress.com/

► *9th SE Europe Energy Dialogue*

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

► *FSRU Asia Summit*

Date : 06 – 07 September 2016
Place : Amara Sanctuary Resort Sentosa, Singapore
Website : http://www.fsrusummit.com/

► *Operational Excellence in Oil and Gas Europe*

Date : 19 – 21 September 2016
Place : London, UK
Website : http://www.opexinoilandgasemea.com/

► *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 Greek Cyprus Energy Symposium*

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