Oil & Gas Bulletin

▸ *29.07.2016*

European Commission to give financial aid to TANAP

AA Energy Terminal, *28.07.2016*

The European Commission will provide financial assistance to the Trans Anatolian Pipeline project (TANAP) company for its study and design of commercial operations and its asset integrity management systems, the company announced.

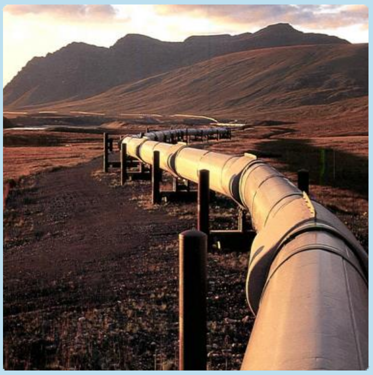
The Trans Anatolian Pipeline project (TANAP) said that the project has been in the PCI - Project of Common Interest list of the European Commission since 2013. "This list is renewed every two years and if a project is listed, it can apply for financial assistance," a TANAP representative said. The company said that this payment of €3.5 million will mark its fourth from the commission.

With this approval, TANAP's financial assistance from the commission will amount to around €10.2 million to date. Previously, TANAP received three other financial aid payments totaling €6.7 million. TANAP plans to be operational in 2018 with an initial capacity of 16 billion cubic meters (bcm) of Azeri gas flow through Georgia to Turkey.

While 6 bcm will be designated for Turkey's domestic gas consumption, the remainder is destined for transfer to Greece, Albania, Italy and further into Europe. TANAP's total capacity is planned to increase to 23 bcm by 2023 and to 31 bcm by 2026. Azeri energy giant SOCAR holds a 58 percent share interest in TANAP while Turkey's BOTAS has a 30 percent share and BP owns a 12 percent stake.

Turkey, Russia toy with Turkish Stream revival

Natural Gas Europe, *27.07.2016*



Russia is moving fast to revive its Turkish Stream project to deliver gas to Turkey and southern Europe once it ceases to use Ukraine as a transit route. Russian officials say they have already begun talks but so far these appear to be strictly preliminary, with Moscow very much waiting to see just how interested Ankara might be in reviving the project.

Although Turkey, at the end of June, made the initial move to secure a rapprochement with Russia in the wake of strained relations following the shooting down of a Russian warplane, the centrality of Turkish Stream in this process appears to be very much a Russian initiative.

On June 27, immediately after Russia announced that the Turkish president, Recep Tayyip Erdogan, had sent a letter to the president of Russia Vladimir Putin, the Tass news agency quoted Gazprom's official spokesman, Sergey Kupriyanov, as saying: "Gazprom is and has always been open for dialogue on Turkish Stream."

Two days later, Russia Today quoted Gazprom's deputy head of finance Igor Shatalov as saying: "The Turkish Stream project has been meticulously worked out. The cost of the four lines was estimated approximately at €11.4bn... The level of readiness to attract project financing is very high."

Turkey still seemed to be taking a cautious attitude at this stage. But on July 15, a few hours before the coup attempt that shook the country, Russia's Sputnik News reported that Turkey's prime minister Binali Yildirim had told journalists: "It is important for Russia and Turkey to restore and implement Turkish Stream pipeline and Akkuyu NPP (nuclear power plant) construction projects as well as to focus efforts on attracting greater numbers of Russian tourists to our resorts and of our citizens to Russia."

In the last few days, judging by Russian media reports, Moscow has stepped up a gear. On July 26, Sputnik News, citing Russia's deputy energy minister, Yuri Sentyurin, said that Russian and Turkish officials had discussed prospects for Turkish Stream project. They had not reached a decision but further talks would be held in the near future.

The same agency also that day carried a report from Ankara that quoted Turkey's deputy prime minister Mehmet Simsek as saying: "We are open to dialogue. From the viewpoint of Turkey's gas energy needs we are in principle open to the construction of the first leg of Turkish Stream." The report also quoted Turkey's economic affairs minister Nihat Zeybekci as saying a political decision had been reached between Moscow and Ankara to implement Turkish Stream. But it gave no further details on this apparent agreement.

Moreover, when Kremlin spokesman Dmitry Peskov was asked about Turkish Stream July 27, he responded cautiously. “Work is underway in different areas... and you know that alternative routes are worked on and being discussed with our European partners,” Sputnik News quoted Peskov as saying.

The significance of the Russian reports is that while Turkey certainly needs to find alternative sources of gas supply as and when Russia should terminate its transit through Ukraine – by which it routinely delivers around 14 bn m³/yr to Turkey and the Balkans – it is Russia that has already invested billions of dollars to develop the infrastructure for pipeline exports to Europe via southern Russia and a Black Sea crossing.

Most of the money has gone on what Russia calls the Southern Corridor Project, an 2,506-km twin-line system that connects Russia’s transmission system to an export terminal at Anapa on the Black Sea Coast. Work on this project began in 2011. At one stage it was expected to cost around $22.5bn but with the rouble’s devaluation this was cut to around $15bn.

Gazprom has also paid out extensively for the cost of physical pipe to be used in laying a pipeline under the Black Sea. It signed contracts in January 2014 for €1bn worth of actual pipe, to be used in laying the first string of a subsea pipeline, and then in March 2014, it signed contracts for a further €0.8bn for pipe to be used in the second string.

It also signed a €2bn contract with Italy’s Saipem to lay the first string and a subsequent contract – estimated at €1.2-1.5bn – with the Swiss Allseas to lay the second string. Most, if not all, of this pipe has now been delivered and is resting on the dockside at the Bulgarian port of Varna.

At the time, these contracts were intended to implement Gazprom’s South Stream project, which was originally intended to carry as much as 63bn m³/yr of gas to southern and eastern Europe and via the central European hub at Baumgarten in Austria, and/or a connection at Tarvisio in northeastern Italy, to customers in Italy, France and Germany as well.

But when South Stream fell foul of EU regulations, with Brussels arguing that Gazprom’s package of onshore lines from a landing point at Bourgas in Bulgaria to Baumgarten/Tarvisio did not conform to EU regulations, Russia abandoned this approach. Instead it opted to build Turkish Stream, an decision announced – somewhat unexpectedly – by Putin during a visit to Ankara on December 1, 2014.

But the development of Turkish Stream proved just as problematic. First, Gazprom was still in the middle of disputes with Turkish gas purchasers over the price of current gas supplies. This was still not resolved by mid-2015, when pipelaying on Turkish Stream was due to start.

With the downing of the Sukhoi-24 bomber last November, relations became particularly icy, and there was no significant positive discussion of Turkish Stream until the rapprochement started. But it is quite clear that it is Russia that has so far taken the lead in raising the matter, and that Ankara will now be trying to work out how best it can gain from a revival of the project. The most pertinent comment to date is from Gazprom’s deputy chairman Alexander Medvedev, who was quoted by Sputnik news as saying July 26: “We have already stated that the ball is in Turkey’s court.”

Russia says no extra risk in Turkey unrest to gas pipe talks

Bloomberg, *26.07.2016*

Russia and Turkey have resumed talks on a possible natural gas link through the Black Sea even as analysts see risks for the slated route to southern Europe amid political turmoil in Turkey.

"Any region has its own risks, as well as commercial benefits," Russian Vice Prime Minister Arkady Dvorkovich told reporters after discussing the pipeline project, shelved more than seven months ago, with his Turkish counterpart Mehmet Simsek in Moscow Tuesday. "We knew all the risks when we made a decision to start designing Turkish Stream."

Further civil unrest in Turkey poses significant risks to hydrocarbon transit through Turkish territory, BMI Research analysts said in note. While there is no agreement on resuming gas-pipeline works yet, Turkey sees "progress" in the talks, Economy Minister Nihat Zeybekci told reports in Moscow after meeting Russian Energy Minister Alexander Novak.

It's "a bit of a double standard" given Russia's claims on Ukrainian gas transit risks, said Sijbren de Jong, an energy security analyst at the Hague Centre for Strategic Studies. While "there is significant political upheaval in Turkey" it's always been a reliable transit country, he said. Russia's Gazprom PJSC has been planning to cut reliance on gas transit through Ukraine, about 40 percent of its current exports to Europe, citing unrest in the country.

Russia has resumed talks with Turkey after halting several projects last year over the downing of its military jet, an incident that plunged relations between the two countries into crisis. The tensions eased after Turkish leader Recep Tayyip Erdogan apologized in June. He will meet Russian President Vladimir Putin for the first time since the incident on Aug. 9 in Russia's St. Petersburg, the Kremlin said Tuesday.

Officials agreed to set up a working group that would prepare a possible intergovernmental agreement "to revive the project," Gazprom deputy head Alexander Medvedev said after the meeting. A deal and its timing is possible only after the presidents meet next month, he said.

Turkish Stream, originally designed to make the nation a linchpin in Europe's energy supplies, replacing Ukraine from 2020, has also been delayed amid gas-supply pricing disputes. The link's annual capacity, initially planned at 63 billion cubic meters (2.2 trillion cubic feet), or about a third of Gazprom's exports to Europe, was later cut by 50 percent. Gazprom has said it's assessing all possible southern routes to the EU, including Turkey and Bulgaria. It may build only one link for the Turkish local market as there are other obstacles to a transit pipeline, including EU regulation and "poor" cases for public and private financing in southeastern Europe, De Jong said.

Turkish Energy Minister: Gas discount to be applied for winter

Hurriyet Daily News, *25.07.2016*

The Turkish government will apply a natural gas discount for the winter season even if Turkey's separate gas price arbitration cases with Iran and Russia are not concluded, Energy and Natural Resources Minister Berat Albayrak said.

Speaking in a TV interview, Albayrak stated that the arbitration case between Turkey and Iran was ruled in Turkey's favor however the process to identify the discount rate applicable to Turkey and the repayment procedure was not yet finalized. "Even if these processes are not concluded, a discount on gas prices will be applied," Energy and Natural Resources Minister Albayrak said.

He added they were working on upholding the maximum discount rate applicable for the sustainability of Turkey's economy. In 2012, Turkey sued Iran in the International Court of Arbitration for overpricing on gas purchases during the four-year period between 2011 and 2015. The court decided in favor of Turkey in February and ordered that both parties agree on a reduction between the rates of 10 percent and 15 percent in the price of Iranian gas exports to Turkey. The exact discount rate is expected to be announced in September.

Turkey imports 10 billion cubic meters (bcm) of natural gas from Iran annually. Meanwhile, the arbitration case between Russia and Turkey was still ongoing and awaiting finalization. Turkey's Petroleum Pipeline Corporation, BOTAŞ, and Russian Gazprom Export signed international natural gas purchase and sale agreements on Dec. 15, 1997, and Feb. 18, 1998, to allow Turkey to receive a total of 20 bcm of gas from Russia.

Under the agreements, both sides have the right to ask for price revisions. Once a revision is negotiated, an agreement needs to be reached within six months. Upon Turkey's request in December 2014, Russia announced a 10.25 percent discount rate, which was never implemented.

Although both sides reached an understanding, Gazprom Export failed to sign the relevant documentation within the six-month period following the preliminary agreement and an additional four months passed without a response from Russia. After writing to Gazprom Export on Oct. 6, 2015, and not receiving a reply, BOTAŞ announced its decision to take the matter to the arbitration court on Oct. 26, 2015.

Turks, Turkmens, Azeris to meet for European gas

AP, *24.07.2016*

A Turkish diplomat says the presidents of Turkey, Turkmenistan and Azerbaijan are set to meet to lay groundwork on possible future deliveries of natural gas from Turkmenistan to Europe. Mustafa Kapucu, Turkey's envoy to Turkmenistan, has said that the three-way summit will happen later this year.

The preferred proposed westward pipeline route for Turkmen gas would cross the Caspian Sea to Azerbaijan, from where it would feed into Tanap. Turkmenistan, an ex-Soviet republic sitting atop one of the world's largest gas fields, exports most of its gas to China and a small amount to Iran.

It wants to build another pipeline across Afghanistan toward Pakistan and India, although security issues have put the viability of that project in severe doubt.

Ukraine wants EU to block Turkish Stream

Trend News Agency, *28.07.2016*

The EU, with political will in place, could block the construction of the Turkish Stream gas pipeline, Chief Executive Officer of Ukraine's state gas company Naftogaz Ukrainy Andrey Kobolev told a Ukrainian TV channel.

"Neither Turkey, nor Russia has deepwater building technology. They will need the help of Western companies to build the seabed section of the pipeline. That's why, if a great political will is there, the EU, by using sanctions can stop the project," Kobolev said."It is a question of political will," he said. Russia has repeatedly stated its intention to halt gas transit via Ukraine.

The Turkish Stream project, which is meant to take the Russian gas to Turkey across the Black Sea, bypassing Ukraine, was suspended due to sharp deterioration of relations between Moscow and Ankara after the incident with downed Russian air bomber on the Turkish-Syrian border in November 2015. Earlier Kremlin spokesman Dmitry Peskov told reporters that Russia is in talks on the Turkish Stream and other gas pipeline projects with European partners.

IEA: Hunger for Turkey's energy investments unlikely to ebb

Hurriyet Daily News, *22.07.2016*

The intensive appetite for energy investments with increased demand in Turkey is unlikely to be lost in the wake of the failed coup attempt, IEA Executive Director Birol said.

Speaking to Anadolu Agency on the impacts of the attempt, Birol noted the steps taken by Turkey to repel long term risks have been positive. Turkey's Central Bank said that it would cut the commission on daily liquidity options for banks to zero as well as provide them with unlimited liquidity to maintain efficient functioning of the financial markets. "It will be better if these steps are supported with market-friendly structural reforms," Birol added.

He said one of Turkey's biggest objectives was to increase energy investments. "Two points need to be considered in energy investments. First, energy projects are long-term projects, and second the fundamentals regarding the energy sector in the country have to be taken into account," he said.

He added that no change in Turkey's fundamentals was evident from the point of view of investors, as the economy was experiencing what many countries consider an enviable growth rate. The International Monetary Fund (IMF) had revised Turkey's 2016 growth forecast to 3.8 percent, from 3.2 percent, according to its World Economic Outlook report published in April. The IMF expected Turkey to grow by 3.4 percent in 2017.

"I think the appetite for energy investment is unlikely to be lost and the steps taken up to now are in place to increase this appetite," Birol said. Turkey declared a state of emergency for three months late on July 20 in response to the coup attempt.

Iraq seeks Exxon, PetroChina help to develop two oil fields

Bloomberg, *18.07.2016*

Iraq is negotiating with Exxon Mobil Corp. and Petrochina Co. to develop two oil fields in the south of the country as it seeks to maintain overall production at about 4.8 million barrels a day for the rest of 2016, Deputy Oil Minister Fayyad Al-Nima said.

The companies have submitted offers to develop the Artawi and Nahran Omar fields, which Iraq's Oil Ministry hopes will produce a combined 550,000 barrels a day, Al-Nima said Wednesday in an interview in Baghdad. The fields together are pumping about 70,000 barrels daily, and the ministry wants to start the project in six months, he said.

Al-Nima assumed the duties of oil minister after Adel Abdul Mahdi suspended his participation in the cabinet in March. Iraq, OPEC's second-biggest member, is producing 4.78 million barrels a day, with 4 million barrels coming from fields in the south, Al-Nima said.

The self-governing Kurdish region in northern Iraq contributed the remainder, pumping more than 700,000 barrels a day independently of the central government, he said. Exports from the south are averaging 3.19 million barrels a day, and the ministry sees shipments reaching 3.2 million by month-end and staying at about that same level until the end of the year, he said.

Iraq is trying to expand oil production amid lower prices and a military campaign against Islamic State insurgents, who control large chunks of territory in the north. The country's largest oil fields are mostly in the south and physically insulated from the fighting. Iraq pumped 4.3 million barrels a day of crude in June, an increase of 32 percent from its average annual output in 2014, data compiled by Bloomberg show.

Iraqi Kurds are exporting 520,000 barrels a day via Turkey's Mediterranean port of Ceyhan, Al-Nima said. They use their own pipeline, as the Baghdad-operated link to Turkey from the northern oil hub of Kirkuk has been shut down due to the conflict with Islamic State.

Iraq, which holds the world's fifth-biggest crude oil reserves, is in separate talks with Petrochina and Korea Gas Corp. to reach a final agreement to build a refinery with a capacity of 300,000 barrels a day and to develop an oil field in Nasiriya in southern Iraq, Al-Nima said.

Saudi Arabia gets ready for a post-oil world

Politico, *19.07.2016*

Saudi Arabia is preparing itself for the end of oil — whether in 20, 50 or 100 years — but in the meantime it wants to steady volatile prices without slashing production, the Saudi foreign minister told.

Diversification is key to the Vision 2030 plan, which aims to lure foreign investment into areas ranging from mining to defense, entertainment, and solar power while also modernizing the country by making its government more transparent and creating new jobs for a population of which 70 percent is younger than 30. "We need to think of ourselves as an energy producer," Adel al-Jubeir said.

"We want to encourage clean energy and we want to encourage renewable energy. There's no reason why we can't be a leader in those fields." That's a significant shift for the world's biggest oil exporter and second-largest producer (after the U.S.). Oil and gas generate around 50 percent of Saudi Arabia's GDP and 85 percent of its export earnings.

But the Kingdom realizes that the energy sector is gradually moving away from fossil fuels. While the global shift is at least partly driven by pressure to tackle climate change, Saudi Arabia's efforts are more pragmatic.

Vision 2030 lays out a plan to partially privatize the country's state-owned oil company, Saudi Aramco. Money from the initial public offering, expected by 2018, will go towards expanding Saudi Arabia's sovereign wealth fund from 600 billion riyal (€145.1 billion) to more than €1.7 trillion.

The country's economy will look very different by 2030 as a result of the plan, even if only a small part of it is fulfilled. But even if the role of oil and gas diminishes significantly, fossil fuels will be crucial to making sure Saudi Arabia's transition is smooth, the Oxford Institute for Energy Studies said in a report.

The country's efforts to replace oil-fired power generation at home with more renewables and gas — leaving more oil for exports — could be good for its energy sector, giving it a more "holistic approach" to the challenges Saudi Arabia faces, it added. The economic overhaul is about timing, al-Jubeir said, dismissing the idea that it was triggered by the fall in oil prices from more than $100 per barrel in 2014 to just below $50 now.

"Oil may or may not be around in 20 or 30 or 40 years. So what do you do at that point, if you don't have an economy that is dynamic and self-sustainable and innovative?" he said. "It could be 100 years, it could be 50. We don't know what technology or innovation will bring. And if it doesn't change that's fine, we'll just have more income."

In the meantime, Saudi Arabia's priority is to stabilize "erratic" shifts in oil prices, he said, noting that political turmoil adds to the swings. Oil producers in OPEC raised the idea of cutting output earlier this year, as prices hit a 13-year low of $28 per barrel in January. But Saudi Arabia scuttled the plan and kept its output at near all-time highs, around 10 million barrels per day this year.

"We believe that Saudi Arabia should not be the one to assume the lion's share of cuts and that everybody should step up and take responsibility, or take steps to ensure there is a balance in the market," al-Jubeir said.

Saudi Arabia was open to a compromise that would put a cap on OPEC's production, but its members failed to agree on a deal when they last met in early June. Iran, which re-joined the cartel after sanctions were lifted this year, opposed any move to curb the oil it is only just bringing back to the market.

The effect of Iran's return to OPEC and the international oil market "has not been anything major," al-Jubeir said, noting that Iran's oil output is back around the level it was before sanctions were imposed in 2011. At the same time, even OPEC's influence on international markets has changed over the decades, he added. "OPEC's ability to control the markets is not what it was 40 years ago," he said. draconian crackdown on perceived enemies, it's not clear if Turkish leaders even have the bandwidth to push forward a solution to the Cyprus question right now, Leigh said.

Pioneer says some U.S. fracking costs competitive with Saudis

Reuters, *28.07.2016*

Improved fracking techniques have helped cut Pioneer Natural Resources Co's production costs in the Permian Basin to about $2 a barrel, low enough to compete with oil rival Saudi Arabia, CEO Scott Sheffield said.

The comments from Sheffield were perhaps the most concrete sign yet that the fittest U.S. shale oil producers will survive the price crash that started in mid-2014 when Saudi Arabia and OPEC moved to pump heavily to win back market share from higher-cost producers. Dozens of shale companies, have filed for credit protection in the biggest wave of corporate bankruptcies since the early 2000s.

Sheffield said high costs would continue to make U.S. shale plays outside the Permian basin relatively less competitive. On Pioneer's second-quarter results call, Sheffield said that, excluding taxes, production costs have fallen to $2.25 a barrel on horizontal wells in the Permian Basin of West Texas, so it is nearly on even footing with low-cost producers of conventional oil. "Definitely we can compete with anything that Saudi Arabia has," he said. "My firm belief is the Permian is going to be the only driver of long-term oil growth in this country.

And it’s going to grow on up to about 5 million barrels a day from 2 million barrels,” even in a $55 per barrel price environment, he added. Oil traded near $50 a barrel for much of the second quarter but is currently around $42. Pioneer’s shares were up more than 3 percent on Thursday at $155.91 each.

Sheffield said other U.S. shale plays, notably the Bakken in North Dakota and the Eagle Ford in South Texas, may not be able to weather the downturn as well given their higher costs. “The Bakken and the Eagle Ford I think there’s no way they can recover to the levels that they’ve already had,” he said.

Pioneer expects output to grow 15 percent a year through 2020 after posting production of 233,000 barrels of oil equivalent a day this past quarter. It sees most of its growth in the Permian, though it also has acreage in the Eagle Ford. Pioneer helps limit costs by doing much of its oilfield services work in-house. It also has its own sand mine, and uses effluent water from the city of Odessa for frack jobs using pressurized sand, water and chemicals to unlock oil from rock.

Pioneer said it is now introducing its third generation of well completion techniques, called version 3.0, that is using even more sand and water than the super-sized volumes introduced at the start of the price crash to pull more oil out of rock.

Its newest wells are using up to 1,700 pounds per foot of sand, up to 50 barrels per foot of fluid, and frack points as often as every 15 feet with wells that are now nearly 10,000 feet long. Wells fracked using completion techniques known as version 2.0 have produced about 2,000 barrels per day in their early days, double what they were producing with earlier wells.

While the newest wells appear more productive, the company declined to say what output from wells fracked with the third generation completion techniques would ultimately be, partly because it chokes, or restricts, initial output from new wells to ensure their longevity.

Top oil market embraces Iran once again as Asia imports jump

Reuters, *28.07.2016*

At the biggest oil market in the world, crude from Iran is back in vogue. The Persian Gulf state boosted exports to major oil consumers in Asia during the first half of year, after international sanctions restricted its supplies were eased.

Japan's purchases increased 28 percent, India bought 63 percent more, South Korea's imports more than doubled while shipments into China gained 2.5 percent during the six months. The increase in cargoes to Asia shows Iran is having some success in meeting its pledge to prioritize regaining market share it lost in the region due to the sanctions over its nuclear program.

The nation, which was OPEC's second-biggest producer before the international measure choked off its supplies, defied skeptics with a 25 percent surge in production so far in 2016 and aims to reach an eight-year high for daily output of 4 million barrels by the end of the year.

"Iran appears to have had a strategy to target emerging markets in Asia to increase market share as well as to recover its production to levels before sanctions were imposed," Kang Yoo Jin, a Seoul-based commodities analyst at NH Investment & Securities Co., said by phone.

"For it to continue to secure and expand market share, it will need to not only strengthen relations with old customers but also regions that see growth. It will be continuously challenged by increased competition from countries including Saudi Arabia and Russia."

Iran is exporting about 2 million barrels of its daily output of 3.8 million, Mohsen Ghamsari, director of international affairs at state-run National Iranian Oil Co., said earlier this month. It has regained about 80 percent of the market share it held before the U.S. and European Union tightened sanctions on its oil industry in 2012, he said.

Japan, which is predicted by the International Energy Agency to be the third-largest oil consumer in Asia this year, bought almost 206,000 barrels a day of crude from Iran during the first six months of the year, according to data from the North Asian nation's Ministry of Finance. Daily imports in June more than doubled to about 339,000 barrels, data released on Thursday show.

India, forecast by the IEA to be the second-biggest oil consumer, boosted purchases from Iran to about 338,000 barrels a day during January to June from almost 207,000 barrels in the same period a year earlier, according to shipping data obtained by Bloomberg. Shipments to South Korea, the fourth-largest user in the region, jumped 123 percent to about 265,000 barrels a day, data from Korea National Oil Corp. show. Top Asian consumer China bought 603,000 barrels daily.

Oil in New York has risen about 60 percent from this year's low in February as supply disruptions from Canada to Nigeria cut production. The U.S. benchmark grade was little changed at $41.93 a barrel at 2:57 p.m. Singapore time. The Asia-Pacific region is predicted to consume 32.81 million barrels a day of oil this year, outstripping demand in the Americas, which is forecast to use 31.3 million barrels daily, according to the Paris-based IEA.

Nord Stream 2: A bad deal for Germany and Eastern Europe

Bruegel, *27.07.2016*

At the end of last year, Gazprom reached a deal with five Western European companies. They agreed to add two additional lines to the Nord Stream gas pipeline across the Baltic Sea, increasing the capacity of the pipeline from 55 billion cubic metres per year to 110 billion from 2019.

The project has provoked controversy, as it sharpens divisions among EU members about energy and foreign policy. In terms of energy policy, the EU has two goals. It is trying to make itself more independent from individual suppliers, and also aims to do without fossil fuels in the medium term.

In recent years the market position of the EU has improved markedly. Thanks to low global energy prices and unexpected falls in gas demand – which in 2015 was around 40% lower than expected according to 2005 predictions – European users have been able to push for significantly lower gas import prices. Prices have halved in the past 2 years, to about $170 per thousand m³.

Due to enduring stagnation in demand for gas in Europe, overcapacity in the global gas market, and continuing underuse of European gas import infrastructure, another expensive pipeline from Russia is not needed to supply the EU in the near future. It would work against current efforts to diversify supply, as Gazprom is already the largest supplier in the EU.

And in the medium term there is the question of whether -because of climate change commitments – gas demand in the EU will actually fall faster than domestic and Norwegian production. The time frame in which the Nord Stream 2 project could pay for itself is thus relatively short at best.

Against these concerns are stacked the interests of the Western European companies taking part. They expect Nord Stream 2 to guarantee them a preferential supply of Russian gas, and hope to strengthen their existing business interests in Russia. With Nord Stream 2, Germany would also become a gas hub for all of continental Europe. It would therefore benefit not only from the business related to Nord Stream 2, but also from lower gas prices than its neighbours. But this would be a zero-sum game– Germany would only profit at the expense of its neighbours, who would find themselves paying more at the end of the transport route through Germany.

Most alarmingly, Gazprom would gain another tool to discriminate between countries. Gazprom could then credibly threaten to cut off gas supplies in Eastern Europe without threatening its markets in Western Europe. In this way Gazprom could achieve higher prices in Central and Eastern Europe, without having to use illegal “destination clauses” (which allow buyers of Gazprom’s gas to only sell it to domestic consumers).

In terms of foreign policy, the EU supports Ukraine in its efforts to defend its sovereignty and territorial integrity against Russian interference. Nord Stream 2 would undoubtedly make this task more difficult. On the one hand, Ukraine would lose revenues from gas transit of up to 2 billion US dollars a year, equal to about 2% of Ukrainian output. On the other hand, a large scale cutback in gas transit would make it harder to supply Ukraine with gas.

Because of lower Ukrainian demand for gas and a large increase in gas imports from Slovakia, at this moment Ukraine can do without direct gas imports from Russia. As a result, it has sourced no gas from Gazprom since November 2015. This has offered Ukraine significantly increased political leeway, for example regarding much-needed radical reforms of the corrupt gas sector.

If Nord Stream 2 gets built, Central and Eastern Europe (especially Slovakia and Hungary) might be supplied with Russian gas from this pipeline, bypassing Ukraine altogether. In this situation Moscow could, at worst, press for reduced western gas exports to Ukraine, and could certainly demand higher prices for any gas sent on such an indirect journey. That would increase readiness in Kiev to once again accept ‘mates rates’ for gas supplied directly from Russia, which would be tied to political concessions.

Even within the EU, Gazprom is still a tool of Russian foreign policy. This was shown in autumn 2014, when Gazprom unilaterally cut supplies by up to 50% to countries (Poland, Slovakia, Austria and Hungary) which sold gas on to Ukraine. Strengthening the market position of such an actor therefore has costs for foreign policy.

What is more, Nord Stream 2 threatens one of the few European foreign policy successes of recent years. Despite the economic concerns of many member states, Europe and Germany in particular managed to find an unexpectedly clear united answer to the annexation of Crimea and Russian involvement in eastern Ukraine.

However, the European compromise to implement economic sanctions in response to Russia’s legal violations remains fragile. If Germany positions itself as a friend of Russia and supports such a large project, without concessions from Russia on foreign policy disputes, it risks breaking the fragile European consensus on Russia — which has only been laboriously held together until now. The resulting loss of trust among European partners would hardly be offset by the improved relationship with Russia.

These disadvantages of Nord Stream 2 could largely be cushioned through extra investment in the domestic European gas network, more financial support for Ukraine, and German guarantees on security of gas supply for Central and Eastern Europe. But the cost of this would be paid by German gas consumers and taxpayers. On the other hand, the indirect foreign policy costs are difficult to measure. To sum up, building Nord Stream 2 would be a bad deal for both Germany and its Eastern European partners.

Source: Russian gas exports via Slovakia to rise in August

ICIS, *28.07.2016*

Russian exports to the EU via Ukraine will increase with the start of August after a significant drop this week, coinciding with maintenance on other supply pipelines into Europe, a source close to the matter has told ICIS.

More Russian gas will be flowing via Ukraine and Slovakia to the Baumgarten border point delivering gas from Russia to the EU via Germany will be shut down for maintenance in August. Russian transit flows via Ukraine and Slovakia dropped last weekend, with flows through the Baumgarten border point falling 36%, compared with volumes transported over the previous seven days.

The source said the drop was a result of weak demand from Austria and Italy due to hot weather conditions in those countries. In Austria, export capacity has been restricted due to maintenance, which was another reason for reduced demand. Maintenance works are expected to end on Friday evening.

The drop in Russian flows was not a bullish factor for central and eastern European markets, with the Day-ahead contract on the Austrian VTP hub dipping almost 5% between Monday and Wednesday. Maintenance works on the Opal, NEL and Yamal pipelines are expected to be significant and will affect a number of entry and exit points in Germany.

The Greifswald border point through which Russian gas flows to Germany via the Nord Stream pipeline is expected to be closed for entry between 9-17 August, according to maintenance schedule data from German transmission system operator Gascade as of 28 July. The Brandov border point through which gas flows from Germany to the Czech Republic will be partially closed between 9-13 July and 15-18 July.

The Mallnow border point between Poland and Germany will be partially closed for flows from Poland to Germany between 23-26 August, while flows from the Netherlands to Germany via the Bunde border point on the Yamal pipeline will be restricted on 10 August. The use of the Olbernhau II point for flows from Germany to the Czech Republic will be partially restricted between 25-26 August.

EC urges Ukraine to stock up

Natural Gas Europe, *22.07.2016*

With Ukraine's gas storage barely a third full, the European Commission has urged the country to stock up with cheap summer gas. As of July 17 the country's huge capacity had just 10.035bn m³ ahead of winter, or 32.4% full.

EC vice-president, Sefcovic met Ukraine's prime minister Groysman. They discussed a broad agenda of issues related to EU – Ukraine energy relations and underlined the need to carry on the important reform processes going on in the areas of gas, electricity and energy efficiency. With a view to the preparations for the winter heating season, Sefcovic expressed the importance of filling up the facilities.

The falling gas prices in Q3 2016 were most favourable to pump in additional significant amounts of gas, he said. In this context, he encouraged Naftogaz Ukrainy and Gazprom to agree on the terms for the purchase of Russian gas, which was in their mutual interest. The EC stood ready to facilitate, if necessary and requested, the talks in a trilateral format, as had proven to be successful for the past two winters.

Naftogaz Ukraine CEO Andriy Kobolev said the company was "grateful to the EC for the proposed help in conducting the trilateral negotiations" and ready to participate in such a meeting in the nearest time and place suitable to all parties. The state-owned importer told NGE July 22 that it began importing gas on its own account in July. "EBRD has completed its prequalification process. We will issue further statements on EBRD in due course," it said in a statement.

The storage facilities were not intended to be fully used in order to meet domestic peak demand. Before relations worsened between Russia and Ukraine, Gazprom used to book capacity in the plants to back up its gas deliveries to Europe, but that is no longer an option, leaving them emptier than otherwise. However, the country's storage operator UkrTransgaz, which also operates the pipeline network, has sought expressions of interest from other customers, along with some transportation capacity rights to bring the gas in and out of the country, as an alternative revenue source.

Gazprom is back with a brand new plan to sell gas to the Europeans

Russia Direct, *22.07.2016*

The Russian gas sector is revitalizing and a real chance has appeared to finally realize one of Gazprom's "projects of the century" – the North Stream-2, which will deliver Russian gas to Europe, bypassing Ukraine.

Until now, the EU authorities have created obstacles for the project. And there's a commercial angle as well – they did not want to deprive Ukraine, from the considerable amount of money earned for the transit of Russian gas. Russian exports to Europe have reached about 140 bcm of gas annually, and subtracting Finland, Turkey and the Baltic States, then about 70 percent of the exported gas travels through Ukraine.

However, the moods in some European capitals have recently changed, with leaders having realized that the NS-2 will be very cost-effective for them. Ultimately, this is more important than some political reasons.

The North Stream-2 will have a length of about 1,200 km (approximately 750 miles), and will run under the Baltic Sea from the Russian coast to Germany. The capacity of the two lines will be 55 billion cubic meters annually. This pipeline is planned to have double the capacity of the first North Stream. Gazprom plans to start construction in April 2018, and finish it by the end of 2019.

The pipeline is being built by the North Stream 2 Company – a consortium of shareholders for the future project, which includes Gazprom, BASF/Wintershall, Uniper, Engie, OMV and Shell. Representatives of these companies claim that the construction of the NS-2 will cost 8 billion euros ($8.8 billion). One year ago, in June 2015, the chairman of the board of Gazprom, Alexey Miller, told Reuters that he estimated the preliminary budget for the pipeline at 9.9 billion euros ($10.9 billion).

The United States has been constantly opposed to the NS-2 project. Just recently, in late May, the U.S. called on the authorities of the European Union to put a hold on the plans to build the North Stream-2 pipeline. The project, according to the U.S. State Department, has a political, rather than commercial character. Russian Foreign Minister Sergey Lavrov, on the contrary, said that the Americans are playing politics everywhere. When it comes to the Gazprom pipeline, he affirms, it is pure commerce.

Here it is appropriate to recall the history of the NS-2. After all, the idea to build a gas pipeline bypassing Ukraine via the Baltic Sea and the Black Sea (the North Stream and South Stream, respectively) was voiced by none other than Russian President Vladimir Putin. This is where the European partners, whose political sympathies are entirely on the side of Kiev, decided to put the brakes on this project.

The Russian side, beginning to invest significant sums of money into the South Stream, very quickly realized that this project was a no-go, because many European countries would never approve this path. The European Commission, referring to the notorious “Third Energy Package,” as a result of which Gazprom cannot be the transporter of its own gas, also tried to block the project.

Later, the Russian authorities promulgated the idea of the Turkish Stream. However, this idea also quickly died out – especially after last autumn, after political relations between Moscow and Ankara worsened, because of the downed Russian plane. It was at that time that the Russian leadership came up with the idea to increase the flow of gas through the Baltic Sea – to build two new branches, called the North Stream-2.

The strategic plan of the NS-2 project is to have the gas go directly to Germany, bypassing Ukraine, and then to Austria, and from there, using new future infrastructure, to Southern Europe – Italy, Greece, the Balkan countries and Turkey. Thus, it should be able to replace the failed South Stream.

We should note that this project is very interesting for foreign participants of the consortium that are involved in the construction of the NS-2. It is 49 percent owned by leading and well-known Western companies. These companies, in agreement with Gazprom, will recoup their investments into the construction work, and will receive fees for the transportation of the gas.

Moreover, these fees would not be for the physical volume of the transported gas, but for the maximum throughput capacity of the pipeline. That is, for foreign companies this is very profitable – they invest money into construction, become operators, and thereby receive money, regardless of the effectiveness of the project.

The Russian participant of the consortium, which owns 51 percent of the project, is a division of Gazprom, which will also earn a tidy profit. As the experts estimate, if the rates are the same as for the North Stream-1, the Gazprom division will receive about $1.25 billion annually for transport fees, regardless of the volume of gas transported. Therefore, of course, Gazprom is also very interested in this project.

From the Russian perspective, it is extremely important that Europe show high interest in this project. From the Russian perspective, it is extremely important that Europe show high interest in this project. In particular, in Germany they are very interested in this project, as well as in some other European countries. First of all, this is because Gazprom is promising to deliver gas on new terms that are more profitable for the Europeans. In other words, the Russian gas company is ready to “decouple” the price of gas from oil prices, and focus on the spot market price.

It is no coincidence that German Chancellor Angela Merkel has already said that the construction of the North Stream-2 meets the interests of Germany. In fact, after the implementation of the NS-2, Germany would become a European gas hub. It is through its territory that the main source of energy will be distributed among the other members of the EU. Perhaps it is with this in mind, that the Minister of Economy and Energy of the Federal Republic of Germany, Sigmar Gabriel, said that the construction of the North Stream-2 pipeline does not fall under the EU’s internal rules – the so-called “Third Energy Package.” Gabriel even expressed confidence that the legal service of the European Commission shares this position.

However, in addition to compliance with EU legislation, Germany has identified two conditions under which it is ready to support the project – Russia must not threaten the transit through Ukraine and not restrict deliveries to Eastern Europe. The main obstacle to the implementation of the NS-2 is the position of the Eastern European countries, led by Poland and Slovakia. For now, Warsaw is putting politics over economics.

“Poland is against the construction of the North Stream-2 project for one simple reason – we believe that it is not economically justified. Basically, this is more of a political project, which, we believe, also harms the EU,” according to Polish President Andrzej Duda. Slovakia, along with Poland, has remained one of the most ardent opponents of the project until recently.

However, in contrast to the politically motivated Warsaw, Bratislava is pursuing purely commercial objectives. Termination of Russian gas transit through Ukraine, from which Slovakia receives fuel for its own use and for transshipment to Europe, threatens significant financial losses for the country – more than 800 million euros ($880 million) annually. This is a huge sum for a small country. In addition, Slovakia now enjoys the opportunity to resell Russian gas, by supplying it to Ukraine through reverse flow, thus obtaining additional income.

However, in the past two months, Russia has undertaken extensive efforts to promote this project especially in Slovakia – with the Foreign Ministry and Ministry of Economic Development joining this process. Changing the position of this country on this issue is very important, as the representative of Slovakia, Maroš Šefčovič, is vice president of the European Commission on Energy Issues. In addition, from July to December 2016, Slovakia holds the Presidency of the EU Council of Ministers. It is during this period that the European Union will have to decide the future of the NS-2.

“All shareholders of the NS-2 project have great interest in its implementation. And these are not just slogans, but real material interests,” Mikhail Krutikhin, managing partner of RusEnergy, a Moscow-based analysis and consultant agency, told Russia Direct. “Nevertheless, the arguments of those who oppose the project, for example – the European Commission officials, Polish politicians, the Baltic countries – are political and very emotional. They are sticking to two positions,” says Krutikhin.

“First, they claim that this is a project with the very bad Gazprom, which has a negative reputation – so let us not be friends with it, it is an unreliable supplier. Second, let us not offend Ukraine and deprive it of transit revenues. These are not material interests. That is why I say, in addition to emotions, there is nothing there.”

If we look at the NS-2 situation from a wider European context, it must be admitted that, in spite of the resistance of Brussels, Gazprom is willing to go the extra mile (literally) by increasing the supply of fuel to Europe. In 2015, Germany set a record in terms of Russian gas imports – 43.5 billion cubic meters, an increase of 6 billion over 2014.

Moreover, since the beginning of 2016, Gazprom’s deliveries to Germany increased by 44 percent, to Italy by 43 percent, to France by 73 percent, and to Austria – by more than 50 percent. In short, the trend is in favor of Russian gas, despite the decline in consumption of the “blue fuel” in the EU and an increase in the share of alternative energy sources within Europe. In addition, if this issue is approached objectively, in the Old World there are no visible serious alternatives to Russian gas.

Yes, the U.S. began deliveries of liquefied natural gas (LNG) to Europe, but in spite of the low prices for natural gas in the Americas, it is not a fact that the U.S. will be able to compete with decreasing prices being charged by Gazprom. This is because LNG still needs to be delivered from the U.S. to the European continent, and this dramatically increases its cost.

Norway also cannot significantly increase the supply of gas to the EU, a fact that has been repeatedly stated by the representatives of Statoil, the largest oil and gas company in the country. Qatar has no intentions of selling LNG to Europe at dumping prices, as it did after 2008.

In addition, there are expectations that the EU will reduce its own production of the “blue fuel.” The reason for this is the drop in gas production in the Netherlands, Europe’s largest deposit in Groningen. As of the end of last year, the Netherlands even became a net importer of gas.

Against this background, the supply of Russian gas to the European market will increase. It is important to note that this forecast is not being given by Russian experts, whose opinions can be considered as biased, but by European analysts. In particular, the National Grid, a UK-based company, whose analysts believe that Russia could increase the supply of gas to Europe by 47 billion cubic meters by 2035, compared with the previous year’s level. The highest supply growth is expected to occur in the UK – an increase of 38 percent.

Alexey Miller, during the last shareholders’ meeting of the company, confirmed the interest in gas supplies to that country, and said that Gazprom will now engage in direct dialogue with the United Kingdom, without intermediaries. Even more so now, after Brexit, there are no obstacles to such a dialogue.

In addition to this, Gazprom plans to build an LNG plant in Ust-Luga, together with the company Anglo-Dutch Shell, which is scheduled to become operational in late 2021 or early 2022. In addition to Shell, other foreign participants may join this project, said Miller. This plant will serve as an insurance policy for the North Stream-2, while supplies of Russian LNG to the European and world markets will be more competitive, compared with those coming from the United States, according to the head of Gazprom. Executives at Shell and from other energy companies in Europe agree with him.

In short, after several years of “defeats” on the European gas market, mainly related to geopolitical reasons, Gazprom is preparing for a large-scale counter-offensive – in a purely commercial sense. And the NS-2 project is the main “weapon” in this attack.

The elusive connection between Spain and France

Natural Gas Europe, *25.07.2016*

The Iberian peninsula, which has been part of the EU for more than 30 years, is urgently calling for the MidCat gas connection with France, and the rest of Europe.

Its citizens and industries would like to be part of Europe from the energy stand-point, so that they can live and compete on equal terms with their European peers. Unfortunately, France's reticence on the subject augurs a long wait. The Pyrenees, were not a barrier to the railway system, even if Spain had decided to use a different gauge than the rest of Europe, for the unjustified fear that France would steal their hardware.

Cars and trucks also go freely accross the many highways that today crisscross the range between the Atlantic Ocean and the Mediterranean Sea. The boundary literally disappears. But when it comes to energy, things are altogether different.

In France, La Commission de Regulation de l'Energie (CRE) has recently declared that the projected gas connection between France and Spain called MidCat, approved in 2015 by the presidents of France, Portugal, Spain and the EU, is actually not necessary. The CRE says that the costs are too high, and adds that Spain already has a number of regasification plants that are functioning at less than 25% of their nominal capacity and can feed all the required LNG to Spain and Portugal.

The CRE justifies its decision as a saving for the French taxpayer. Something is really amiss here. It states that the cost of the pipeline would be around €3bn; but Enagas, the Spanish system operator, has reported that the capex for the 222 km to the French border, and on to Carcassone, would be a total of €471mn.

The CRE defends their huge estimate by adding all sorts of pipelines north to south to debottleneck their system and to establish one market in France. These line improvements should have obviously been carried out much earlier, and their omission has unfortunately cost the French consumers in the south very dearly for years in the form of higher prices.

The Iberian peninsula is consequently struggling to convince the French authorities that new MidCat capacity of 7.5bn m^3, together with the existing 7.3bn m^3 from the Basque country and Navarre connections, would facilitate the integration of the Iberian gas market to the rest of Europe in "low to normal" demand scenarios. At the same time, it would make the Iberian LNG terminals available to France and EU during possible disruptions from Russia or Norway when the existing European LNG terminals would have insufficient capacity.

In fact, France would benefit both ways by charging (near) exorbitant fees to the southbound gas, and by being able to continue feeding gas from the Spanish LNG terminals to its citizens and industries if a major disruption does occur.

The shortsighted report also proclaimed that there were more compelling reasons to invest in improving cross-border Germany to France pipeline capacity over the next six years when, at present, this capacity already amounts to 20bn m³/yr.

The main gas transmission system operator in France, GRTgaz, is now engaged in a major program to upgrade north-to-south flow capacity into France and has recently substantially increased capacity from Belgium to 29bn m³. The integration of the Iberian market would contribute to European market liquidity that would be achieved by an effective interconnection. Today, even Switzerland enjoys better connections with France than Spain does.

All of this forces the peninsula to have a gas supply mix with 50% LNG. This is a situation that makes Spain and Portugal uncompetitive, especially during periods of low gas prices, as LNG, with its liquefaction, transport and regasification elements, has an obvious added cost that under normal circumstances, the other central European countries generally do not have.

None of this appears to matter to the CRE, nor the rights of almost 60mn people and its industries living and working in Portugal and Spain. They need to be connected to Europe if their industries are to compete on a level playing field.

France and its CRE should look beyond its strict and somewhat misguided needs, take responsibility and facilitate the connection of its gas transmission system to the southern neighbours. As the EU Climate Action and Energy Commissioner Miguel Arias Canete has asserted, Iberia cannot continue to exist as an energy island.

US shale gas shaking up global markets as LNG supply surges

Bloomberg, *28.07.2016*

Shale drillers from Pennsylvania to Texas flooded the U.S. with so much natural gas over the past decade that prices slid to a 17-year low. Now they're going global, with the potential to upset markets from London to Tokyo.

The U.S. began shale gas exports by sea this year and is projected by the International Energy Agency to become the world's third-largest liquefied natural gas supplier in five years. Gas will challenge coal at European power plants and become affordable in emerging markets, where prices have been high and supplies limited, according to the IEA and Goldman Sachs Group Inc.

LNG became the world’s second most traded commodity after oil last year and demand will keep growing, Goldman said. U.S. gas is adding to the global glut triggered by new Australian supply and weakening Asian consumption. Shale is having an outsized impact on how LNG is sold, prompting spot trading in lieu of long-term contracts.

“The U.S. clearly changed the picture,” Costanza Jacazio, a senior gas analyst with the Paris-based IEA, said in a phone interview. “It’s going basically from zero to the third-largest LNG capacity holder in the space of five years and it brings a new flexible dimension to the LNG market.”

With supplies growing, some Asian nations like Japan are contracted to buy more than they can consume, leaving surpluses to be sold. That’s lured major traders into the LNG market in recent years, including Vitol Group, Trafigura Group, Koch Industries Inc., Gunvor Group Ltd. and Noble Group, the IEA said. The annual capacity of liquefaction plants, where gas is chilled and compressed for shipping, grew to 415 billion cubic meters in 2015 and will expand to 595 billion by 2021, according to the energy agency.

Cheniere Energy Inc. has sent 19 tankers of the liquefied gas abroad from its Sabine Pass terminal in Louisiana. By 2020, five terminals will be operating on the U.S. Gulf Coast and in Maryland. Global export capacity will surge 45 percent and the U.S.’s share will jump to 14 percent from nothing, according to Energy Aspects Ltd.

While U.S. supply is still relatively small, it’s having an impact because the American contracts are flexible. Australian and other foreign processors conclude long-term agreements to send gas to specific countries such as Japan and China. Asian buyers have contracted for more than half of the U.S. supply, but they have the freedom to ship the fuel to anywhere in the world, encouraging spot trading.

The change will weigh on already low global LNG prices. The WGI Northeast Asia spot LNG price has averaged just $5 per million British thermal units this year, a premium of $2.83 over benchmark U.S. prices. Two years ago, the gap was about $10. The premium for U.K. futures to the U.S. narrowed by almost half to $2.16.

The widening of the Panama Canal is going to have an impact as well. It’s now able to handle most of the world’s LNG tankers and will reduce time and costs for U.S. cargoes to destinations such as Chile and Japan.

This week, Maran Gas Apollonia became the first LNG tanker to pass through the newly enlarged Panama Canal after picking up a cargo at Cheniere’s terminal in Louisiana. It’s carrying the shale gas to the Far East, according to an official at Maran Gas Maritime Inc. By 2021, the U.S. may dispatch as many as 550 tankers a year through the waterway, the U.S. Energy Information Administration forecasts. Most of Cheniere’s cargoes so far have gone to South America buyers in Brazil, Argentina and Chile. Costs to ship to Chile will plunge with the canal expansion, the EIA said.

Shale gas created intense competition between coal and gas in the U.S., and now U.S. LNG may fuel European gas plants that are operating at about 20 percent of capacity on average, Christian Lelong, a New York-based analyst with Goldman, said in a phone interview.

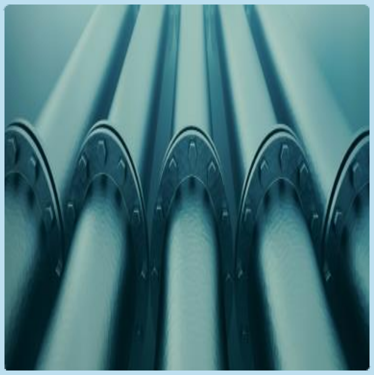
Last year, LNG trade reached about $120 billion, making it the second-largest commodity traded globally, surpassing iron ore, he said. Egypt, Jordan, Pakistan and Poland all became LNG importers last year for the first time. Indonesia's Arun terminal, which started producing LNG in 1977, has been converted for imports, according to the IEA.

In emerging markets, smaller and cheaper floating import vessels have become popular. They cost $200 million to $300 million compared with $1 billion or more for larger onshore plants. Egypt got its first two floating units last year and has been operating them at maximum capacity, said Jason Feer, head of business intelligence with ship brokerage Poten & Partners in Houston. There are 19 operating worldwide, with plans for as many as 15 more, he said.

"There are markets like Bangladesh and Pakistan where traditionally they would have gone with coal but now gas can be the cheaper option once you include the cost of new infrastructure," Lelong of Goldman said. "You are seeing these energy poor countries often with poor credit ratings turning to LNG."

India, US discover major natural gas reserve in Indian Ocean

Bloomberg, *25.07.2016*



A joint expedition by India and the U.S. discovered a major deposit of natural gas in the Indian Ocean, offering the potential to significantly expand energy production in a region that's currently a big importer.

India's Ministry of Petroleum and Natural Gas and the U.S. Geological Survey struck a large, highly enriched deposit of natural gas hydrate -- an icy form of the fuel -- in the Bay of Bengal off the country's east coast, potentially the first producible reserve of its kind in the waters, the U.S. agency said. The finding may add to the world's expanding supply of gas.

The amount of the fuel contained in the planet's gas hydrate accumulations is estimated to "greatly exceed the volume of all known conventional gas resources," the agency said. The discovery also comes as countries like India and China seek to slash their dependence on higher polluting energy sources like coal, which releases twice the heat-trapping emissions as natural gas when burned.

"Advances like the Bay of Bengal discovery will help unlock the global energy resource potential of gas hydrates as well help define the technology needed to safely produce them," Walter Guidroz, energy resources program coordinator for the U.S. Geological Survey, said in the statement. The discovery follows an exploration of the region from March to July of last year.

While earlier finds of hydrate accumulations were unlikely to be producible, formations in sand reservoirs like the one announced Monday are the most easily tapped with existing technologies. The next step is to determine whether production from the Bay of Bengal site is economic. “The results from this expedition mark a critical step forward to understanding the energy resource potential of gas hydrates,” Tim Collett, a senior scientist with the U.S. agency, said in the statement.

US oil prices hit 3-month lows on growing oversupply concerns

WSJ, *26.07.2016*

U.S. oil prices sank to a fresh three-month low Tuesday as a glut of gasoline keeps weighing on the market. U.S. oil for September delivery settled down 21 cents, or 0.5%, at $42.92 a barrel on the New York Mercantile Exchange.

Six losing sessions out of the past seven have sunk it to its lowest settlement since April 25. Brent, the global benchmark, gained 15 cents, or 0.3%, to $44.87 a barrel on ICE Futures Europe, snapping a three-session losing streak. Oversupply concerns have sent oil into retreat throughout July, reversing a five-month rally that had sent oil above $50 a barrel.

U.S. refiners have overwhelmed even record demand, and saturated international markets have supplies backing up in the U.S., too, analysts said. Despite those fears, U.S. drillers are showing signs they’re ready to ramp up production again. They added 15 active rigs to oil fields last week, the fourth consecutive week of increases. That is a major turning point, said Bjarne Schieldrop, commodities analyst from Sweden’s SEB bank. “The revival in rig count mirrors what happened to the oil price rally in 2015,” which ended in late June and cut oil prices by half during the eight-month collapse that followed, Mr. Schieldrop said. “We had expected to see some delayed reaction in the return of shale oil due to elevated debt levels, but the data is telling a different story.”

Government data last week indicated that shale-oil production was essentially flat, and many expect the growing rig count is a precursor to production growth. Germany’s Commerzbank shared those concerns and cited data from Genscape indicating the U.S. could see stocks rise by 1 million barrels this week.

Analysts, brokers and traders surveyed by The Wall Street Journal expect crude stocks to fall by 1.6 million barrels. But they do forecast that the total levels of gasoline and other refined fuels rose by a combined 500,000 barrels. That fits a pattern in which total petroleum stocks keep growing despite the slight declines in crude, confounding analysts that had predicted those total stocks would start falling, according to analysts at Citigroup Inc. Eventually that growing supply of products will back up and slow crude consumption, causing rising crude stocks, too, according to bearish analysts and traders.

“The theme of a product glut continues to send shivers through the crude complex,” said Matt Smith, director of commodity research at ClipperData. “After producing too much gasoline in recent months, refineries look set to dial back.”

Industry body the American Petroleum Institute released its inventory forecast Tuesday afternoon, which showed a 827,000-barrel decrease in crude supplies, a 423,000-barrel decline in gasoline stocks and a 292,000-barrel increase in distillate inventories, according to market participants.

Official data from the Energy Information Administration is due to follow Wednesday. A significant rise in U.S. oil inventory levels could add to the pressure to sell, which has already brought oil prices down by more than 14% in less than two months.

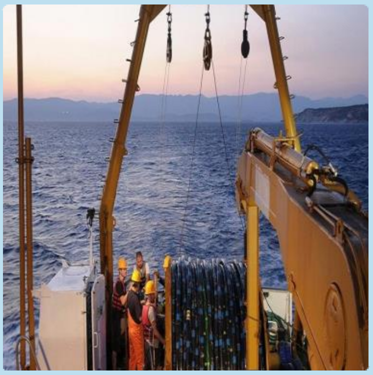
That selloff gained more steam this week from prices falling below the 100-day moving average, analysts said. It settled Monday afternoon below the 100-day moving average of $44.16 a barrel for the first time since April 4. That is key for technical traders that move on price momentum and are apt to interpret it as a sign prices will keep falling.

That is especially important now because of how central oil has been to financial markets for the past two years, said John Saucer, vice president of research and analysis at Mobius Risk Group in Houston. Many speculative traders--especially commodity traders who specialize in momentum-based trading--have flooded into the market to take advantage of severe, often lengthy moves down and up that have become common in oil. So when oil hits a key level for them, their large presence can lead to an outsize response in prices, Mr. Saucer said.

Falling below the 100-day moving average “is a pretty compelling signal,” he said. “Even if you don’t think the market is going a lot lower from here, it certainly raises the expectation that crude could fall toward 40 bucks.” Gasoline futures settled up 1.16 cents, or 0.9%, at $1.3452 a gallon, but it is still 19% off its high of the year set in May. Diesel futures gained 0.32 cent, or 0.2%, to $1.326 a gallon, snapping a three-session losing streak.

PwC: M&A activity in U.S. oil industry pick up in second-quarter

Reuters, *28.07.2016*



Dealmaking in the U.S. energy industry improved in the second quarter and activity is expected to accelerate in the second half of the year, consultant PwC said. Stabilizing crude oil prices and optimism that a recovery is within sight has narrowed the bid-ask spread among oil producers, which led to the higher deals being struck, PwC said.

While the number of deals in the sector rose to 51 in the second quarter, the overall value of the deals fell to $26.1 billion, PwC said. A majority of the deals were among oil and gas producers, and represented an 84 percent rise from the first quarter.

The Permian basin in Texas and the Marcellus basin, which straddles Pennsylvania and West Virginia witnessed the most activity among shale plays. The deals in the quarter included QEP Resources Inc making a move in June to buy acreage in the Permian Basin in Texas and Marathon Oil Corp’s plan to buy assets in Oklahoma. Devon Energy Corp and Pioneer Natural Resources Co were among the other companies that struck similar deals.

Heavily leveraged oil producers have been divesting assets to pay down debt, while bigger companies are selling non-core assets to fund investment. However, M&A activity among pipeline companies continued to fall, with eight deals being struck in the latest quarter, down from 11 in the prior quarter, PwC said. One major deal that fell through was Energy Transfer Equity walking away from a planned takeover of Williams Cos Inc after numerous lawsuits and heated arguments since the two reached a deal last September.

US crude inventories rise for first time in 10 weeks

AA Energy Terminal, *27.07.2016*

Crude oil inventories increased for the first time in 10 weeks, the U.S. Energy Information Administration (EIA) said. Bucking the trend of the last nine weeks, and forecasts, commercial crude oil stocks rose 1.7 million barrels, or 0.3 percent, to reach 521.1 million barrels for the week ending July 22, EIA data showed.

"This was in sharp contrast to analysts' expectations of a 2.3m barrel draw," said London-based research consultancy's U.S. Weekly Petroleum Status Report. "Increases in domestic production and net imports helped the U.S. crude stocks build last week," noted Simon MacAdam.

Domestic crude production rose modestly by 21,000 barrels per day (bpd) to 8.51 million, but oil imports jumped 303,000 bpd to reach 8.44 million, according to the EIA. Meanwhile, weekly gasoline inventories also increased 0.5 million barrels, or 0.2 percent, to 241.5 million barrels for the week ending July 22.

"With gasoline and distillate stocks so high, we are likely to see weaker demand for crude oil in the second half of the year, which should help keep a lid on prices," MacAdam said. "Today's report was a bearish surprise for the market." With the weekly increase in crude and gasoline inventories, fears about the glut of supply in global markets have revived, pushing oil prices down more than 2 percent. American benchmark West Texas Intermediate fell 2.7 percent to as low as $41.74 from previous close, while international benchmark Brent crude dipped as low as $43.84, or 3.1 percent.

Announcements & Reports

► Gas Market Reform – Death of Oil Indexation and Resulting Impact on Asian and Global LNG Prices

Source : Global LNG Hub
Weblink : http://www.globallnghub.com/reports-presentations/gas-market-reform-death-of-oil-indexation-and-resulting-impact-on-asian-and-global-lng-prices.html

► Guidelines for Good Governance in Emerging Oil and Gas Producers 2016

Source : Chatham House
Weblink : https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-07-13-guidelines-good-governance-2016-marcel.pdf

► Natural Gas Weekly Update

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

► This Week in Petroleum

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

Upcoming Events

► 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