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Turkey's total gas imports fall by 3% in July

AA Energy Terminal, *23.09.2016*

Turkey's total natural gas imports decreased by 3.17 percent in July compared to July 2015, according to Turkish energy watchdog data.

Turkey's total natural gas imports fell from 3.25 billion cubic meter (bcm) in July 2015 to 3.20 bcm in July 2016, Turkish Energy Market Regulatory Authority, EMRA announced in its Natural Gas Market Report for July 2016. The country imported 2.74 bcm of natural gas via pipelines and 479 mcm through LNG facilities, EMRA's data shows. Turkey's natural gas imports from Russia decreased by 10 percent to 1.61 bcm in July 2016 compared to 1.79 bcm in July 2015.

Turkish natural gas production fell from 30 million cubic meters (mcm) in July 2015 to 27.95 mcm in July 2016, the majority of which came from the north-western Tekirdag province. The highest natural gas consumption was seen in Istanbul, Turkey's most populated city with 358 mcm in July. Izmir the third most populated city and Sakarya followed in second and third place with 338 mcm and 270 mcm respectively.

In July 2016, electricity production facilities consumed 1.39 bcm of natural gas, 53 percent more than the previous July. Organized industrial zones became the second biggest consuming sector with 220 bcm. Turkey supplies 39.61 percent of its electricity demand through natural gas combined cycle power plants, according to EMRA's 2015 data.

Energy minister: Turkey should focus on its strategic region

AA Energy Terminal, *22.09.2016*

Turkey should diversify its energy sources by focusing on its strategic region, Minister of Energy and Natural Resources Berat Albayrak said. "We are one of the highest amount of gas consuming countries in the world with more than 50 billion cubic meters a year," he said.

"More than 50 percent of it relies on a specific country," he said. "So, we should create some alternatives, like additional pipelines." While around 95 percent of Turkey's domestic oil and natural gas consumption is based on foreign energy imports, over 55 percent out of the country's total gas imports came from Russia with 26.7 bcm last year.

Albayrak pointed to Turkey's strategic position in the region and its neighbors that have rich oil and gas reserves. "More than 60 percent of global oil and gas reserves are in the region around Turkey, like from Russia and Azerbaijan to Saudi Arabia, Iran and Qatar," he said. Although Turkey does not have much oil and gas resources on its own, the minister said: "We are in the middle of the reserves and the market."

Europe, which is one of the main markets in the world for oil and gas, also imports most of its hydrocarbon resources from abroad. Albayrak believes Turkey could be a bridge between the European energy market and energy supplies in the Middle East.

"We are the only reliable and trustable partner for decades, especially for Europe. Even we are struggling through tough times in our relationships, we have to get over with them. We have to be rational and pragmatic. We should create such a portfolio that everybody should win," he explained.

Russia's Gazprom expects agreement on Turkish Stream pipeline in October

Reuters, *15.09.2016*

Russia's Gazprom expects Russia and Turkey to sign an agreement next month that will allow construction of the offshore section of the Turkish Stream gas pipeline to start in late 2017, Deputy CEO Alexander Medvedev said.

"We expect that, not later than the World Energy Forum in Istanbul at the start of October, these documents will be ready and ... Russia and Turkey can sign the intergovernmental agreement on Turkish Stream," Deputy CEO Alexander Medvedev told the Reuters Russia Investment Summit.

"If the intergovernmental agreement is signed in October it would allow us to start construction at the end of 2017, with an aim to complete it by 2019 - as scheduled." Talks on the project were halted last year after Turkey shot down a Russian air force jet and Russia retaliated with trade sanctions. But since then, Moscow and Ankara have made significant progress towards restoring relations.

Gazprom said this week it had been informed via diplomatic channels that Turkey had given approval for the building of the offshore part of the pipeline - a move that, according to Medvedev, shows that "Turkey is committed to the project".

The project envisages two links, with the first line, with a capacity of 15.75 billion cubic meters, designed for supplying the Turkish market, and the second line intended to pump gas onwards to Europe. Earlier this week Gazprom head Alexei Miller met EDF's Electricite CEO Jean-Bernard Levy for talks about Turkish Stream.

Medvedev said Gazprom is now discussing with a range of European Union energy firms ways of delivering gas from the Turkish-EU border to European countries. "Miller's meeting aimed at defining the approach of our French and Italian friends to this project", Medvedev said, adding that Gazprom is not intending "at this point" for European firms to take part in building Turkish Stream.

Italy is considered as one of the main potential purchasers of gas delivered to Europe via Turkish Stream. He said there was no direct link between a gas price discount for Turkey's gas importer Botas and the pipeline project. "In theory, joint implementation of projects can have a bearing on how the partners consider how they deal with export and import operations. But there could be no quid pro quo."

Gazprom previously discussed a package deal with the Turkish side, including a discounted price for Botas that was coupled to the Turkish stream project, but "time has passed, we are in a different (market) situation", the executive said.

Medvedev also said Gazprom and its Western partners in the Nord Stream 2 Baltic subsea pipeline project are still examining alternative ways to fund it after Poland's competition authority objected to the creation of the consortium which was to finance, build and operate the new pipeline.

"We will find ways to both finance the project and to attract partners who are interested in it, with no violations of EU rules", he said. Medvedev said no delay to the project is expected despite the Polish decision, which blocked Gazprom's planned joint venture with Uniper, Wintershall, Shell, OMV and Engie on the grounds that the concentration of partners could lead to a restriction of competition in the Polish gas market. "All the tenders are on track. The construction is due to start late 2017".

On gas sales, Medvedev said the aim now was for the company to be selling as much as 10 percent of its export volumes through auctions, "within five years rather than in three years", having previously said it aimed to reach the 10 percent level in three to five years.

Gazprom sold about 2 billion cubic meters of gas for delivery to Europe at its third auction earlier this month and Medvedev said the firm had achieved a price higher than hub-indexed prices or "our portfolio's average price".

The next gas auction is set to be held as early as spring of 2017. The firm plans for 2017 export volumes to total as much as 165 billion cubic meters, he said. Medvedev also said that hub-indexed and hybrid contracts, which combine both spot and oil-linked prices, account for 40 percent of Gazprom's export supplies portfolio.

How high can Iran climb in the oil and gas game?

Oilprice, *20.09.2016*

OilPrice: Robin, in the first part of our interview you said that Iran wants to increase petroleum production significantly in the next 3-5 years. But for now, they're near maximum production at 3.6 mmbpd.

Looking a little more closely at Iran, and the role of the oil majors, I assume you're expecting some major investments from them in the next year. Robin Mills: I'm expecting some contracts to be concluded in the next year, although that may not quickly lead to large scale investments. It will take time for various reasons. It will take time to negotiate these contracts.

It will take time for large companies to actually start work. And it will certainly take time to start seeing impacts in terms of significant increases in production. But it's not unreasonable to expect to see some significant contracts signed in the next year.

OP: What's going on now on the ground in Iran? Is it primarily the National Iranian Oil Company (NIOC) leading exploration and production? There are no foreign oil companies there right now, is that correct?

RM: Pretty much. The Chinese are doing a bit of work on field development, but other than that it's NIOC developing the fields on its own account.

OP: The Iranians have been talking about awarding new contracts, and creating new contracts that are different or more sophisticated than the buy-back contracts that were offered to foreign companies in the past. Do you have a sense of where they might be going on that, in terms of seeking something more in the way of joint ventures or production sharing agreements that are more flexible than the buy-back contracts they used before?

RM: They have the new contract approved by the Ministers, it's the basis on which they're going to work. There's still some drafting and legal work to do on it, but the framework is there and being shared with companies.

OP: Will the Iranians enter into joint ventures?

RM: Well the form of the contract, it's effectively a service contract, is different from the buy-backs in various ways. Mainly it's got a longer term involvement of the IOCs in the field development over a 20-year period, and greater flexibility in the plans. It's not executing a fixed development plan but it's with annual agreements and annual budgets on the work that's going to be done. That's the most important feature. There's a difference in how the payments are calculated and so on, but the long-term involvement is what the companies have always wanted, which this offers them.

OP: Does it begin with a 50-50 split of production for a period of cost recovery for the investing company?

RM: The way it works, yeah 50 percent of the production is available for cost recovery and fees, so as companies recover their costs. Then on top of that they get a fee, which is a negotiated number, or a bid depending on how the process works. A bit like Iraqi contracts, it'll be a bid on a dollar a barrel or a 1,000 cubic feet basis. Somewhat similar to a PSC but a bit different in that companies, for their profit, are not getting a share of oil they're just getting a fixed fee. They can take that in oil if they wish, but it will be calculated on the basis of a fixed fee.

OP: So these contracts may run as long as 20 years?

RM: They're a 20-year term, yes.

OP: And that will be a new experience for the Iranians, entering into a contract of that lengh.

RM: Yeah it will be.

OP: Do you want to speculate about what companies might be most interested in Iran or might be most successful there, any of the big names? RM: It's a pretty long list. I think Total and ENI have had projects there in the past, they're very interested and they've said so publicly.

Shell also may be a bit more cautious but Shell is certainly in there. BP would probably like to be there. Although they negotiated for projects there back in the late 90s and early 2000s they didn't secure anything. The Americans obviously will not be on the list for now, that will take a big change in U.S. policy before American companies can engage. You'll see the Chinese. CNPC and Sinopec both have projects there still running and they'll look to do more. The Russians, Gazprom and Lukoil probably have a good chance of being involved as well.

Those are most of the big names. Then there are some medium-size European companies that will also throw their hat in the ring. A good chance we'll see the Japanese. They're a bit cautious but will probably turn up there as well.

OP: Shifting the discussion to natural gas, Iran has enormous reserves. Will Iran move into second place after Russia and become the world's second largest natural gas supplier?

RM: They are the world's biggest or second biggest reserves holder. They are currently the third biggest producer behind Russia and the U.S. I don't think they're going to overtake Russia and the U.S., they're quite a long way behind. But they will increase production, having already increased it significantly in the past two years. The big question is whether or not they will become a major exporter, because most of their gas is used domestically. They don't export much currently.

They have a lot of plans. They want to export to Iraq, which is supposed to start shortly. They want to export to Oman and Pakistan, I think both of those are reasonable goals for the next 3-4 years. Beyond that is a bit more doubtful. They want to get their LNG industry going, but of course the LNG market is very saturated now. They want more pipeline exports, maybe to Turkey and Europe, maybe to other neighbors. There's a lot of talk and plans but we'll have to see if any of these get carried through.

OP: Any big pipeline projects in the near future? There have been reports of a pipeline through Pakistan to India. Is that a serious proposal?

RM: The pipeline to Pakistan is actually built on the Iranian side and goes up to the border. The Pakistanis need the financing to complete their section of it. That's quite realistic. But the pipeline that was meant to go through Pakistan to India, they couldn't agree in the end and, you know, India doesn't want to be dependent on a pipeline running through Pakistan. So I think that looks kind of difficult. There are Indian companies negotiating now for direct routes, undersea routes. That's a longer term project probably.

Oman is the other one. Oman is pretty close, and Oman has made quite good progress apparently, so far as we can see, so that project is quite a realistic one over the next 3-4 years.

OP: That's an undersea pipeline?

RM: The one to Oman is undersea but it's not very far. The one to India would be undersea as well but it has to avoid Pakistan, and so it's quite a long way and probably quite deep water.

OP: Would there be Chinese capital involved in financing these pipelines, or who would finance these?

RM: The Chinese have offered to finance the Pakistan one. I think the Russians are offering to as well, but the Chinese have got more money. So, yeah, certainly the Pakistan one. About the others I’m not sure.

OP: Is that part of the Chinese ‘Silk Road’ concept?

RM: Yeah, and Pakistan is a key part of that concept, so anything involving Pakistan pipelines and things is a Chinese strategy.

OP: Looking in the other direction, supplying Europe, what is the likelihood of the Iranians moving in that direction? Could they bring gas into Ceyhan and move it into the European market in the next few years?

RM: Well, possibly, and they do export to Turkey currently. I think there’s not a lot of clarity about what Turkey’s going to do because Turkey’s got other options. They’re also getting new gas from Azerbaijan some of which will go to Europe. For the Iranians there’s no other way to get to Europe realistically, they have to go through Turkey, so it will really depend on what Turkey’s strategy is, I think.

OP: Seems like Azerbaijan holds the position of supplier through Turkey to Europe. Would the Europeans welcome Iranian gas if it were to become available?

RM: Well you know Europe’s had a long-standing policy of diversifying its gas supplies and trying to reduce dependence on Russia. Maybe that would seem less urgent because European gas demand has been falling, but domestic supply is falling too so it’s still an objective. So yes, I think they would like to see Iranian gas and any other gas coming into the system. South Stream and North Stream (from Russia) have run into political problems and opposition from Europe, so yes I think they would welcome getting Iranian gas. Azerbaijani gas is something but it’s not that much, it’s not a major factor in the European gas balance. Azerbaijan has got some reserves but nothing like the reserves that Iran has.

OP: If the Iranians were to exploit their reserves more, if they were able to figure it out economically, could they displace the Azerbaijanis in the supply through Turkey?

RM: I guess theoretically, but you know the Azerbaijan pipeline is well ahead so it’s going to get built, it already is being built so once it’s built it’s likely going to get used. So probably not. It’ll be more about squeezing out LNG because LNG of course can go anywhere. And squeezing out the Russians, and then the Russians would have to decide how aggressive they would be, you know, how much they would choose to compete on price to defend their market.

OP: Right now this discussion is theoretical because the Iranians simply don’t have the production capacity, and it’s going to take quite a long time for them to build that up. Would you agree with that?

RM: Yeah, and the Iranians have a lot of other things to do with their gas domestically. So yes, there will certainly be projects like Pakistan and Oman, they’re just easier, shorter term.

So once they've done that and met their domestic gas needs as well, then they can take a look and see if they have more gas available, and whether that's going to go to Europe or somewhere else.

OP: So we shouldn't expect them to be a player in Europe for a while.

RM: Yeah it's definitely longer term.

OP: Looking at the big picture, would you say that Iran is one of the winners in the 'petroleum crisis?' With the Russians struggling, Venezuela struggling, Nigeria struggling, has the crisis opened opportunities for Iran perhaps, having relative political stability?

RM: Well, they've benefitted because their production has been on the up, while others have been on the down or at least not much on the up. So prices might halve but their exports double, so Iran is maybe not much worse off than it was 3 or 4 years ago, whereas everybody else is dramatically worse off. Now of course Iran suffered a lot in the intervening period but at least it's relatively on the up. And its economy is more diversified than Venezuela or Nigeria. I mean oil is very important but not as important as in those other countries. And I should say, obviously, political stability has been much better than Nigeria or Libya or Venezuela.

OP: Geopolitically, people are talking about some kind of alliance of Iran with Russia, and perhaps even Turkey entering into that. There could be a new alliance of cooperation between the three countries. Do you have any thoughts on that? Could it be something long lasting and something to change the landscape of the region?

RM: It's interesting. I think there's still a lot of difference between those countries. You know, the Russian-Turkey relation has been so volatile for the past two years, so I think it could be volatile again, other things could go wrong. And historically Iran has always been a rival of Turkey, and kind of a rival or has been wary of Russia as a big neighbor. So I think that their interests align on certain issues where they can do work together, but I think a systematic alliance is difficult just because there are so many deep differences of interest between them. You know, obviously Russia doesn't really want Iran competing within the European market or other regional markets for gas and oil.

OP: Now really speculating, say 10 years out in 2026, where will Iran be, assuming no major wars or political instability, Iraq holds together and the Saudis remain stable? Will Iran be the second largest oil supplier and second or third largest gas supplier in the world?

RM: It depends on what happens with Iraq, but I would suspect that Iran would still be behind Russia, the U.S., Saudi Arabia, and probably behind Iraq on oil. So it'll be the fifth biggest assuming nobody else comes up unexpectedly. And on gas, probably still the third biggest, I don't see it really overtaking the U.S. and Russia, just because it'll need markets. Its own domestic market could grow quite a bit but it's always had problems accessing export markets and they're not easy to get to, as we discussed.

They can get to Pakistan but it's hard to get to India. It's hard to get to Europe because they need Turkey. And the LNG market is not great at the moment and won't be for years. So obviously it's difficult for Iran to get to markets, while Russia has all of its pipelines to Europe and now to China which are in place and being used.

So they’re just much more established. But I think that Iran would be the third biggest gas producer based on its reserves. You can’t really think who else would overtake them unless China had a real surge of shale gas, but I don’t think there’s anybody else to overtake Iran in third place.

OP: So even in ten years Iran would still be producing natural gas primarily for its domestic market?

RM: Yes. It will be a bigger exporter but, despite its reserves, there’s still a lot of other constraints on it.

OP: Is the United States a winner in the so-called petroleum crisis? The U.S. benefits from lower prices, but it worries about instability in exporting countries hit hard by it.

RM: Can you rephrase that?

OP: Let me make it more specific, is the low price of oil overall better for the U.S.? Or would a higher price of oil that might bring more political stability to the Middle East and other regions be better for the U.S.?

RM: I think unquestionably a lower price is better for the U.S., because it’s still an oil importer even if its production has gone up a lot, and the wider U.S. economy benefits from cheap energy. It leads to geopolitical fallout obviously. I do think the U.S. has gotten complacent over energy, and over Middle East energy in particular. It’s taken an attitude that it doesn’t need the Middle East anymore and the Middle East doesn’t matter. It’s been much less engaged in Syria for example, than you would think it would have been 20 years ago, when it would have been deeply involved in a major Middle East crisis that threatened fallout for energy supplies.

Obviously there are a lot of ongoing crises in the Middle East and in some other places like Venezuela and Nigeria. If you look at the Middle East, you’ll see it was unstable even in times of high oil prices. In 2011 of course, when there’s the Libyan revolution, when oil was well over $100 a barrel. So you know, a lot of these causes of instability were going to strike sooner or later, and in some cases it’s even high oil prices that encourage instability because it means social change, it means more weapons purchases and other changes in the region that cause the instability. Of course with the falling oil price you get different kinds of instability. I think the challenges in the Middle East go well beyond just higher or lower oil prices. Now maybe you can say Nigeria is a bit different, it was doing quite well when the oil price was high, but again Nigeria has its own deep deep problems, and the U.S. is only going to have a very marginal part in helping to solve them, it’s mostly for Nigeria to solve those issues.

OP: Robin, thanks for your time.

RM: My pleasure.

EBRD ready to support Bulgaria's gas hub plans

Reuters, *20.09.2016*

The European Bank for Reconstruction and Development (EBRD) is ready to support Bulgaria's plans for a regional natural gas hub and will provide financial support if the project proves viable, the bank's president said. Suma Chakrabarti said Bulgaria was well situated geographically for a regional gas hub and offered the bank's expertise to shape the project, which is also supported by the European Commission.

"We would like to very much work with the state on trying to scope out what would work well and what would also attract foreign investors," he told Reuters in an interview.

Bulgaria currently meets its gas needs with imports from Russia, but is building gas links with neighboring Romania, Greece, Serbia and Turkey to diversify its supplies. Sofia plans a feasibility study for a 1.5 billion euro hub at the Black Sea port of Varna that would store and transport gas from Russia and the Caspian Sea to southeastern and central Europe.

"If the feasibility study shows something is viable, then of course we are interested, particularly with our expertise in this area. Then I think we would be very, really solidly interested," Chakrabarti said. In late 2014, Russia cancelled the South Stream gas project that aimed to transport Russian gas under the Black Sea to Bulgaria and then to central Europe. The scrapping of South Stream was a blow to Bulgaria, which relies almost exclusively on Russian gas.

Russia has made no commitments to provide gas for the hub project and the hub's scope would be limited it if failed to attract Russian gas. Moscow has said it would consider the idea only if it has guarantees that project would not meet obstacles linked to EU energy rules. The EBRD has already increased investment in the Balkan country, encouraged by reforms in the financial and power sectors, and expects it to reach a record 530 million euros ($592.22 million) this year, Chakrabarti said.

He said Bulgaria was likely to get about 200 million euros in investment from the bank annually in the future, in response to local demand from the country's economy. Bulgaria's foreign direct investment was 990 million euros in the first seven months of the year, down from 1.15 billion in the same period a year ago and a far cry from 6-7 billion seen before the global financial crisis in 2008-09, central bank data showed. Chakrabarti said Sofia needed to tackle corruption, improve its judiciary and boost its administrative capacity to attract much needed investment. EBRD, set up in 1991 to invest in the former Soviet economies of Eastern Europe, sees economic growth as the main challenge for the region, along with the migrant crisis and tensions between Russia and Ukraine, Chakrabarti said. Additional pressure may come from Britain's decision to leave the European Union.

Oil rebounds as Saudi Arabia said to offer output deal to Iran

Bloomberg, *23.09.2016*

Oil rebounded to head for a weekly gain after Saudi Arabia was said to have offered to reduce production if Iran agreed to freeze its output.

Futures were little changed after earlier declining as much as 1.9 percent in New York. The kingdom would be willing to reduce its output if Iran were to agree to freeze at its current production level of 3.6 million barrels a day, according to two people familiar with the situation who asked not be identified because the talks were private. The talks between the two nations ended without agreement. Now is the right time for a deal, according to Falah Al-Amri, Iraq's governor to OPEC.

Prices are unlikely to climb above $50 a barrel unless the group reduces production, he said. Oil has fluctuated since August's rally on speculation the Organization of Petroleum Exporting Countries and Russia will agree on ways to stabilize the market when they meet Sept. 28.

While Venezuelan President Nicolas Maduro said members are close to a deal, all but two of 23 analysts surveyed by Bloomberg said an agreement to limit production is unlikely. Freezing output was proposed in February, but a meeting in April ended with no final accord.

"There is unlikely to be a voluntary limit to production," said Eugen Weinberg, head of commodities research at Commerzbank AG in Frankfurt. "Such an agreement would be at odds with OPEC's current strategy of defending its market shares."

West Texas Intermediate for November delivery was at $46.41 a barrel, 9 cents higher on the New York Mercantile Exchange at 12:15 p.m. in London. The contract advanced 98 cents to $46.32 on Thursday, the highest close in two weeks. Total volume traded was about 39 percent below the 100-day average. Prices are up 7.8 percent this week.

Brent for November settlement gained 37 cents to $48.02 a barrel on the London-based ICE Futures Europe exchange after rising 1.8 percent to $47.65 on Thursday. Prices are up 4.9 percent this week. The global benchmark was at a $1.60 premium to WTI. Saudi Arabia and Iran met at OPEC headquarters in preparation for informal talks in Algiers, according to two people briefed on the discussions. OPEC Secretary-General Mohammed Barkindo visited Qatar and Iran this month to build consensus before the gathering. Russian President Vladimir Putin said that the producers can overcome their divisions to reach a deal.

Oil-market news:

Market conditions are better than they were in April, Iraq's Al-Amri said at an energy event in Fujairah in the United Arab Emirates. Nigeria's planned output boost gathered pace as the African country issued programs to load two grades of crude that have been blocked for months following militant attacks on pipelines. Canada is sending a record amount of oil to the U.S., filling pipelines to capacity and threatening to push more crude into rail cars.

Russia and Saudi Arabia playing a risky game ahead of OPEC's meeting

Oilprice, *22.09.2016*

Having suffered massive oil revenue shortages and budget deficits since 2014, Russia and Saudi Arabia have now agreed to cooperate on stabilizing the oil market. What this "cooperation" will actually mean remains to be seen.

The result of cooperation may, to some degree, depend on Saudi Arabia's and Russia's assessment of each other's intentions and credence that the other party will stick to an agreement. The signing of a Saudi-Russian memorandum on cooperation to stabilize oil markets induced a wide array of forecasts and speculations about the implications of this agreement and its impact on oil prices.

Some industry officials and experts put a fair share of hopes on it and believe that the agreement will revive oil prices, whereas others have been quite skeptical that any agreement reached between Russia and Saudi Arabia can be kept at all. Many have expressed doubts that a temporary production freeze between OPEC and Russia leads to a sustainable recovery of crude prices, given the glut of oil inventories in the world market and cooling economic growth in certain Asian nations.

Despite the skeptic apprehensions, one thing is very clear: Russia's expansion in Chinese energy markets and its greater role in Syrian conflict reconciliation process; Saudi-Arabia's fear to lose oil market share to Iran and Russia, and its faltering dominance in the Middle Eastern politics; let alone the detrimental blow the oil price slump has struck to the oil-exporting countries' budgets and economies makes it important enough for the two leaders, Russia and Saudi Arabia to come to the table.

Falling oil prices and sanctions imposed by the U.S. and Europe severely impacted Russia's economy in the past few years. According to Federal Treasury, Russia's federal budget deficit amounted to 1.5 trillion rubles ($23.2 billion) in January - July this year, which is up 35.4% year-on-year, TASS reported.

This year the Russian Finance Ministry made three transfers from the Reserve Fund for a cumulative of 1.17 trillion rubles (US$18.05 billion) to cover the Russian budget deficit. According to the Ministry, in August the Reserve Fund was down to $32.22 bln.

Earlier in July, Deputy Finance Minister Sergey Storchak stated that he did not rule out a possibility that Russia's Reserve Fund may be depleted in 2017,adding that "political decisions are made at various levels" and "at the moment this level is higher than mine.", he was quoted as saying.

As for Saudi Arabia, its budget slashed by the plummeting oil prices, reached a record deficit of $98 billion last year. The kingdom's revenues were estimated at $162 billion for 2015, while spending was reported to be $260 billion. The country's GDP fell by 13 percent and its net foreign assets plunged $115 billion, as the government sought to cover a $100 billion budget deficit.

According to Fitch Ratings estimates, the KSA's budget deficit will remain high until at least 2018. The government debt is projected to go up to 14.7 percent of GDP by end-2016, from just 1.6 percent in 2014.

However, despite the crippled budgets and strains on domestic economies, Saudi Arabia and Russia are seeking ways to improve the situation and diversify its assets base and sources of income.

Although battered by low oil revenues, Saudi Arabia still possesses significant assets abroad. In March this year, international bankers estimated Saudi Arabia's net foreign assets at nearly $600 billion, as reported by Reuters.

Both Russia and Saudi Arabia are currently pondering the sale of billions of energy and resource assets. Two of the most prominent examples here the partial privatization of Rosneft and the Aramco IPO.

Even though making plans and gaining access to generating more capital through investment and sale of stakes in some of the biggest revenue cash cows are important steps, they still do not provide a solution on how to maximize oil revenues and not lose a country's share on the world oil market amidst low oil prices. What would be the right strategy to follow: ramp up, curtail, freeze production or simply leave everything the way it is?

Most of the Saudi oil reserves are in large conventional formations that lie close to the surface, and are easy to extract. Saudi Aramco – the Saudi Kingdom owned national oil company, does not have to pay any royalties for exploration, the costs of exploration are low, and all its costs from exploration, processing, transportation and refining are applied over the whole company; there are no separate cost centers in the chain.

For Russia, the situation is quite different. Most of the country's large oil reserves lie under the vast Siberian plains, and the harsh Russian climate and challenging geology make the reserves harder to get to and extraction process is more complex. Russia simply cannot stop wells from pumping oil. If the pumping is stopped, the wells will freeze.

Russia also cannot afford shifting production levels up and down as rapidly and as much as it pleases, the way Saudi Arabia can. In the past Russian fields typically took 30-40 years to reach peak production, although with the technological advancement this industrial cycle has been reduced. For Russia, given the complex and quite rigid taxation applied on the oil industry, lower production levels and higher oil prices would not necessarily mean higher profits for oil companies.

The oil industry taxation system has long been in need of a reform. The Russian Ministry of Energy and Ministry of Finance announced the taxation revision plan in the beginning of this year, but its final approval is still pending.

As the Russian media source Vedomosti reported, this new concept is to eliminate duties and production levies and replace them with a profit-based taxation scheme for energy producers. Under the new rules, the tax on the added income (TAI) will be 50% and will be applied only once a company has had a chance to recover its capital expenditures and start making profit. This is meant to boost production of new oil fields and speed up the cost recovery period for some older ones.

However, it looks like the Ministry of Finance will not compromise on the mineral extraction tax (MET). This tax application has been much argued against by the Russian oil producers and the Russian Energy Ministry before, but their lobbying has not yielded a desirable result so far. According to Vedomosti, the sources from Ministry of Finance told media that “MET will be increased, it is only a matter of time before this news gets announced”.

Forbes also reported a Finance Ministry official saying “in order to make up for the 40 billion ruble shortfall, it will increase the severance tax on oil deposits”. Ultimately, Putin will have to decide whom he is going to support in this tie: the Ministry of Finance insisting on budget austerity, or oil companies and Ministry of Energy pushing for easing MET tax burden, particularly in an application to the old oilfields.

Given these circumstances, it seems as if significant curtailment of oil output over any lengthy period may not be a viable option for Russia. Establishing a stronger presence on the Asian markets and increasing Russian oil and gas deliveries to China and India, thus squeezing the Saudis out of the market, is another essential factor against backing an output cut strategy.

According to the Russian authorities, Russia has already reached a 25-year record of 11 million barrels a day this past August. It appears that a temporary freeze of output, is a more feasible negotiating strategy with the Saudis and other OPEC members.

The Russian Energy Minister Aleksandr Novak after meeting with Saudi officials at Hangzhou G20 Summit specifically emphasized that Russia saw freezing production as the most efficient tool for stabilizing the market, and that a freezing period from three to six or more months at the levels of July, August or September was point of discussion. He also made a point that the UAE expressed a great deal of support for a freeze.

On the Saudi part, the response was quite obscure and appeared devoid of the intention to do anything, as Saudi Oil Minister Al Falih commented: “there was no need now to freeze production now and it is just one of the preferred possibilities” and “that it did not have to happen today, there was time to take that kind of decision”. He also was reported saying that the market was improving day by day.

What other preferred possibilities did the Oil Minister have in mind? How much time was set aside for making a decision? These and other points were not disclosed. This, of course, does not mean that Saudis have not thought about it. They may have a plan in mind but may be too wary to share their intentions publicly at this point.

This could be a sort of the “Prisoner’s Dilemma wait and see game”. Every oil exporter would benefit from a higher price, but everyone would benefit even more from maintaining or even expanding production while someone else cuts to raise the price.

Saudi Arabia is very well aware of it: repeated betrayals by fellow cartel members was primarily the reason why it quit the role of the oil price fixer and tried to squeeze high cost US shale producers out of the market. Saudi Arabia does not seem in a rush to cut a deal with Russia or any other OPEC members for that matter, particularly after having seen Russia’s recent increased oil production output, and its strong advocacy for allowing Iran’s production to get back to pre-sanctions levels.

Russia may be betting on the Saudis to come to the Russians and say something to the effect of “okay, we’ll get serious on production freeze” If they did, Russia could always adjust and ratify the plan to raise taxes accordingly.

As of today though, it appears that the Russian Ministry of Finance does not have much faith in oil revenues growth. Last Wednesday, Russia’s Deputy Finance Minister Maksim Oreshkin announced that Russian Finance Ministry’s budget stress scenario is based on the oil price of $30 per barrel, Tass reported.

How the implementation of The Vision 2030 will play out in reality, and what the actual net worth of Saudi Aramco shall be at the time of IPO in 2017, remains yet to be seen. Can Russia ramp up oil production to 12 million barrels a day, and thus lower the potential market value of Aramco’s shares as a bargaining tool with Saudi Arabia in order to facilitate a desired output freeze? It may be a possibility, the future will tell. For the time being, the wise thing to do is hope for the best but prepare for the worst.

Kingdom comedown: Falling oil prices shock Saudi middle class

WSJ, *23.09.2016*

Mohammed Idrees used to travel to London once or twice a year, but these days the Saudi civil servant is asking his wife and children to cut back on using the car to save fuel and has installed a solar panel to reduce electricity costs.

Saudi nationals such as Mr. Idrees enjoyed a cozy lifestyle in the desert kingdom as its rulers spent hundreds of billions of dollars of its oil revenue to subsidize essentials such as fuel, water and electricity. But a sharp drop in the price of oil has forced the government to withdraw some benefits —raising the cost of living in the kingdom and hurting its middle class, a part of society long insulated from such problems.

Saudi Arabia heads into next week's meeting of major oil producers in a tight spot. With a slowing economy and shrinking foreign reserves, the kingdom is coming under pressure to take steps that support the price of oil, as it did this month with an accord it struck with Russia.

The sharp price drop is mainly because of a glut in the market, in part caused by Saudi Arabia itself. The world's top oil producer continues to pump crude at record levels to defend its market share. One option to lift prices that could work, some analysts say, is to freeze output at a certain level and exempt Iran from such a deal, given that its push to increase production to presanction levels appears to have stalled in recent months. Saudi Arabia has previously refused to sign any deal that exempts arch rival Iran. As its people start feeling the pain, that could change.

The kingdom is grappling with major job losses among its construction workers—many from poorer countries—as some previously state-backed construction firms suffer from drying up government funding. Those spending cuts are now hitting the Saudi working middle class.

Saudi consumers in major cities, the majority of them employed by the government, have become more conscious about their spending in recent months, said Areej al-Aqel from Sown Advisory, which provides financial-planning services for middle-class individuals and families. That means cutting back on a popular activity for most middle-class Saudis: dining out. "Most people are ordering less food or they change their orders to more affordable options," she said.

To boost state finances, Saudi Arabia cut fuel, electricity and water subsidies in December, after posting a record budget deficit last year. It also plans to cut the amount of money it spends on public wages and raise more nonoil revenue by introducing taxes.

But in response to these moves, inflation more than doubled from last year to about 4% now, crimping consumers even more. The government doesn't have much choice. Saudi Arabia's real growth in gross domestic product slowed to 1.5% in the first quarter from the year-earlier period, according to its statistics office, and Capital Economics says data suggest it may have contracted by more than 2% in the second quarter. Much of that slowdown is related to consumer-facing sectors, which have struggled since the start of 2016 as rising inflation has eroded household incomes.

The political stakes for managing this slowdown are high. Saudi Arabia survived the Arab Spring unrest that toppled several autocratic leaders across the region and forced some others to change, largely by offering cash handouts and more government jobs to placate its people. About two thirds of Saudi workers are employed by government related entities.

Besides cushy jobs, such middle-class Saudis also received substantial overtime payments and regular bonuses. At the time of his ascension to the throne early last year, King Salman ordered a hefty bonus payment to government employees. Such largess is looking like a thing of the past.

Besides cutting state handouts such as subsidized electricity and water, the government also plans to reduce money it spends on public wages to 40% of the budget by 2020 from 45% as part of its ambitious plan to transform the oil-dependent economy. It aims to cut one-fifth of its civil service as well. Saudis are beginning to speak out about a sense of anxiety about the economy.

“I think we are going through a difficult period,” said Emad al-Majed, a Riyadh-based pharmacy technician. There will be suffering.” Mr. Majed, who has two children, took a bank loan to purchase an apartment last year, a decision he said made him reconsider his spending habits. “If you are used to a certain level of spending, how can you be told to limit your expenses and cancel some stuff?,” he asked. “It is a good idea, but in practice it will be difficult for so many people.”

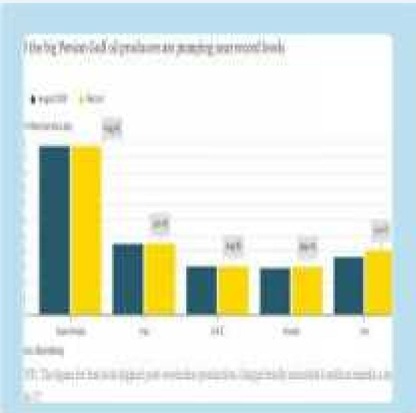
Saudi nationals are reluctant to gripe about rising costs, but there is clear discontent, some analysts say. In a region engulfed in political and sectarian strife, Saudi Arabia can ill-afford similar turmoil. “Discontent so far has been mildly expressed,” said Robin Mills, chief executive at Qamar Energy, a Dubai-based consulting firm. “If the slowdown continues and starts affecting local jobs, that could change.”

For the kingdom’s fiscal position to improve significantly, analysts say oil prices would need to rise to $70 a barrel, up from about $46 now. Saudi Arabia and the other large producers failed to reach a production-freeze deal in April, but its people are now increasingly jittery over their future. That has made people like Mr. Idrees, the civil servant, more cautious about spending because he sees people like him bearing the brunt of efforts to offset slipping oil revenue.

“I have become more diligent about spending because my view of the future is pessimistic,” he said. “There is a lot of talk about diversifying the economy, but the focus seems to be solely on increasing taxes.”

Introducing the pre-freeze oil boil

Bloomberg, *14.09.2016*



Most oil-market observers will be keenly aware of a meeting in Algeria later this month at which the world’s biggest producers will -- or won’t -- commit to freezing their crude production.

While talking about freezing supply may have helped to put a floor under oil prices, the outcome of the meeting itself is becoming more redundant by the day as almost all the world’s top producers do exactly the opposite. The big-4 Gulf Arab OPEC countries -- Saudi Arabia, Iraq, the United Arab Emirates and Kuwait -- are all producing at, or very close to, record levels.

The reasons vary, but for each it comes down to pursuing established medium- to long-term market strategy. At the same time, output from neighboring Iran is at a five-year high, as the country races to restore pre-sanctions output and exports. No sign of a freeze here. Things are no different in Russia, which averaged more than 11 million barrels a day in the first half of September -- close to the record levels achieved in the mid-1980s. New fields in the Caspian Sea and the far north are starting to yield their first oil and there should be more to come in the months ahead.

Meanwhile, the two OPEC members whose production has been hit hardest by civil unrest are eyeing their own renaissance.In Nigeria, ExxonMobil is preparing to resume shipments of Qua Iboe crude, the country’s biggest export grade, while Royal Dutch Shell lifted restrictions at the Bonny terminal earlier this month. Combined exports of Qua Iboe and Bonny Light averaged more than 500,000 barrels a day last year, according to Bloomberg estimates.

Libya has lifted force majeure, a legal clause that allows companies to halt shipments without breaching contracts, at two of the country’s three largest export terminals -- Es Sider, Ras Lanuf -- which have been out of operation since December 2014. This may allow Libya to double output to 600,000 barrels a day within four weeks and 950,000 barrels a day by the end of the year, National Oil Company Chairman Mustafa Sanalla said.

Non-OPEC South Sudan, which saw output fall by more than half to at most 130,000 barrels a day after civil war erupted in 2013, is also aiming to restart production from fields in its Upper Nile region next month.All three countries may struggle to sustain any increase because underlying political problems remain unresolved.

In addition, the damage to oil production and transportation infrastructure in Libya and South Sudan has yet to be fully assessed. If it’s extensive, then they may miss production targets. Nevertheless, the countries are enjoying a more positive outlook for oil production than they have for many months.

As if that wasn’t enough, both the International Energy Agency and OPEC last week cut their forecasts of how much of the group’s oil will be needed for the rest of this year and next -- although they come at this revision from opposite directions.

The IEA pared its global demand outlook most severely for the current quarter, but also out to the end of next year, which is as far as its monthly report looks. OPEC -- which already expected weaker demand growth than the IEA -- has raised its forecast of non-OPEC production, partly to reflect the imminent start-up of the giant, but much troubled, Kashagan field in Kazakhstan.

WTI crude is down around 16% from its early-June peak of nearly $52 a barrel, a price level that the forward curve does not regain until 2019. That’s 18 months later than it was a month ago.Without a deal in Algeria that goes much further than an output freeze, “Lower for Longer” just got “Lower for Even Longer” -- again. Just don’t expect the key players at that meeting to do anything meaningful about it. After all, their oil is still the cheapest in the world to get out of the ground.

Russia: Siberian spring

Financial Times, *21.09.2016*

At well pad number 258, Iosif Stefanishin watches with pride as a drill bit burrows deeper and deeper into swampy Siberian plain. This is Russia's oil heartland, where thousands of miles of forest and mud are interrupted only by clusters of fuel tanks and shiny processing plants.

Mr Stefanishin has been drilling for oil here since Soviet times. The cluster of fields under the control of Yuganskneftegaz where Mr Stefanishin works as a drilling supervisor. Last year, they pumped 1.25m bpd — one in eight barrels produced in Russia, or enough to supply the entire needs of Turkey and Poland combined.

"The market situation has changed, the equipment has changed," he says of his years working at Yuganskneftegaz since 1986. "Our company was always good." But the deposits here were first extracted in the 1960s and the fields are beginning to show their age. Output at Yuganskneftegaz fell nearly 8 per cent from 2012 to a low last summer. In response, Rosneft has embarked on a surge in drilling and investment. The 2.8km-deep well that Mr Stefanishin is overseeing will be one of 1,500 drilled in 2016; in the first half of this year, Yuganskneftegaz's drilling rate was 148 per cent higher than the same period two years ago.

Rosneft's new focus on its Soviet-era brownfield assets comes after the tumble in global oil prices and western sanctions forced it to temper its ambitions to develop new resources, most notably in the Arctic. But after years of under-investment in western Siberia, the effect of Rosneft's shift on the oil markets could be significant.

Even with production from brownfield operators like Yuganskneftegaz in retreat, Russia's oil industry, aided by investments in new projects made before the fall in oil prices and cushioned from it by the rouble's weakness, has defied pessimistic forecasts to lift production significantly since 2014. Kirill Molodtsov, deputy energy minister, yesterday said the country had been pumping an average of 11.09m b/d so far in September — a post-Soviet high.

With Rosneft's new strategy, Russia is on track to challenge its record production of 11.4m b/d set in 1987. Goldman Sachs analysts predict that Russian output will increase by 590,000 b/d in the next three years.

"In the current oil price environment, Rosneft will shift its attention to better management of brownfields," says Karen Kostanian, oil analyst for Bank of America Merrill Lynch in Moscow. "If Rosneft can indeed reverse its brownfield decline rates, then the projections of Russian oil production for the next few years are underestimates." It could also help Moscow persuade foreign investors to buy a 19.5 per cent stake in a company — worth about $11bn at current market prices. For Igor Sechin, Rosneft's powerful chief executive, maximising production at its ageing brownfields marks a significant change of emphasis.

Mr Sechin, a close ally of President Vladimir Putin, has had one overarching focus for much of the four years he has been in charge of Russia's dominant state oil champion: the Arctic. In 2012, while unveiling a partnership with ExxonMobil, he described the development of Arctic oil as "more ambitious than man's first walk on space or sending man to the moon". Two years later he said Rosneft would "open a new oil province" with reserves equivalent to Saudi Arabia's.

With ExxonMobil suspending its participation in the joint venture following US sanctions over Moscow's actions in Ukraine, Mr Sechin has recently struck a different note. Speaking at the St Petersburg International Economic Forum in June, the Rosneft boss enthused not about the Arctic but about western Siberia's brownfields.

"We believe that in the next 10 years the greatest potential is connected to the effective use of our unique resource base of conventional oil, including in the areas where there is existing infrastructure in western Siberia," he said.

Rosneft's surge in drilling at its brownfields appears to dash hopes that Russia will reduce oil production in conjunction with Opec. With its economy hurting from the fall in oil prices, Moscow has been enthusiastic about the possibility of a deal with the oil producers' cartel to rein in production: earlier this month it agreed to co-operate with Saudi Arabia to "stabilise the oil markets", and it is due to meet Opec countries in Algiers next week.

Mr Sechin has, however, long spoken out against the viability of a deal with Opec, and Russian observers and industry insiders are deeply sceptical that the country will modify its production, regardless of whether a deal is announced in Algiers.

The Rosneft chief presents its strategy as an implicit response to Russia's two rival producers: the US, whose rapid increase in shale output has been the major contributor to a glut on the oil markets, and Saudi Arabia, whose decision to fight for market share helped trigger the price crash.

"The quality of the US resource base is such that it needs quite high prices to be exploited," Mr Sechin said in St Petersburg, while the oil price tumble Saudi Arabia helped to unleash had been "quite painful" for Riyadh.

The basis for Mr Sechin's confidence is Yuganskneftegaz. Headquartered in Nefteyugansk on a tributary of the Ob river, the company was the cornerstone of Mikhail Khodorkovsky's Yukos oil group until he was thrown in jail and his company bankrupted in 2006. Now Yuganskneftegaz accounts for 31 per cent of Rosneft's production.

The unit's history epitomises the changing fortunes of oil production in western Siberia. The company has struggled to maintain output, and Rosneft has replaced the management team three times in four years.

In the past 18 months, however, Rosneft has managed to stop the rot. The company is more than doubling its drilling rate, from 750 wells a year in 2014 to 1,700 a year from next year. It is also increasing the use of advanced techniques, such as hydraulic fracturing and horizontal drilling. According to Khasan Tatriev, director of Yuganskneftegaz, 13 per cent of the wells it will drill this year will be horizontal, up from 4 per cent three years ago.

The increase has not come cheap: Rosneft's capital expenditure at Yuganskneftegaz was 79 per cent higher in the first half of 2016, at Rbs70bn ($1.1bn) than in the first half of 2014. Vladimir Shmatovich, head of strategy at pipemaker TMK, says there has been an increase in the use of fracking across the Russian oil industry. "People are trying to suck as much as possible from existing deposits. Hydro-fracking is a natural way to do that. It's expensive — but less expensive than drilling greenfields," he says.

Rosneft's investment is already showing results: Yuganskneftegaz's monthly production has been rising steadily since the middle of last year, and since April has been rising year on year. But that is not enough for Rosneft executives, who want to boost Yuganskneftegaz's output by almost 10 per cent by 2019, adding 120,000 b/d of production.

Central to Rosneft's plan to revive production at Yuganskneftegaz is the development of deposits known in Russian as "hard-to-recover resources". The terminology is important: until 2014, such resources were often described by western and Russian companies in English as "shale". When the US and Europe imposed sanctions restricting sales of equipment and services to Russian shale oil projects, many feared they would scupper development of such projects.

But Russian executives say only the giant Bazhenov formation, which is estimated by the US energy department to hold 75bn barrels of oil, has been affected. Meanwhile, work on other "hard-to-recover" deposits, such as the Tyumen or Achimov, has continued. Like shale, these are low-permeability formations which require horizontal drilling and fracking to exploit, but the executives say they are geologically distinct from shale and therefore do not fall under the sanctions.

Rosneft in numbers

● 10% Rosneft's increased output target for Yuganskneftegaz by 2019, adding 120,000 b/d of production

● 1,700 New wells Rosneft plans to drill every year from 2017 (13% of which will be horizontal), up from 750 in 2014

● $45 Current price for a barrel of Brent crude, down from about $114 in June 2014

"There are some things connected to the Bazhenov which fall under sanctions," says Alexander Vitevsky, chief geologist at Yuganskneftegaz. "But in fact the main part of our hard-to-recover resources is not the Bazhenov: it is prospects in the Tyumen and Achimov formations." He says the Bazhenov accounts for an "absolutely insignificant" share of Yuganskneftegaz's resources.

Mr Tatriev predicts that output of hard-to-recover oil atYuganskneftegaz will increase more than threefold to 200,000 b/d by 2020. At well pad number 258, Mr Stefanishin rattles off a list of western service companies working with Rosneft. "We have working with us very successful companies — Baker Hughes, Halliburton — we're using their rotary steerable systems for drilling horizontal sections." There are signs that Rosneft is preparing to use Yuganskneftegaz as a model for its other brownfield assets. It has lifted drilling at Samotlorneftegaz, another western Siberian subsidiary, by 50 per cent this year. "We're applying the same strategy as Yugansk — the plan is to turn around all these brownfields," Eric Liron, Rosneft's first vice-president, told investors earlier this year.

But the push to revive Yuganskneftegaz production, including the use of fracking techniques, is costly. According to Mr Tatriev, the company's capital expenditures will total Rbs353 a barrel of oil over the next five years, more than double the level of 2014.

For some in the Russian oil industry, Rosneft's new wave of investment into western Siberia carries an echo of a previous era — and with it, a warning. This is not the first time that Russia has tried to pump its way out of a crisis. Samotlor is the largest oilfield discovered in Russia and the second largest in the world. Yet it became a watchword for mismanagement, as ever more ambitious production targets in the 1970s and 1980s led to unsustainable drilling that flooded the reservoir with water, leading ultimately to a drop in production by more than three quarters as the Soviet Union collapsed. Could Rosneft be embarking on a similarly flawed strategy?

"The perception from professional oil and gas people who look at Rosneft is that they're chasing production at all costs," says a Russian industry veteran. People close to Rosneft privately concede that its investments in western Siberia are not motivated by profitability alone. They are also driven by the need to maintain Rosneft's overall production levels — which are critical to the Russian government's tax revenues.

While the company has increased the sophistication of its operations, the turnround in production is also the result of a huge increase in drilling. "You're just bringing forward production," says the industry veteran. "That's not always the right thing to do from a value perspective."

If western sanctions are not a barrier to Rosneft's plans to revive Yuganskneftegaz, its own government could turn out to be more problematic. The main reason for the historical under-investment in Russia's brownfields was not lack of interest, but the tax system. Russia taxes its oil producers based on their output rather than profitability, providing little incentive to invest in more sophisticated and expensive drilling techniques. Before the fall in oil prices, Moscow had attempted to stimulate investment in new fields by offering tax breaks to greenfield projects.

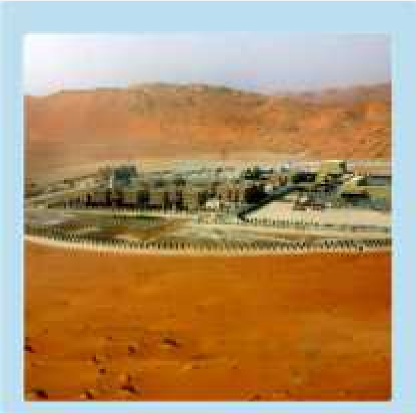
"At higher oil prices, it was a very easy trade-off for the Russian government: don't touch the taxation on brownfields which provide income for the budget, exempt greenfields from taxes and attract foreign investment," says Karen Kostanian, an analyst at Bank of America Merrill Lynch. "The paradigm under low oil prices is different. Now the Russian government might choose to stimulate higher production at brownfields with lower taxation."

That idea was endorsed by Vladimir Putin, Russia's president, at a meeting with energy executives last year when he instructed the government to start working on a new tax system. But in the short term, the Russian government appears more likely to raise taxes on producers than cut them.

Faced with a persistent budget deficit and the prospect of its stabilisation fund running out of money next year, the finance ministry is discussing a raid on the oil industry to raise Rbs200bn ($3bn) in additional tax revenues next year. "The key variable that determines oil production in Russia is not oil prices but the fiscal terms," Rosneft chief executive Igor Sechin said at the St Petersburg International Economic Forum in June.

Italian gas imports from Europe spike as prompt prices plummet

ICIS, *23.09.2016*



A spike in Italian gas imports from northern Europe and Austria in September, paired with a dip in supply from North Africa, shows short-term delivery contracts are getting more competitive compared to longer-term contracts, traders say.

Italy's grid is supplied with gas from Algeria, Libya, Russia via Austria and northern Europe via Switzerland. Traditionally, the bulk of these imports have been based on long-term contracts. But supply from shorter-term contracts has jumped as European prompt prices plummeted this September due to high levels of gas held in storage sites across the continent, reducing demand.

Gas imports from northern Europe to Italy through the Swiss Gries Pass entry point have been 35 million cubic metres (mcm)/day in September so far, 12.4mcm/day higher than the previous month and 10.5mcm/day higher compared to the same period last year. Supply via Switzerland tends to be more affected by the prompt price.

Imports through Austria's Tarvisio entry point also rose by 22.4mcm/day to 74.6mcm/day month on month in September. Russian imports via Austria are typically derived from long-term contracts, although there is some flexibility to increase imports from short-term contracts when Austrian prompt prices are cheap enough.

Flow from Algeria through the Mazara del Vallo entry point, also mainly based on long-term contracts, fell by 19.9mcm/day to 35.1mcm/day month on month in September. European gas imports via Switzerland were determined by Italy's Day-ahead premium to the Dutch TTF equivalent as well as high Italian gas-fired power demand during August, traders said.

In September, high restrictions on gas in northern France being able to travel to southern France meant the PEG Nord system was oversupplied, with the excess gas being sent to Italy via Switzerland. Italian gas traders also said supply via Switzerland increased to make up for the fact less gas was being supplied from Algeria. "It is more favourable to import from Gries and from TAG [the Austrian pipeline] on the spot rather than from Algeria," one trader said.

The flow changes show contracts based on prompt prices are getting more competitive compared to long-term contracts, other traders said. "Spot has been more competitive for a while now, and it is a trend that will become more evident year after year," said another trader.

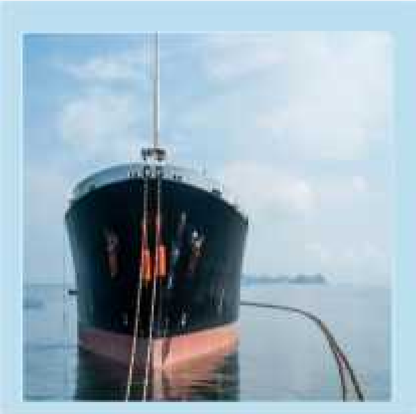
Sources active in the market also said the flow changes were also a result of the major Italian incumbents changing their strategies, reducing their capacity from the Algerian Mazara del Vallo entry point and transferring this to the Swiss point.

Increased supply from Austria also confirmed this practice, traders said. A higher Italian premium to the Austrian VTP in August and September led to the increased flows from Austria. In September so far, the Italian PSV Day-ahead premium to Austria's Day-ahead has been around €0.88/MWh on average, with the premium spiking higher than €1.00/MWh on six days this month so far.

This compares to an average premium of €0.54/MWh in August, with just five days in the whole of August seeing a premium higher than €1.00/MWh. Days where the PSV Day-ahead premium to Austria is wider, paired with high Italian demand, incentivises traders with capacity on the Austria-Italy border point to increase supply.

Can India become an LNG Juggernaut?

Oilprice, *16.09.2016*



In the world of liquefied natural gas (LNG), no market is watched with more interest or more potential excitement than India. In 2015 the country with the second-largest population on earth imported 15 million tons of LNG, but some forecasters predict it will import nearly 50 million by 2030.

LNG faces a critical juncture, with some 40-50 million tons reckoned to be "homeless" by 2020 unless new contracts are signed; this has placed buyers like India and Japan, with the leverage to re-negotiate existing LNG contracts and take advantage of a global glut to make short-term and spot price buys, minimizing divergence with market prices.

India, currently the world's fourth largest LNG importer, may turn into an LNG juggernaut, taking in the new production from Australia, the U.S., Iran and elsewhere. It has announced plans to increase re-gasification capacity to 55 million metric tons in order to feed demand. But the key question remains: is that demand reliable?

Indian Oil, the state-run refining company, has announced that it expects to earn 15 percent of its total revenue from gas-related projects by 2021. At the moment, gas trading contributes only 5 percent to the company's bottom line, and India overall relies on gas for 6.5 percent of its energy needs, lagging behind the global average of 23.8 percent.

India Oil is set to invest $27 billion in oil and natural gas inside India, including a planned "mega refinery" in partnership with foreign capital. The company has reportedly secured 13 million tons of LNG regasification capacity across terminals in India, and has retained a commitment to importing two cargos of LNG from the Dahej import terminal every month. The terminal is run by Petronet, the country's single largest LNG importer, which has been exploiting low prices to feed a "buying binge:" it's expanding Dahej's capacity from 10 million cubic meters a year to 15 million and is constructing a brand new terminal in the Indian province of Gangavaram on the East coast.

These projects come with a high price tag, but Petronet can apparently afford it: the company reported a 55 percent increase in net profit for the first quarter (ending June), though the increase amounts to total net profits of $56 million, chump change for energy majors.

The commercial ambition of India’s energy companies is matched by that of India’s government, which wants natural gas to account for 15 percent of overall energy use, an official said. Greater imports are needed to make up for India’s stagnant natural gas production.

In 2015 the country’s production fell by 5 percent, while it’s per capita average (39 cubic meters) lags far behind the world average (369 cubic meters). There remains a vast number of Indians, estimated at some 280 million, who do not have access to reliable sources of electricity. Increased interest in imports is matched by a desire to grow domestic production: India is currently holding bid rounds for 67 new fields. There are also plans for a domestic natural gas hub, so that domestic prices can be traded more efficiently.

India is superbly placed to take advantage of a growing ocean of LNG that is building worldwide. Qatar, long the world’s leader in LNG exports, re-negotiated its long-term contract with Indian importers through RasGas last December and remains India’s major LNG supplier. Indeed, it was the RasGas deal which sent Indian LNG prices falling earlier this year. But Qatar’s position is being challenged by Iran and Australia, which are each particularly well-positioned to feed India’s LNG demand.

Energy diplomacy during 2016 has brought Iran and India closer together, with India recently expressing interest in constructing a terminal in Iran for facilitating exports back to India. Iran’s LNG output has not yet reached its potential, but expectations that it could compete with Qatar are running high.

Australia has already built a significant LNG infrastructure and is ready to export. Massive projects like Chevron’s Gorgon facility are finally in a position to begin exporting large quantities of LNG. Japan’s Tokyo Gas Co. recently accepted its first cargo from Gorgon, a further sign that the facility’s much-publicized woes may finally be at an end.

Other ailing LNG projects are benefiting from more capital, a sign that whatever the current market conditions, Australian commitment to LNG production remains strong. Global conditions point to thriving small-scale LNG production, even as high-profile mega projects like Gorgon struggle.

Like other countries worldwide, India’s natural gas ambitions are one part economic, one part political. India has committed itself to bringing down its greenhouse gas emissions. Coal accounts for 61 percent of its total energy use, and like China, India has shown an interest in moving away from coal as an energy source. Global commitment to reducing greenhouse gases are helping to feed demand for cleaner natural gas, but the transition from dirtier fuel sources has been slow, while competition from renewable energy sources has been tougher than expected.

India is trying to accelerate the transition by feeding natural gas to power plants, including nine in the southern part of country, while the government is trying to encourage shipping to adopt natural gas as a new fuel source. But challenges lie in the way of India’s LNG ambitions. In the summer, the big story was India snapping up LNG adrift on the European market, for want of a buyer.

The price was plummeting, a glut was exceeding demand, and India was well positioned to feed growing domestic demand. Imports from March to May soared, only to stagnate in July. Total imports this year are more than 20 percent higher than last year, but that may be a product of low prices rather than actualized demand: importers are taking advantage of favorable market conditions to snatch up LNG while they can.

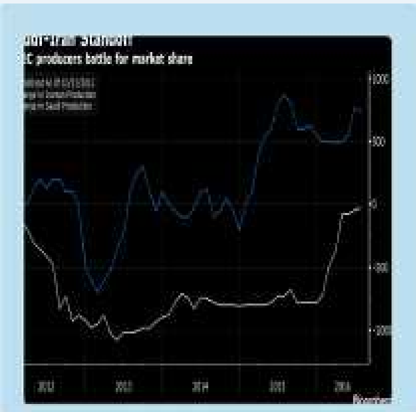
Despite government interest in LNG as a new, clean energy source, there has been a commitment within the government of prime minister Narendra Modi to increase the country's coal production to 1 billion tons a year by 2020, announced in July 2015. This was in part a political move, designed to answer accusations in 2014 (when Modi came to office) that the country's coal stores were dangerously low. When the announcement was made last year, a number of India's coal-fired power stations sat idle for want of fuel.

Now, the situation has been reversed. Coal India, the state-run mining company, has been producing and importing massive new stocks of coal, but recently reported a decline of 14.7 percent first quarter profits from 2015.

Demand for more coal is projected to be sluggish, and the ambitious call for 1 billion tons toned down. While this may bode well for natural gas, it points to another potential problem: energy demand in India may not be as robust as expected. So, while hopes are running high that India can save LNG from its current woes, it remains to be seen whether those hopes will be dashed upon the subcontinent's shores.

Oil-sands glut jams pipes to US, making rail next option

Bloomberg, *22.09.2016*



Canada is sending a record amount of oil to the U.S., filling pipelines to capacity and threatening to push more crude into rail cars. U.S. imports from its northern neighbor jumped 17 percent to 3.46 million barrels a day, the U.S. Energy Information Administration said Wednesday in a preliminary report. That's the most since the agency began collecting such data in 2010. Exports have surged as Alberta recovers from wildfires that disrupted supplies earlier this year.

Supplies from the oil sands are piling up as producers bring back output and projects that had been delayed by the fires come online.

The glut highlights Canada's dependence on the U.S. market after TransCanada Corp.'s seven-year struggle to get approval for the Keystone XL link to the Gulf of Mexico failed while its proposed Energy East line to the Atlantic Coast faces mounting opposition in Canada.

The stress on existing lines means more crude will be hauled by rail at higher costs and the discount on Canadian crude will likely widen. “As volumes continue to build, so will the pressure on the constrained pipelines system,” Kevin Birn, a director at IHS Energy in Calgary, said by e-mail Wednesday. “At some point in the coming months those volumes could very well overtake available capacity and increased movements of rail should be expected.”

Enbridge Inc.’s mainline system, the most important conduit for shipping Canadian crude into the U.S., has been running above its 2.4 million-barrel-a-day capacity and was full in August, according to Genscape Inc. analyst Ryan Saxton. Other lines including Spectra Energy’s Express and TransCanada’s Keystone were about 89 percent full last month.

Western Canadian Select heavy crude is trading at a discount of $14.30 a barrel to West Texas Intermediate, according to data compiled by Bloomberg. WTI for November delivery advanced 98 cents to settle at $46.32 a barrel on the New York Mercantile Exchange on Thursday. The U.S. benchmark is down almost 60 percent from its 2014 peak.

The discount on Canadian crude could expand to a one-year high of $16 a barrel by year end as a bigger price spread will be needed to encourage the use of rail, a more expensive method of shipment, said Eric Peterson, research chief at Denver-based ARB Midstream LLC, an oil transport investor.

Canadian crude-by-rail exports rose to a six-month high of 109,000 barrels a day in April before declining after wildfires took about 1 million barrels a day of production off the market, National Energy Board data show.

While Canada’s conventional oil production is declining, oil-sands output continues to grow as projects initiated before the 2014 oil rout are completed. Companies including Cenovus Energy Inc. and Canadian Natural Resources Ltd. are set to add about 390,000 barrels a day of capacity by the end of next year, according to company statements and JuneWarren-Nickle’s Energy Group’s Summer 2016 Oil Sands Quarterly.

Crude output is expected to rise about 5 percent to more than 4 million barrels a day in 2017, above the country’s pipeline export capacity, according to the Canadian Association of Petroleum Producers.

As getting approval for pipelines at home has become increasingly difficult, Enbridge and TransCanada have sought deals south of the border to expand. Enbridge agreed to pay $28 billion for Houston-based Spectra Energy Corp. and TransCanada is buying Columbia Pipeline Group Inc., also based in Houston, for $10.2 billion.

“Canada is stuck with its main outlet being the U.S.,” Bloomberg Intelligence Analyst Gurpal Dosanjh said in a phone interview in New York. “This will stay in the considerable future while Canadian production grows.”

US weekly crude oil inventories decline

AA Energy Terminal, *22.09.2016*

Weekly crude oil inventories in the U.S. fell by 6.2 million barrels, or 1.2 percent, to reach 504.6 million barrels for the week ending September 16, according to the U.S.' Energy Information Administration (EIA) Wednesday.

While the market expectation was an increase of 3.3 million barrels in crude stocks, inventories decreased by 0.6 million barrels the previous week. "The crude numbers in this week's report are a little confusing with stocks falling sharply despite a further decrease in demand from refineries, a small increase in net imports, and another increase in the U.S. oil output," said Thomas Pugh, a commodities economist at London-based Capital Economics.

Imports jumped by 247,000 barrels per day (bpd) to 8.31 million bpd, for the week ending September 16, according to the EIA. Oil output in the country, however, rose only slightly, by 19,000 bpd to reach 8.51 million bpd, during the same period.

"The U.S. production, excluding Alaska, has risen for the third consecutive week now. This is likely to be due to the recent increase in active drilling rigs," Pugh explained. The number of oil rilling rigs in the country increased by a total of 93 in the last three months, according to the oilfield services company Baker Hughes data, as American oil producers are adapting to low oil prices through efficiency and cost management.

After the EIA announced decline in crude oil stocks against market expectations, oil prices posted gains. American benchmark West Texas Intermediate reached as high as $45.34 a barrel, and international benchmark Brent crude climbed as much as $46.83 per barrel on Wednesday.

Announcements & Reports

► *LNG Markets: The Great Reconfiguration*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/oxford-energy-forum-issue-106/

► *Annual Report on the Results of Monitoring the Internal Natural Gas Markets in 2015*

Source : CEER
Weblink : http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/NATIONAL_REPORTS/National_Reporting_2016/MMR%202015%20-%20GAS.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

► *Global Oil & Gas South East Europe & Mediterranean Conference*

Date : 28 – 29 September 2016
Place : Athens, Greece
Website : www.oilgas-events.com/Global-Oil-Gas-Black-Sea-Mediterranean-Conference/

► *Kazakhstan International Oil & Gas Conference (KIOGE) 2016*

Date : 05 October 2016
Place : Almaty, Kazakhstan
Website : www.kioge.kz/en/conference/about-conference+

► *23rd World Energy Congress*

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

► International Conference on Oil Reserves & Production

Date : 17 - 18 October 2016
Place : London, UK
Website : www.waset.org/conference/2016/10/london/ICORP

► 15th ERRA Energy Investment & Regulation Conference

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

► The 8th Saudi Arabia International Oil & Gas Exhibition (SAOGE)

Date : 17 - 19 October 2016
Place : Dammam, Saudi Arabia
Website : www.saoge.org

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

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

► SPE Russian Petroleum Technology Conference & Exhibition

Date : 24 - 26 October 2016
Place : Moscow, Russia
Website : www.spe.org/events/rpc/2016/

► Asia Pacific Oil & Gas Conference & Exhibition (APOGCE)

Date : 25 - 27 October 2016
Place : Perth, Australia
Website : www.spe.org/events/apogce/2016/

► International Conference & Expo on Oil & Gas

Date : 27 - 28 October 2016
Place : Rome, Italy
Website : www.oil-gas.conferenceseries.com/

► 4th Iran Europe Oil & Gas Summit

Date : 01 – 03 November 2016
Place : Berlin, Germany
Website : www.iransummit.com/

► 2nd International Conference & Expo on Oil & Gas

Date : 02 – 03 November 2016
Place : Istanbul, Turkey
Website : www.oil-gas.omicsgroup.com/

► European Autumn Gas Conference 2016

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

► 21st Annual Oil & Gas of Turkmenistan (OGT) Conference 2016

Date : 16 – 17 November 2016
Place : Ashgabat, Turkmenistan
Website : http://www.ogt.theenergyexchange.co.uk/

► Project Financing in Oil & Gas

Date : 21 – 22 November 2016
Place : London, UK
Website : www.smi-online.co.uk/energy/uk/conference/Project-Financing-in-Oil-and-Gas

► 5th Greek Cyprus Energy Symposium

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