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Turkey's energy imports fall by 33.5% in Jan-Sep '16

AA Energy Terminal, *01.11.2016*

Turkey's energy imports fell by 33.5 percent in the first nine months of the year compared to the same period in 2015, according to the Turkish Statistical Institute's (Turkstat) data.

The data showed that Turkey's imports in the January-September period of 2016 totaled $19.5 billion in comparison to $29.3 billion during the same period last year. Last year, with low oil prices, Turkey's energy import bill totaled $38 billion and it was $55 billion in 2014. However, the country aims to increase the share of local resources such as coal and renewables in its energy mix and has recently speeded up steps towards this goal to decrease its energy import bill.

In the Turkish Development Ministry's recently released mid-term program for 2017-2019, Turkey's energy imports are predicted to fall by around $10.3 billion this year based on declining oil prices in recent years, indicating that Turkey's energy import bill is likely to further decrease.

The amount of electricity imports have also decreased by 30 percent in the first nine months of the year compared to the same period of 2015. The country imported 4.6 billion kilowatthours of electricity in the January-September period of 2015 from Greece, Bulgaria, Georgia, Iraq and Iran. In the same period of 2016, this amount decreased to 3.2 billion kilowatthours of electricity, imported from Greece, Bulgaria, Georgia and Azerbaijan.

The cost on Turkey's electricity import bill has also decreased by 46 percent in the first nine months of 2016. The country paid nearly $155 million for its electricity imports from neighbors in 2016, which is down from $290 million over the same period last year.

September saw the highest electricity imports when Turkey imported 477 million kilowatthours of electricity and paid $24 million. Crude oil imports saw a decrease compared to the same period last year. Crude oil imports for the first nine months of 2016 realized 18.3 million tonnes as opposed to 18.9 million for the same period of 2015, showing a 3.2 percent decline.

Turkey, as an import-dependent country for energy, imports over 90 percent of its oil needs. While falling oil prices helped Turkey to decrease its energy import bill, it triggered more of a tendency to import oil. Turkey's oil imports of over 25 million tons in 2015 represents an increase of 47 percent compared to nearly 17 million tonnes in 2014.

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Turkey seeks $40B energy invests. from private sector

AA Energy Terminal, *31.10.2016*

Turkey needs to invest around $100 billion in energy by 2023 of which the minimum $40 billion is planned to be realized by the private sector including international and domestic investors, President of the Investment Support and Promotion Agency of Turkey (ISPAT) said.

Speaking to Anadolu Agency, Arda Ermut, president of Investment Support and Promotion Agency of Turkey, explained that Turkey plans to generate substantial capacities from local coal and renewable energy through privatization and other investments. Turkey aims to increase its installed capacity by around 120,000 megawatts by 2023.

Turkey will privatize the Cayirhan B area -- a region in Turkey's capital Ankara where a coal power plant with 720 megawatts of installed capacity will be built. Additionally, one of the biggest solar power plants, with 1,000 megawatts, will be constructed in Karapinar in the Central Anatolian Konya province. These designated areas for the coal and solar plants will also be privatized for a period of 15 years.

To attract the planned investment amount, the Turkish government is offering incentives to investors. The government and the tender-winning investor will sign an electricity purchase agreement for 15 years for both Cayirhan B and Karapinar in which electricity will be purchased by the government from these plants. "With these privatizations and other investments, international and local investors will see an opportunity to invest a minimum of $40 billion," Ermut said. "These two projects in Cayirhan and Karapinar are worth $2.5 billion and they show the potential of the energy sector in Turkey," he noted.

He added that the agency wants international investors to realize the majority of these investments, and in keeping with the government's aim of localization, these new projects will require local equipment production and R&D. "So local production will also create a different channel for investment," he said.

Turkey has begun to liberalize its energy market over the last decade with the aim of transitioning its market to become an energy trading hub. According to the International Energy Agency's recent report on Turkey, "the country should continue down this path and reform its energy markets.

During the last decade, electricity market reforms have advanced. The liberalization and privatization of electricity generation and distribution triggered a private investment boom (generating capacity doubled between 2007 and 2014) and secured energy access for its population." Ermut said the amount of foreign direct investments in Turkey saw an upturn from July onwards.

"In July, Turkey attracted $717 million direct foreign investment while this amount increased to $1,078 billion in August. We want to close this year by reaching last year's aim of around $16 billion," Ermut said. He stated that Turkey plans to be among the top most attractive countries for investment in the world.

"We will continue our work in this regard. We are one of the most investable countries in our region and our recovering relations with our neighbors will contribute to foreign direct investment in our country," Ermut concluded.

Turkey has entered in a process during which relations with its neighboring countries have started to recover and the relations with Russia and Israel have started to improve. Relations between Turkey and Russia have been severely damaged when two Turkish F-16 fighter jets on an aerial patrol shot down a Russian warplane late November. After a nine-month hiatus in relations, both countries decided to reconcile and relations improved.

After President Recep Tayyip Erdogan's visit to Russia in August, Russian President Vladimir Putin visited Istanbul to participate in the World Energy Congress which was held between Oct. 9 and 13. During his visit, Turkey and Russia signed intergovernmental agreement on TurkStream on Oct. 10, 2016.

Turkey has also started talks with Israel in recent months. Diplomatic ties between Turkey and Israel were disrupted in May 2010 when Israeli commandos martyred 10 Turkish activists on an aid ship, the Mavi Marmara, heading for Gaza.

Turkish Petroleum to start drilling in offshore Turkey

AA Energy Terminal, *04.11.2016*

Turkish Petroleum (TP) plans drilling in offshore Turkey in the upcoming years in accordance with a directive from Turkey's Energy and Natural Resources Ministry, TP CEO and Chairman, Besim Sisman, told Anadolu Agency (AA) Monday.

Speaking exclusively to AA, Sisman said that they will continue operations both onshore and offshore Turkey in line with the ministry's targets. TP, spearheads Turkey's domestic and international exploration and production activities by cooperating with international oil companies such as Shell, Halliburton and Chevron.

"Energy Minister Berat Albayrak suggested that we make more aggressive investments inside the country. With this instruction, we decided to speed up our work inside Turkey," Sisman explained. Turkey, with its limited natural resources, is heavily dependent on energy imports and strives to diversify its energy mix. Sisman said that TP will focus on work in offshore Turkey.

The company had previously conducted drilling works with Shell in the country's northwestern region, off the coast of Sile in the Black Sea. On Feb. 14, 2013, Shell and TP signed a joint operations agreement for deepwater exploration activities in the western Black Sea, which proved positive.

"The seismic data retrieved from the well in the Black Sea gave us very positive signals. We are considering drilling another well in the Black Sea with Shell in 2017, and if not, in 2018," Sisman said.

He also added that their operations in the Mediterranean are ongoing, raising the possibility of opening a new well in offshore Cyprus. "We will also focus on the Mediterranean in line with instructions from our energy ministry. Evaluation of previous seismic work in the Mediterranean is continuing. The Barbaros Hayrettin Pasa exploration vessel will conduct further seismic work offshore the island of Cyprus, and after its completion, we may drill an oil well in offshore Cyprus," Sisman noted.

He said the recovery in oil prices would help speed up offshore investments in the future which are more expensive than onshore work. "A 1.5 thousand to two thousand meters of deep sea drilling in the Black Sea and Mediterranean might cost between $200 and $300 million so you have to operate deep sea activities with partners," he explained. In the current conjuncture with sliding oil prices, TP will prioritize the investments which will balance production and which will not cause production losses, according to Sisman.

"In the next few years, TP will continue domestic production at the level of 13 million barrels. However, we will focus more on oil exploration. Our aim is not to drill too many wells, but to drill the proper wells," he affirmed. Sisman said that TP is not limiting its activities to Turkey alone, and cited its presence in Azerbaijan, and its ambitions to enter markets in close proximity such as Iraq, Iran and Libya.

"We have big investments in Azerbaijan. Our foreign investments total $11 billion out of which $10 billion are in Azerbaijan. In addition to these investments, we believe that Turkey and TP should be active in its nearby geography. With this, we mean Iraq, Iran, and when the conditions get better, Syria," he said.

In August 2014, Turkey signed an agreement with Azerbaijan, raising its shares in the Trans Anatolia Natural Gas Pipeline (TANAP), which carries Azerbaijani gas from the massive Shah Deniz offshore natural gas field to Europe. The agreement allows Turkey to revise up its ownership rights from a 9 percent share to a 19 percent stake, making it the second largest shareholder after British Petroleum (BP).

TP also has a 6.8 percent interest in the Azeri-Chirag-Gunashli (ACG) oil field, which accounts for about three-quarters of Azerbaijan's petroleum and other liquids production in 2015. Other shareholders include INPEX, Norway's Statoil, Japanese ITOCHU and India's ONGC Videsh Limited. "Along with these opportunities, we also have interests in oil reserves in offshore Libya. However, Libya unfortunately has not the stability to continue this work yet. If conditions improve, we would like to be involved in the offshore projects in this country. We are now at a decision stage considering whether we should continue our work in Libya at present," Sisman added.

Work in Kirkuk in northern Iraq is continuing on from the previous drilling of almost 20 wells through Turkish Petroleum International Company (TPIC), Sisman said. “We have not yet had much difficulty in Iraq. The only activity that has been damaged by the situation in Iraq is the gas project in Mansuriya. This project was affected by Daesh attacks, but we hope we will reach a decision together with the energy ministry on this venture soon,” Sisman concluded.

In October 2010, TP won the tender offered by the Iraqi Oil Ministry for the operation of the Siba and Mansuriya natural gas fields. The Siba field is located in the Basra Governorate and has natural gas reserves of nearly 43 billion cubic meters, while reserves of the Mansuriya field, located in Diyala province, amounts to around 128 billion cubic meters.

Turkey: Condor Petroleum’s Poyraz-3 well encounters 135m net gas pay

Energypedia, *01.11.2016*

Based on wireline log interpretation, the Poyraz 3 well encountered a minimum 135 meters of net gas pay in multiple stacked reservoirs of Miocene and Eocene age.

No gas-water contact was encountered in the basal Gazhanedere reservoirs and the gas-water contact in the Sogucak was confirmed to be at the structural spill-point of the Poyraz Ridge field. Don Streu, Condor’s President and CEO noted that ‘borehole imaging of the Sogucak carbonate in Poyraz 3 confirms the presence of an extensive network of fractures within the pay column which should serve to enhance flow performance.

Our drilling results continue to be very encouraging as only ‘gas down to’ volumes were previously used by the independent reserve auditor to calculate existing Proved reserves. The advanced wireline logging techniques we’ve used continue to provide higher resolution and improved characterization of the multiple reservoirs within the Poyraz Ridge field’.

Production casing has been run and cemented on Poyraz 3 and completion and testing equipment will be mobilized once the drilling rig has moved. The next well to be drilled is Poyraz West 5, which is an appraisal well on a different drilling pad and is designed to test the northwestern extension of the Poyraz Ridge field. This region represents up to 30% of the mapped Poyraz Ridge trap closure area but currently has no reserves attributed to it.

Russian gas exports to Turkey up after pipe explosion

Argus, *31.10.2016*

Russia's Gazprom increased daily deliveries to Turkey shortly after an explosion on 28 October at a gas pipeline that delivers Iranian gas to Turkey.

Iranian gas deliveries were halted at around 21:00 following an explosion on the pipeline in the town of Dogubayazit. Russian gas deliveries were increased by 9.3pc to 82.1mn m³/d, state-controlled Gazprom said on 28 October. The firm exported almost the same volume to Turkey through the weekend. Gas flows rose through both the Western Line, which ships Russian gas through Ukraine and Bulgaria to Turkey, and the 16bn m³/yr Blue Stream sub-sea pipeline.

The company said it has always met Turkey's requests to increase daily deliveries after pipeline explosions in the past. Over 33mn m³/d of gas was shipped through the Western Line and 48mn m³/d through Blue Stream, Gazprom said today. It is not clear whether Turkey's state-run gas company Botas pays a higher price for the additional gas delivered to Turkey. Gazprom customers have not paid a higher price for extra volumes delivered daily in the past.

Botas has a fixed-term contract with the National Iranian Gas Company (NIGC) to import 9.6bn m³/yr. This expires in July 2026. It can buy up to 16bn m³/yr from Gazprom through Blue Stream and up to 4bn m³/yr through the western route through fixed-term contracts that expire in 2025 and 2021 respectively. Gazprom expects annual gas exports to Turkey to fall to 24.5bn m³ this year from 27bn m³ in 2015.

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Turkey to start up new gas storage facility in January

Argus, *31.10.2016*

The first 500mn m³ phase of the 1bn m³ Tuz Golu underground storage site in central Turkey will start natural gas injections in January.

The underground cavern, which will be the country's second gas storage facility, will have withdrawal capacity of 20mn m³/d and will be ready for the 2017-18 winter. The second 500mn m³ phase will be completed in 2019. Turkey currently has only one gas storage facility, at Silivri, where capacity expanded to 2.84bn m³ in April, from 2.66bn m³. Its withdrawal capacity increased to 25mn m³/d in July, from 20mn m³/d. The site's maximum injection capacity is 16mn m³/d.

Turkey plans to expand the facility's storage capacity to 4.3bn m³ by 2020, with withdrawal capacity expected to rise to 75mn m³/d. Three private-sector companies also hold underground gas storage licences in Turkey.

Turkish gas companies that have imported gas for five or more years must reserve space equivalent to 10pc of their contracted annual receipts. But capacity limitations mean that this threshold is not met. Turkish state-controlled gas firm Botas is currently allocated 2.1bn m³/yr of capacity at Silivri, or 5.7pc of its non-LNG gas import supply, with the rest allocated to private-sector companies.

Importers' storage obligations could rise to 20pc, as capacity increases, according to new rules approved in June. Energy regulator EPDK has not yet announced the storage obligation rates for 2017. But private-sector gas firms that took over Botas contractual rights to import some 6bn m³/yr of Russian gas through the Western Line in 2013 have to apply for 2017 storage capacity in November.

Botas has contracts to import 36.35bn m³/yr while private-sector companies are contracted to receive 10bn m³/yr, excluding LNG supply. This means that Turkey will not be able to store more than the equivalent of 7.2pc of of annual supply when Tuz Golu's first phase raises the country's storage capacity to 3.34bn m³.

Injections at the Silivri facility slowed to 4mn m³/d in October, from 8.7mn m³/d the previous month. Inventories were at 2.62bn m³, or 92.1pc of capacity, at the start of the gas day today, up from 2.5bn m³, or 87.9pc, on 30 September. Stocks were at 1.92bn m³ by 31 October last year. Injections started earlier this year, in April, a month earlier than in 2015.

Saudi Arabia's bond success hides its financial peril

Bloomberg, 02.11.2016

Saudi Arabia's first-ever foray in international credit markets was undoubtedly a success. There were four times as many buyers as needed for its $17.5 billion bond issue. The conventional wisdom is that it validated Deputy Crown Prince Mohammad bin Salman's overarching plan to wean the kingdom of oil and move it toward more a balanced, technologically driven economy.

In truth, the bond sale was a rare bright spot in a series of economic and geopolitical missteps that have not only plunged Saudi Arabia into budgetary chaos but also weakened its grip on global oil markets.

The Saudis are well aware of this -- witness the firing this week of Finance Minister Ibrahim al-Assaf despite the triumphant bond sale his ministry oversaw. Riyadh is facing a sandstorm of economic and social challenges. The two-year decline in crude prices has left it with huge budget deficits: $98 billion last year and a projected $87 billion in 2016.

This has forced the kingdom to tap into its cash reserves, which have declined from $732 billion at the end of 2014 to $562 billion last month. Last year, the International Monetary Fund predicted that if Saudi Arabia continued its current fiscal path, it could burn through its entire foreign exchange reserves by 2020.

This has shocked the kingdom into austerity. Government payrolls have been slashed and subsidies removed. Over the last few months, capital expenditures have been cut by more than 70 percent. In 2013, government debt to gross domestic product ratio stood at 2.2 percent, per Moody's Corp. By 2017, it is forecast to be 22 percent; by 2020, 30 percent.

And while the government might try to blame market forces beyond its control, clearly the Saudi economy has been a victim of its own mismanagement and geopolitical maneuvering. Back in December 2014, the Iranian economy was reeling from nuclear sanctions, it wanted to get the best price it could from what little oil it could sell on the market. Many of OPEC's non-Arab members also wanted higher prices and were pushing for a production cut. But the Saudi oil minister at the time, Ali Al Naimi, refused.

There were two reasons. The first had to do with Iran: The Saudis wanted to squeeze Tehran to change its regional policies vis-a-vis the civil wars in Yemen and Syria, and to further isolate the Iranians by taking over their market share within OPEC. The other was directed at North America: The Saudis wanted to deal a fatal blow to U.S. shale production, which largely relies on expensive hydraulic fracking to thrive.

The Saudi calculus at the time was if it flooded the market with enough excess crude, the price would drop precipitously, thus rendering North American shale production cost prohibitive. This worked -- but only partially

Opening the tap hurt Saudi Arabia's economy far more than it had anticipated. Iran's regional policies have not changed: It hasn't ended its aid to the Houthis in Yemen or pulled back its support for President Bashar al-Assad in Syria. Both those conflicts remain frozen. And, despite Riyadh's financial woes, it surpassed Russia last year as third largest military spender in the world.

Furthermore, since Iran came to a nuclear deal with the West it has not only recaptured its market share, but is also producing more crude than at any point over the past five years. In a reversal of fortune, it's now the Saudis who are trying to persuade the Iranians to agree to a production cut when OPEC meets Nov. 30, and it's the Iranians (and Iraqis) who are balking.

At the same time, even though the recent Saudi energy policy has hurt North American shale producers, a rise in crude prices will cause hydraulic fracking to once again pick up. It's clear the kingdom overplayed its energy card and is now paying a steep price for it.

Many economists would argue that it was only a matter of time before Riyadh embarked on wholesale reforms to restructure its economy and society. After all, oil will eventually run out. With energy markets changing yearly and the global economy in flux, Mohammad Bin Salman has embarked on a plan to open his country by targeting foreign investment, easing social restrictions and transforming Saudi Arabia into a knowledge-based economy. The centerpiece of the plan is to sell off between 1 percent to 5 percent of Saudi Aramco, and use its proceeds to create the world largest sovereign wealth fund.

Yet with all the fanfare surrounding so-called Vision 2030, it is still unclear how it will address the Saudis' most pressing problem: unemployment. Two thirds of the population is under the age of 30. Riyadh needs to create 3 million new jobs by 2020. Currently youth unemployment stands at a staggering 30 percent. With the fundamentalist Wahhabi interpretation of Islam emanating from Saudi mosques and schools, a large pool of unemployed youth could be susceptible to extremism.

The government is banking on removing red tape and bureaucracy to make its economy more attractive to foreign investment and fostering public-private partnership to spur entrepreneurship. The question is whether such a wholesale transformation is achievable without sparking social and political unrest that could threaten the stability of the kingdom.

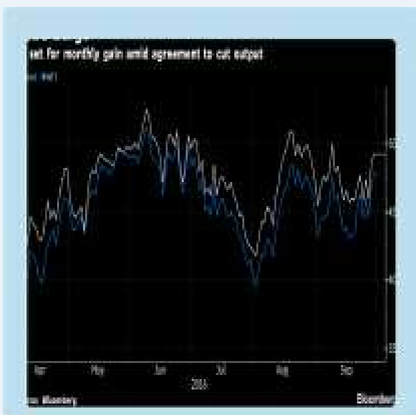
The bond sale alone doesn't provide much insight. In a world of low returns and slow growth, sophisticated investors are always looking for yield. Saudi bonds give them that, issuing 5-year, 10-year and 30-year notes at 2.6 percent, 3.41 percent and 4.63 percent, respectively.

However, one would be hard pressed to find any fund managers or institutional investors who would say they exposed themselves to that debt out of a belief in Riyadh's ability to reinvent itself from a petro-state into a market oriented economy. More likely, they scooped up these bonds because of the oil reserves Saudi Arabia has under the ground. The kingdom faces daunting structural challenges.

With the Aramco IPO and more bond issues to come next year, both investors and the global elite want to see Riyadh succeed. If so, appetite for further investment in both people and the economy will grow. Time and a restive populous are not on its side.

Saudi Arabia's reforms building on sand

Economist, *04.11.2016*



For evidence that a new era has dawned in Saudi Arabia, look no further than the cabinet. Out are the stodgy old princes; in are the youthful reformers. Since assuming the throne last year, King Salman has installed a new generation of ministers closely aligned with his son, 31-year-old Muhammad bin Salman, the deputy crown prince.

On October 31st the king completed the reshuffle by replacing Ibrahim al-Assaf, with Muhammad al-Jadaan, head of the country's Capital Markets Authority. The change comes as Prince Muhammad tries to implement an ambitious set of reforms, known as "Vision 2030".

And aimed at weaning the kingdom off oil by curbing public spending, diversifying the economy and attracting foreign investment. The kingdom's new leaders, many of whom are former businessmen or bankers, are expected to boost that effort. Mr Jadaan, for his part, oversaw the cautious opening of the Saudi stockmarket to big foreign investors last year.

But it will take more than new management to convince analysts that the kingdom is serious about reform. "They've been talking about this stuff for 30 years," says a diplomat in Riyadh, the capital. He points to the King Abdullah Financial District (KAFD), a cluster of gleaming skyscrapers in the northern part of the city. When laying the foundation stone a decade ago, the late King Abdullah envisioned the district as a pillar of the non-oil economy. But KAFD is a flop. Banks and other businesses looked past the towers and saw a closed economy and stifling social restrictions, which never changed.

Today the government is more focused on enacting its bold plans, says Muhammad al-Tuwaijri, the former boss of HSBC's Middle East and north Africa division, who is now deputy minister of economy and planning.

"Believe me, this is discussed every week," he says. Progress reports are required from each ministry. For doubters, KAFD is still a useful barometer. Prince Muhammad hopes to salvage the project by making it a "special zone" with light regulations, a more flexible visa regime and a direct connection to the airport. None of that has happened yet. Smaller steps have already been taken that show progress, but also a lack of touch. In September, for example, the government slashed salaries and benefits for public-sector employees, who make up two-thirds of Saudi workers. But the move was made with little warning, contributing to a collapse in consumer confidence. Earlier in the year, cuts to generous subsidies led to a spike in water bills and an outcry on social media.

The veteran minister for water and electricity was duly fired and replaced by a former businessman. “He took the blame for a policy that wasn’t thought through,” says John Sfakianakis of the Gulf Research Center, a think-tank.

A bigger problem is that the vision itself is fuzzy. Prince Muhammad commands an army of Western consultants, but his National Transformation Programme, the follow-up to Vision 2030, is both oddly specific and frustratingly vague.

It includes benchmarks for such things as the issuing of halal certificates, but fails to explain how the government intends to achieve more important goals, such as more than doubling foreign-direct investment by 2020. Many of its objectives are still “under study”. The reformers have prioritised the “low-hanging fruit”, admits Mr Tuwaijri. More complicated initiatives, such as his own effort to privatise public companies, will follow in due course, he says.

Business-minded ministers are eager to promote private investment, but other reforms are making this work more difficult. A sevenfold hike in business-visa fees will probably deter foreign firms. Local companies that depend on cheap inputs are suffering. Almarai, a big dairy, has said its earnings will decline by over $130m due to the government’s austerity measures. There has also been a rise in public arrears to construction firms, which has led them to cut staff and withhold salaries. Some foreign labourers have been left stranded without pay in desert camps.

Before the collapse in oil prices, two large Saudi contractors—the Saudi Binladin Group and Saudi Oger—were responsible for most of the kingdom’s infrastructure projects. But state spending cuts have left both firms mired in debt. Saudi Oger is owed billions of dollars by the government, most for work it has completed. It, in turn, owes billions to banks (and still more to contractors, suppliers and workers).

The Binladin Group also complains of unpaid contracts. Neither firm is known for its efficiency, so the government may be trying to set a new tone. But its actions have unsettled the Saudi banking system and the wider economy.

Businesses have also been vexed by the government’s efforts to make private firms replace relatively cheap foreign workers with more expensive Saudi nationals, a policy referred to as “Saudisation”. The mobile-phone industry was ordered to employ only locals by September. The government has provided training for locals and now pays some of their salaries.

But in general Saudis lack the skills that employers want. Schools stuff young heads with religion, but neglect more practical subjects such as maths and science. Few Saudis are willing to take entry-level or blue-collar jobs. To meet the government’s quotas, some companies simply pay locals to stay at home.

The IMF recently cut its economic growth forecast for the kingdom’s non-oil sector this year to 0.3%, from 1.6%, on account of the government’s austerity. But it is expected to rebound next year. “The majority of the necessary public-spending cuts have already happened,” says Capital Economics, a consultancy. A successful $17.5bn international bond sale, the largest ever from an emerging market, has already allowed the government to resume paying contractors, and investors’ enthusiasm for snapping up the paper is a good sign.

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But the reforms envisioned by Prince Muhammad and his team run much deeper than mere austerity. Investors are still waiting for more meaningful changes, such as the promised listing of shares in Saudi Aramco, the gigantic national oil company. “This is the medium-hanging fruit that the world will be watching to see if the reform project will be successful,” says Mr Sfakianakis.

Bets are on for oil prices to slump again

Bloomberg, *31.10.2016*

The growing list of OPEC members seeking exemptions from a planned supply cut. Money managers increased bets on lower WTI oil for the first time in five weeks as Iraq joined Iran, Nigeria and Libya in seeking to be excluded from OPEC’s first agreement to reduce output in eight years.

The deal was reached in Algiers and sent futures climbing. But internal disagreements over how to implement the cuts prevented an accord to secure the cooperation of other major suppliers this weekend in Vienna. The OPEC agreed in to trim production to a range of 32.5 million to 33 million bpd, and is due to finalize the deal at a Nov. 30 summit.

The accord helped push oil prices to a 15-month high above $50 a barrel earlier this month, although they have subsequently fallen amid doubts the group will follow through on its pledge. More than 18 hours of talks over two days in the Austrian capital this weekend yielded little more than a promise that the world’s largest producers would keep on talking.

“It might be impossible for OPEC to come to an agreement on making cuts,” said Mark Watkins, the Park City, Utah-based regional investment manager for The Private Client Group of U.S. Bank, which oversees $136 billion in assets. “The best that can realistically be expected is a freeze. Iran, Libya and Nigeria will probably be allowed to raise production to pre-disruption levels.”

OPEC signaled last month that Iran, Nigeria and Libya would be spared from any cuts, due to sanctions and security issues that have curtailed their output. Iraq, citing its war with Islamic State militants, wants similar treatment.

“There’s plenty of time for the market to shift, and perhaps shift again before the meeting on Nov. 30,” said Tim Evans, an energy analyst at Citi Futures Perspective in New York. “Even the official OPEC meeting might not answer all the questions we have. We’ll need additional time to evaluate compliance with the agreement and see if it has any actual impact on the market.”

In addition to increasing short positions in WTI in the week ended Oct. 25, hedge funds reduced their long positions, or wagers that prices will rise, Commodity Futures Trading Commission data show. The resulting net-long position decreased 8 percent. WTI dropped 0.7 percent to $49.96 a barrel in the report week. On Monday prices dropped 3.8 percent to $46.86 a barrel, the lowest close since Sept. 27.

"Right now it's not looking good but these things always go right down to the wire," said Mike Wittner, head of oil-market research at Societe Generale SA in New York. "There's an awful lot at stake here. If they don't reach an agreement oil will fall like a rock and be testing $40 in no time."

OPEC's 14 members pumped a record 33.75 million barrels a day in September, according to Bloomberg estimates. Iraqi production climbed to a record 4.54 million barrels a day last month while Iranian output rose to 3.63 million, the highest since June 2011.

"OPEC total production might still be rising," Evans said. "It looks like there's some added output in both Nigeria and Libya, so we might find out that OPEC production reached another record high in October. That would underscore the challenge OPEC faces and ratchet up the pressure." Money managers' short position in WTI climbed 0.4 percent to 56,563 futures and options, the CFTC said. Longs fell 6.6 percent, the most since August.

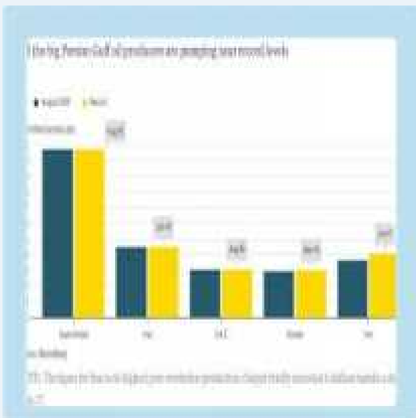
In the Brent market, money managers reduced net longs by 3.7 percent to 376,710 during the week, according to data from ICE Futures Europe. In fuel markets, net-bullish bets on gasoline rose 1.6 percent to 40,730 contracts, the highest since March 2015, as futures slipped 0.4 percent in the report week. Wagers on higher ultra low sulfur diesel prices advanced 46 percent to 12,356, the highest in two months. Futures declined 0.4 percent.

OPEC is seeking the backing of non-members for production cuts to support oil prices. Russian President Vladimir Putin suggested in Istanbul on Oct. 10 that his country was prepared to reduce supply, only to add two days later that it would refrain from further increases at most.

"I still think there's going to be an agreement because there's too much at stake," Wittner said. "If there's no progress in the short term I think you will see Saudi Arabia, Russia, Iran and Iraq get together and thrash out a deal. The four countries have incentives to come to an agreement before Nov. 30."

Saudi Arabia's oil war gained it 1% market share – which it is about to lose

Oilprice, *28.10.2016*



Saudi Arabia has wielded immense power over both the oil producers and consumers based on its proven oil reserves. It not only has the second largest proven oil reserves at 266 billion barrels, its cost of producing a barrel of oil is as low as $8.98 a barrel, according to an article in The Wall Street Journal.

In contrast, in 2014, the cost of producing a barrel of U.S. shale oil ranged anywhere between $50 to $80 a barrel, and the total proven oil reserves at that time stood at 55 billion barrels—relatively small in comparison the reserves on Saudi soil.

Using these strengths, Saudi Arabia embarked on a strategy to scuttle the rapid growth in U.S. shale oil production. Though two years down the line, Saudi Arabia has managed to reduce U.S. production and gain 1 percent of the market share, it has lost considerable market power that it once wielded.

Saudi competition indeed has forced the U.S. shale oil producers to reduce their cost of production. Some shale producers in the U.S. realized they needed to curb costs in order to survive the low priced oil environment, and so they did just that.

Fast forward to 2016, and the cost of producing one barrel of U.S. shale oil is now as low as $23.35 a barrel. The U.S. shale industries resilience—which came ironically at the hands of the Saudi's—has ensured that it will stay in the competition longer than most expectations.

Rystad Energy surprised everyone with a finding in its July report that showed that the U.S. has more oil reserves than Saudi Arabia. Their study estimates that the U.S. has 264 billion barrels of recoverable oil, though a large part of it remains undiscovered. Comparatively, Russia has 256 billion barrels, and Saudi Arabia 212 billion barrels of recoverable oil.

According to their data, Texas alone held more than 60 billion barrels of oil, more than the existing accepted proven oil reserves in the entire U.S. "There is little potential for future surprises in many other countries, but in the U.S. there is," said Per Magnus Nysveen, analyst at Rystad Energy. "Three years ago the U.S. was behind Russia, Canada and Saudi Arabia," reports CNBC.

However, the report has its own critics. Similarly, the Saudi reporting of its own oil reserves also has its skeptics. Some of the major points highlighted by John Kemp in a Reuters article back in July are that the Saudi official estimates "were abruptly raised without explanation from 170 billion barrels in 1987 to 260 billion in 1989."

Surprisingly, oil reserves have remained within the 260- to 265-billion-barrel level ever since, even though Saudi Arabia has consumed or exported the equivalent of 94 billion barrels since then. “If the government data is accurate, the kingdom has managed the remarkable feat of exactly replacing each produced barrel with new discoveries or increased estimates of the amount recoverable from existing fields,” writes Kemp.

That possibility sounds unreal, but we shall know more about it if a third party is ever allowed to verify the reserves, which may become reality if an Aramco listing takes place. With its spare capacity and its ability to ramp up production quickly, Saudi Arabia has earned its status as the “swing producer” of the world. And this swing-status may gift its beholder power equal to that of the size of its reserves.

“A swing producer means that virtually at the flip of a switch, you can go up several hundred thousand barrels per day or down several hundred thousand barrels per day,” said John Hess, the chief executive of Hess Corp. “Shale can’t do that. Saudi Arabia can,” reports Reuters.

Shale producers need anywhere between six to twelve months to ramp up or down production. However, this six to twelve months is still significantly less than conventional fields, which take years to start production.

In two years, Saudi Arabia has gone from being the undisputed king of oil to a nation struggling to come to terms with lower oil prices. It has also managed to raise the very giant it wanted to suppress—U.S. shale oil. One bright spot for Saudi Arabia remains, in that it has gained a percentage point of market share in the last two years, but with the OPEC proposal to freeze or cut production, it will not be long before Saudi Arabia loses that 1 percent market share it gained with so much pain.

Leviathan partners see 12 BCM output by 2020

Globes, *03.11.2016*

The Leviathan partners - Delek Group Ltd. (TASE: DLEKG) units Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L), and Ratio Oil Exploration (1992) LP (TASE:RATI.L) today notified the Tel Aviv Stock Exchange (TASE) that gas would start flowing from the Mediterranean offshore field in 2020.

The update on the gas field and the expected cash flow reiterated that the estimated reserves in the reservoir are about 21.8 trillion cubic feet (TCF). In the first stage the partners expect 12 billion cubic meters (BCM) to flow annually to Israel and Jordan.

The Leviathan partners expect to start paying the government royalties in 2025, as stipulated in the Sheshinski report. Despite the potential complications in the delay in the start of gas production, the share prices of Delek and its units and Ratio rose after the report was published.

OPEC optimistic on oil output deal by end of November

WSJ, *27.10.2016*

After several days of falling oil prices, the OPEC expressed confidence that it would finalize an agreement to curb output later this month and dismissed critics who questioned its influence.

The unusual statement from the 14-member OPEC comes as oil prices have declined almost 8% since last weekend, when a series of meetings at the cartel's headquarters ended in a deadlock. The group pledged at a September meeting in Algiers to cut production by as much as 2%, but left the details of which countries will trim and by how much until its next Nov. 30 gathering of oil ministers.

"We remain deeply optimistic about the possibility that the Algiers agreement will be complemented by precise, decisive action among all producers," said the commentary section of the cartel's monthly magazine, "OPEC Bulletin." OPEC's statement came a day after the U.S. government said American oil held in storage last week had made the largest gains in over 30 years, suggesting the oversupply that far exceeds demand wouldn't disappear soon.

Oil-industry traders and analysts have openly mocked OPEC's ability to follow through on its deal in Algiers. Brent, the international benchmark for oil sold internationally, closed as high as $53.14 in the weeks after the Algiers agreement, but it has fallen in recent days, declining to $46.27 in London trading on Thursday afternoon.

Analysts have cut forecasts for oil prices, predicting they will rise in the next year but stay below $60 a year in 2017, according to a survey of 14 investment banks by The Wall Street Journal. Last summer, many of the same banks were predicting oil prices would rise to more than $70 a barrel this year—a level they now say won't be reached until 2018.

In a note on Wednesday, Barclay's analysts said OPEC was partly to blame for the fall in prices because of its record production. "Neither OPEC's president nor its member countries have the ability to turn around the market sentiment ship around in the next three weeks," Barclays said. Scott Sheffield, the retiring chief executive of Pioneer Natural Resources Co., questioned whether OPEC's members will reach a deal on production and then stick to it.

"I give OPEC a 40% chance of coming to an agreement," Mr. Sheffield said Wednesday while talking to analysts during his last quarterly earnings call as Pioneer's CEO. "If OPEC fails in this agreement we could easily see another year in the low $40s." OPEC warned "industry observers" against being "too quick to judge or criticize the organization or its members."

"Over the years, we have seen how wildly inaccurate their predictions have been," it said. "What many of them have failed to recognize is that OPEC's great strength is its global reach and its diversity." The Algiers agreement to cut production has faltered over the position of some OPEC members.

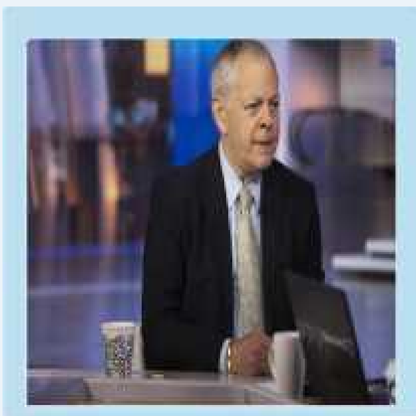
Four countries—Iran, Iraq, Nigeria and Libya—have requested exemptions from the cuts. Iran and Iraq's insistence proved the biggest sticking point in talks in Vienna over the weekend. Iran wants to keep pumping until it reaches 4.2 million barrels a day, while Iraq says it needs to keep producing to generate revenues for an intensifying war against Islamic State.

The cartel has also struggled to get nations outside OPEC, such as Russia, the world's largest oil producer, to commit to specific curbs. Russia, which is currently producing at record highs, has said it won't even freeze output unless OPEC provides detailed figures of its own cuts.

Other non-OPEC producers declined to commit to cuts over the weekend after speaking with the cartel in Vienna. OPEC reiterated Thursday that it needs non-OPEC producers to reduce production. "OPEC cannot be expected to go it alone," according to the statement.

OPEC output deal 'more likely than not,' Citigroup's Morse says

Bloomberg, *03.11.2016*



OPEC and Russia will probably be able to reach an accord to reduce crude production and boost prices, according to Ed Morse, head of commodity research at Citigroup Inc. Saudi Arabia and Russia are "hungry for an agreement,'' Morse said by telephone. "We're expecting the parties that need to do something to boost prices to be serious about deciding something.''

Oil dropped after the Organization of Petroleum Exporting Countries failed to agree on country quotas in talks on Oct. 28-29 in Vienna. Non-members such as Russia and Brazil took part in the second day of discussions.

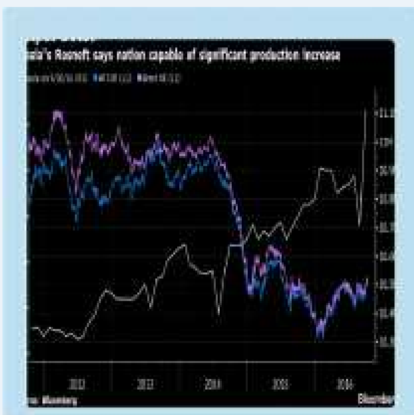
The failure to come to an agreement raised doubts about whether OPEC can implement the first supply cuts in eight years at its Nov. 30 summit. Rising production will make it more difficult for oil exporters to fulfill the pact to curb output, Morse said. Output will need to be cut 1 million barrels a day because of higher output in Libya and Nigeria.

OPEC members said they would trim output to a range of 32.5 million to 33 million barrels a day, which is due to be finalized at the next meeting. The 14-member group pumped a record 34.02 million barrels a day in October, according to a Bloomberg News survey of analysts, oil companies and ship-tracking data.

Citigroup is looking for higher crude prices next year, which will lead to rising U.S. production, Morse said. “We expect there to be a growth in U.S. production next year rather than a shrinkage, mostly out of the Permian basin,” Morse said. “That will be at an order of magnitude of around 300,000 barrels a day, but if you get to $60, you’re going to get an 800,000 barrel a day, in all likelihood, response from the U.S.’’

Turkmenistan’s leader heads to Russia for talks with Putin

Eurasianet, *31.10.2016*



The president of Turkmenistan is due visit Moscow for talks with Russian President Vladimir Putin against the backdrop of a worsening domestic economic crisis.

Turkmenistan’s Foreign Ministry announced the trip in an uninformative one-line statement, so there is no immediate insight into what the focus of the encounter will be. The Kremlin’s own statement on the meeting was not much more helpful. “Key areas in bilateral cooperation will be the main subject of discussion at the talks. The two presidents are also expected to exchange views on current regional issues,” the Kremlin said.

That cryptic statement suggests there is every chance that Turkmen leader Gurbanguly Berdymukhamedov will be seeking to whet Russia’s appetite for resuming its purchases of Turkmen gas. The countries have over the years signed more than 100 bilateral agreements covering a range of areas of cooperation. A key document was the April 23, 2002, Friendship and Cooperation Treaty.

Russian business are actively involved on the Turkmen market in sectors such as auto and industrial machinery, telecommunications, and in the oil and gas business. Around 190 companies working with Russian capital operate in Turkmenistan. In 2009, Russia’s ATERI, previously operating under the ITERA brand, signed a production sharing agreement with Turkmenistan over an offshore sector of the Caspian Sea.

But nothing ever quite superseded direct gas sales for importance. Russia bought 45 billion cubic meters of gas from Turkmenistan in 2008, but that has through a series of commercial and diplomatic vicissitudes dwindled to nothing. Russian gas behemoth Gazprom definitively ceased its gas supply agreement earlier this year.

That has contributed in part to a notable downturn in Turkmenistan's economic fortunes, as evidenced by the fate of the national currency and, most recently, the shortage of basic wares in stores. Beyond dialogue on energy, however, Turkmenistan has been seeking to expand its trade relations with Russia in other ways.

At last week celebrations to mark Turkmenistan's 25th anniversary of independence, the visiting governor of Russia's Astrakhan oblast, Alexander Zhilkin, announced that his region could host a wholesale and logistics facility for Turkmenistan. "Russia and Turkmenistan could exchange goods through it. I proposed to the president that we conduct all transactions in rubles. He was interested. This kind of operation could in part contribute to the North-South Transport Corridor," Zhilkin said.

The North-South Transport Corridor is a multinational initiative whose ultimate objective is to streamline the movement of trade and goods between a far-flung series of nations, including India, Iran, Russia, Turkey, Oman and Ukraine. Turkmenistan is not formally a member of the initiative, although it has nudged toward greater participation by India and, now, Russia.

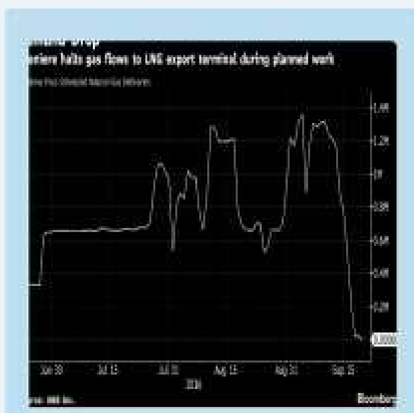
Zhilkin said that he learned from his exchanges with Berdymukhamedov that the Turkmen leader had been following progress in the development of initiatives like the North-South Transport Corridor and that ports like Olya in the Astrakhan Oblast could prove fruitful for Turkmenistan.

"Turkmenistan intends to integrate itself into this work. Berdymukhamedov believes that Olya is essential from the point of view of developing traffic between Turkmenbashi [port] and Russia," Zhilkin said.

Berdymukhamedov is also reportedly interested in establishing air routes between the Turkmen capital, Ashgabat, and the city of Astrakhan in view of the growing number of Turkmen students and businessmen traveling to the Russian city.

Nikkei: Japan, Russia agree to economic cooperation ahead of summit

Reuters, *03.11.2016*



Japan and Russia will focus on about 30 items of economic cooperation ahead of a December summit at which Japanese Prime Minister Shinzo Abe hopes to make progress in resolving a long-festering territorial row, said the Nikkei business daily.

Japan's trade minister Hiroshige Seko met Russian officials in Moscow, including Economic Development Minister Alexei Ulyukayev, and the two sides agreed to seek concrete progress before Russian President Vladimir Putin visits Japan next month to focus on about 30 items, the Nikkei reported.

The ministers also agreed to map out by Nov. 18 plans for government-led projects such as improving the urban environment in the southwestern city of Voronezh and training of Russian engineers, the Nikkei said. That would be before Abe and Putin hold an expected meeting on the sidelines of an Asia-Pacific summit in Peru that month.

Seko and Russian Energy Minister Alexander Novak agreed to work together on oil and gas development and cooperation on decommissioning Japan's disaster-hit Fukushima Daiichi nuclear reactor, the newspaper added.

"Improving the economic relationship between Japan and Russia will of course be a major, important foundation for negotiating a peace treaty," the Nikkei quoted Seko as telling reporters in Moscow.

The dispute over four islands north of Japan's Hokkaido, called the Northern Territories in Japan and the Southern Kuriles in Russia, has kept Tokyo and Moscow from signing a peace treaty formally ending their conflict in World War Two. Abe is betting his close ties with Putin and the lure of investment from Japanese companies could set the stage for progress in the dispute when the pair meet in Abe's home constituency on Dec. 15.

Ukraine 'happy' to pay EU gas price in move away from Russia

Euractiv, *03.11.2016*

The biggest bull run this decade in European gas markets has failed to sway Ukraine from its yearlong boycott of Russian supplies of the fuel. NAK Naftogaz Ukrainy, is "very happy" with the price it's getting even if it "would always like it to be lower," Chief Executive Officer Andriy Kobolyev said.

The Kiev-based company won't buy gas from Moscow-based Gazprom PJSC under current terms no matter the Russian price, he said. "Comparing now the proposals we are seeing from European companies and our expectation of what the Russian price would be, the difference is small," he said, without disclosing any prices.

"If we manage to sign a new package, then yes, we will be prepared to resume gas purchases from the Russian Federation." European gas has rallied more than 80 percent after hitting a six-year low in August amid an extended shutdown of Britain's biggest storage site that is set to boost the need for imports, as well as a jump in rival power-station fuel coal. That has made it more expensive for Ukraine to replace gas from Russia linked to oil prices amid a dispute over pricing and supply terms.

Naftogaz hasn’t bought any Russian gas since November 2015, with Gazprom supplying 18 percent of its consumption that year, according to Ukrainian data. Transit to Gazprom customers in Europe has continued as normal, and Ukraine relied on its own production and so-called reverse flows through pipelines from Europe to offset supplies from the east.

Dutch gas for next-month delivery was little changed at 18.90 euros a megawatt-hour, or $223 per 1,000 cubic meters, as of 3:26 p.m. Amsterdam time, according to broker data compiled by Bloomberg. While Russia offered Ukraine fuel at $180 per thousand cubic meters, it was “told they prefer reverse supplies, so be it,” President Vladimir Putin said Oct. 27.

“The market is volatile and it is quite difficult to predict where the market will go,” Kobolyev said, adding that the company buys gas from Europe via an open procedure in which the bidder with “the lowest possible price on the market” wins.

While Russian gas may currently be cheaper than European rates, the decision on where to buy fuel from may be political amid ongoing international multibillion-dollar arbitration cases in Stockholm against Gazprom on pricing, according to Dennis Sakva, an analyst at Kiev-based investment company Dragon Capital.

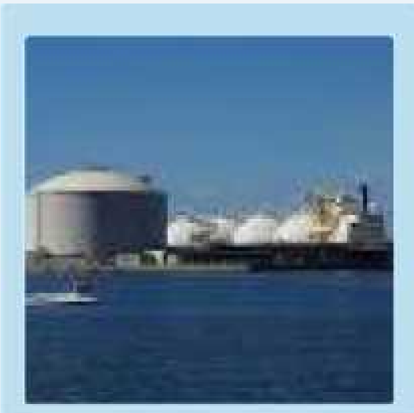
“We need to understand what we are risking in Stockholm if we return to purchases from Gazprom,” Sakva said. “So it doesn’t look like here we are buying and there we aren’t. Here the contract is competitive and there not.”

While Naftogaz stored less gas in its storage facilities than in the previous two years, the company is comfortable with the 14.5 billion cubic meters (512 billion cubic feet) it has because consumption declined and the nation now has more capacity to boost imports from Europe, CEO Kobolyev said.

Naftogaz remains “commercially minded” about its imports from Gazprom. Before any Russian imports can resume, Naftogaz will insist on an addendum to the existing contract with Gazprom to make supply terms “transparent and fair” and to secure a comparable and competitive price, he said. “Without the contract no matter what the price we simply cannot buy gas,” he said.

How Putin is losing his grip on Russia's pipeline politics

Reuters, *04.11.2016*



As President Vladimir Putin seeks to reinforce Russia's position as a global power through nuclear saber-rattling and military campaigns in Ukraine and Syria, the next U.S. administration will need to both contain and cooperate with him. If played right, that may get easier in the years to come.

The transformation of the world's natural gas markets is weakening Moscow's economic toolkit. And that will make Putin's pipeline politics — his use of natural resources for foreign policy purposes — obsolete. It's clear that Russia will try to make a last stand to hold on to its natural gas market in Europe.

Last Tuesday, the European Union granted Russian gas behemoth Gazprom access in Germany to the Opal pipeline, which connects to central and eastern European markets. Other Moscow plans include building new pipelines in the Black and the Baltic seas. During a recent visit to Ankara, Putin signed an agreement with his Turkish counterpart, to build the on-again-off-again Turk Stream gas pipeline, which will allow Moscow to strengthen its position in the European gas market.

In addition, Moscow is ignoring strong opposition from such EU member states as Poland, Hungary, the Czech Republic and Slovakia as it tries to bulldoze ahead with its planned Nord Stream II pipeline, which will bypass Ukraine to bring Russian gas to Germany.

Even if these pipelines are built, which is increasingly unlikely in the case of Nord Stream II, Russian energy politics are coming to the end of their heyday. Since the late 2000s and the early 2010s, the global gas sector has experienced a significant shift following the boom in U.S. shale-gas development.

The breakthroughs in hydraulic fracturing and horizontal drilling techniques have irreversibly altered the landscape of the American natural gas industry. The United States is the world's leading gas producer and, since 2016, a liquefied-natural-gas (LNG) exporter to Brazil, India, United Arab Emirates, Argentina, Portugal, Kuwait, Chile, Spain, China, Jordan and, most recently, the United Kingdom. This creates competition for Russian gas both inside and outside Moscow's traditional European turf.

Outside of the rise of shale-gas production, growing global LNG trade and the expansion of gas-transport infrastructure have transformed the markets, too. International sales of this previously localized resource have boomed.

By the end of 2015, global LNG trade rose to its highest-ever, 244.8 million tonnes (about 270 U.S. tons), which surpassed 241.5 tonnes (267 tons) in 2011. There are 19 LNG-exporting countries – the largest include Qatar, Australia, Malaysia, Nigeria and Indonesia – and 37 importing countries. Two newcomers, Colombia and Ghana, entered the import market in 2016 and 2017, respectively. In Europe and beyond, this spells competition for Russian gas pipelines because importing states can increasingly turn to liquefied natural gas and new pipelines — such as the planned Southern Gas Corridor — not controlled by Moscow.

Most important, these developments have changed the geopolitical rules governing traditional gas suppliers like Russia and consuming states. In this new age of gas, all suppliers face increased competition and greater market pressure; the era of monopolists and near-captive markets is gone.

Long-term gas supply relationships still matter, but there are abundant opportunities for spot trading and the establishment of mutually beneficial short-term relationships. Large-scale infrastructure, with its sizable investment requirements and long-term commitments, still plays a significant role, but new technology such as floating LNG, compressed natural gas and other innovations offer buyers more options.

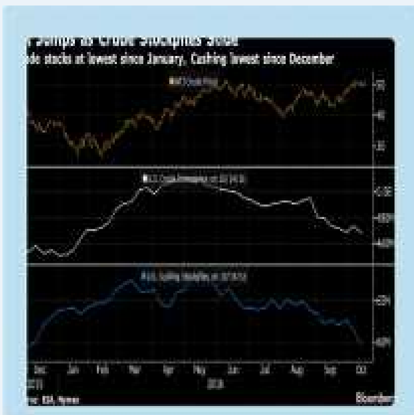
Russia, which has a history of using natural gas supplies for foreign policy purposes, will bear the brunt of this change. Indeed, it is already losing its monopoly – and its accompanying political leverage in Europe and beyond. This, in turn, forces Gazprom to make commercial concessions, such as lower prices, remove destination clauses that restrict on gas re-exports to other markets, move away from long-term contracts and allow more spot trading and hub-based natural-gas pricing versus oil-linked pricing. A case in point: Before the small Baltic country of Lithuania, hitherto 100 percent dependent on Russian gas, built its LNG import terminal in 2014, it managed to renegotiate from Gazprom a 20 percent discount in its new contract.

Meanwhile, Russia's efforts to shift its gas exports from Europe to China demonstrated that it will be Beijing, not Moscow, setting the terms of their gas relationship at a time when liquid global markets give importing states the upper hand.

Putin's Russia still presents Europe and the United States with a number of challenges. One will include Moscow's last stand to use Turk Stream and Nord Stream II to remain a dominant supplier to the European gas markets. But between Moscow's weakening economy and Washington's new energy power, the strongman in the Kremlin is looking a lot weaker.

The (German) politics behind Nord Stream 2

Euractiv, *04.11.2016*



For the parliamentarians, it is politics not economics that is driving their opposition to Nord Stream 2, an additional pipeline to the original Nord Stream venture. Why, they ask, should a group of European energy companies finance a Russian project and import Russian gas that in effect pays for President Vladimir Putin's military campaign in Syria and his meddling in Ukraine?

In a lengthy analysis in the Frankfurter Allgemeine Zeitung, politicians Norbert Röttgen, and Reinhard Bütikofer, are quoted as saying the project should be scrapped on moral and political grounds.

The party that continues to support the venture is the Social Democratic Party, Merkel's coalition partner. And the person ensuring that the Social Democrats do not waver in their support is former German chancellor Gerhard Schröder.

Schröder was recently appointed chairman of the board of Nord Stream 2. Like the original Nord Stream, the new pipeline is being built by Gazprom, the Russian state-owned energy giant, along with a consortium of Western European energy companies. The group consists of Austria's OMV, France's Engie, Germany's Uniper and Wintershall, and the Anglo-Dutch firm Shell. Once operational – scheduled for 2019 – the pipeline will carry 55 billion cubic meters (1.9 trillion cubic feet) of gas a year to Germany.

The agreement to build the first Nord Stream pipeline was signed in 2005 when Schröder was chancellor. During his time in the Chancellery, from 1998 to 2005, he struck up a very close relationship with Putin. Shortly after Schröder lost the 2005 parliamentary election to Merkel, he joined the Nord Stream board, essentially becoming Gazprom's—and Putin's—most prominent lobbyist for Russian energy and political interests in Germany. Despite strong opposition from Poland and the Baltic states, the first pipeline was built. Poland's main objection was not the fact that it would lose transit fees for transporting Russian gas across its territory to Western Europe.

It was the fact that the new gas pipeline would make Europe more dependent on Russian gas imports. It would undermine the EU's plans for energy security. And it would make a mockery of European attempts to diversify its energy sources.

While Poland did succeed in putting the issue of energy security high on EU's agenda, it couldn't stop Nord Stream. It is trying again with Nord Stream 2, this time through the country's antitrust office.

In July 2016, the Polish Office of Competition and Consumer Protection refused to approve the notification in Poland of a joint venture to construct and operate the new pipeline on the grounds that Nord Stream 2 would restrict competition in gas supplies. The consortium seemed to shrug off such attempts to derail the pipeline. “The applicants have decided to jointly withdraw their merger control notification from the Polish competition authority,” according to a statement by the Nord Stream 2 consortium. The group added that the project would, in any case, go ahead.

It is now up to the European Commission to decide whether the offshore and onshore parts of Nord Stream 2 comply with the bloc’s third energy package, which aims to create a single EU gas and electricity market. Essentially, competitors must have access to pipelines. The commission’s views matter. Gazprom dropped plans to build the South Stream pipeline, which would have brought gas to Southeast Europe via pipelines built under the Black Sea. Because the Russian firm would not open the pipeline to competitors, it had to ditch the increasingly expensive project.

What happens in Berlin also matters hugely. Merkel could stop Nord Stream 2. She has already defended it as a purely economic venture even though the project has become intensely political. Conservative and Green parliamentarians suggest Merkel is reluctant to step into the fray because she has to keep the Social Democrats on board.

But it is hard to see the Social Democrats jumping ship with just less than a year to go before Germany’s next parliamentary election. With their own party struggling in the polls and amid uncertainty over whether their lacklustre leader, Sigmar Gabriel, will last long enough to stand against Merkel, the Social Democrats are in a very weak position.

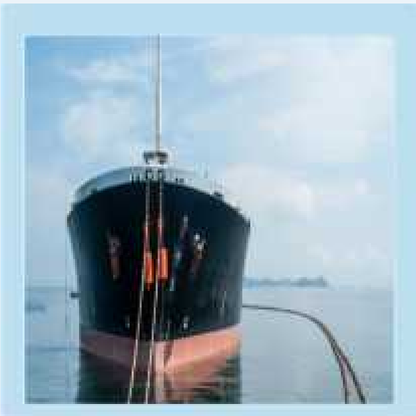
Not only that. Younger Social Democrats oppose Nord Stream 2 as much as Putin’s domestic and foreign policies. But they are still in a minority. Gabriel, who in 2015 told Putin he would ignore any EU ruling on Nord Stream 2, has not changed course. One reason is that Schröder still exerts immense influence over the Social Democrats. Another reason is the hankering after Ostpolitik—Germany’s former policy of rapprochement toward Moscow—based on the belief that big economic deals between Germany and Russia will bind Russia to Europe and positively influence the country’s political and economic direction. That has clearly not happened.

Which begs the question why Merkel continues to support Nord Stream 2 as more Christian Democrats and Greens speak out against the project. It’s a puzzling policy that damages Germany’s standing among its Eastern neighbours, undermines European energy security, and increases Germany’s dependence on Russian gas.

PETFORM

Norway's energy chief says companies must cut costs to cope

New Europe, *01.11.2016*



Energy companies have to work hard to reduce cost due to the low oil and gas prices in order for projects to become viable, Norway's Oil and Energy Minister Tord Lien said.

"We have to acknowledge the fact that lower oil prices and lower gas prices makes it important for the companies to really work hard to get cost down," Lien told. He was responding to a question by New Europe posed to Lien and European Commission Vice President for Energy Union Maroš Šef ovi on whether low prices threatened the viability of projects, including export projects from the East Mediterranean region.

"We have seen this on the Norwegian continental shelf as the planned services industry has endeavored and actually one of the gas fields in the region is one of the projects outside Norway that the Norwegian planned services industry is involved," Lien added.

The Norwegian Minister said he was confident, looking at the resource potential of both Egypt and Israel, that these gas projects will be developed. "If the resources are so big that they can really defend a pipeline to Turkey or elsewhere is not obvious," Lien said, adding that there is a significant increase of local gas consumption and there is already established liquefied natural gas (LNG) capacity in the region.

Šef ovi said the countries in the region what to use the gas first for their regional development. "There is quite a big demand for gas in the region. And then, of course, for them the natural destination for exports would be Europe and I'm sure that would be the next step when the most cost-efficient and appropriate way how to transport gas to Europe would be found," the Vice President said.

Regarding the East Mediterranean region, Šef ovi said Cyprus, Greece, Israel and other players in this part of the Mediterranean are cooperating closely and discuss "how this new wealth, these new gas reserves could be further explored and used". He said that investors are examining the viability of these projects, including the LNG terminals in Egypt, facilities in Greece or Italy or through the EastMed pipeline. He reminded that the European Commission financed a feasibility study "about the possible pipeline construction between Cyprus and Crete or some other destination".

Šef ovi noted that the feasibility study was done concretely on this pipeline, which is technically, but would have a cost of up to 5 billion euros. "Of course all this was discussed on expert political level," he said. He said that the competition is very tough but he is confident that Caspian gas would reach Europe before 2020 via the Southern Gas Corridor (SGC). "An enormous investment was made.

The project is running in very professional manner and, of course, the business scale is clearly there and is based on the timely conclusion of the construction of the Southern Gas Corridor and there are already agreements of purchase signed. So I believe that before 2020 we will have the Caspian gas in the European Union," Šef ovi said.

Chevron and Exxon pit Texas against Canada

Bloomberg, *31.10.2016*

In case you didn't have time to listen to Friday's Big Oil earnings calls, here's a summary: Exxon Mobil: We have a tremendous business model built for the long term ... but almost a fifth of our proved reserves might disappear come the New Year. Chevron: Whew! We finally made some money, and ... oh, did we mention our assets in the Permian shale? We did? Well, just to reiterate, we're big in the Permian.

The market liked the second one better, it turns out. Chevron's stock rose by almost 4 percent, while Exxon's fell by 2.5 percent. These are big moves when you're talking about almost $550 billion of combined market cap.

Taking Exxon first, it announced low energy prices could force it to de-book 4.6 billion barrels-equivalent of proved oil and gas reserves. Physically, they still exist. They just don't meet the test for being "proved" based on trailing oil and gas prices, so they have to go (for an explainer on this, see here). As and when prices rise, they could be added back.It's still a big deal.For one thing, it's another embarrassment for Exxon in what has been a humbling year already.

It also presses on Exxon's biggest sore spot: replacing its reserves. The company didn't manage this in 2015 because it had to de-book more than 580 million barrels-equivalent of reserves, mostly U.S. gas, due to the same issue of low pricing. Taking off 4.6 billion would be equivalent to about three years' worth of production.

Of that total, 3.6 billion relate to one asset, the Kearl oil-sands project in Canada. Developing this type of mega-project is kind of the whole reason Exxon and its peers exist in the first place. Compounding the misery, Exxon also said a review of its asset portfolio could lead to impairments due to low prices.

Exxon may have felt it necessary to speak to this issue because of recent questions raised on how it has avoided write-downs so far. But with its own CEO Rex Tillerson telling everyone not to expect a big rebound in oil prices, an actual impairment could be coming.

This all ties back to the other embarrassment Exxon suffered earlier this year, when Standard & Poor’s cut the company’s triple-A credit rating, specifically calling out replacing reserves as “the company’s greatest business challenge. “With its Russian expansion plans stymied for now, Exxon’s long-term growth prospects look beholden to high-cost things such as liquefied natural gas and, yes, Canadian oil sands. More than ever, it looks like Exxon needs to rejigger its portfolio, possibly with an acquisition, to deal with the lackluster price environment it foresees. Chevron, meanwhile, appears to have gotten a head start on such rejiggering.

This is partly due to timing. Chevron’s CEO, John Watson, famously said in early 2014 that “$100 a barrel is becoming the new $20” -- roughly six months before oil prices began the swan dive taking them close to $20 by early 2016.

Such bullish thinking -- not confined to Chevron by any means -- spawned a series of giant development projects such as Gorgon LNG in Australia. These busted through budgets and schedules, taking down cash flow and return on capital with them. But with those projects now producing, or close to it, Chevron has taken most of its licks already.

And now, having mostly stopped beating the drum for an imminent rebound in oil prices, it has a far better sales pitch -- which beings with “P”.The Permian basin, mostly in Texas, has kept chugging along in the oil crash even as its cousins in the Bakken shale and elsewhere have succumbed. Exploration and production companies focused on the Permian have left their peers in the dust:

Land values there have soared as E&P firms and private equity have tried to establish or consolidate positions. An acre usually changed hands for $20,000 or less a couple of years ago; now it’s more likely to go for at least double that.Hence, while the Permian only accounts for about 6 percent of Chevron’s output, analyst valuations of the company’s assets there are much bigger. Citigroup recently put it at between $50 and $60 billion, or up to a quarter of Chevron’s enterprise value.

Even allowing for the usual sell-side exuberance and the tendency of E&P firms to bid up land, that makes it a bedrock asset for the company.The Permian’s real advantage, though, is that it represents good rocks in a good neighborhood -- politically speaking -- that can be developed quickly and with the possibility of further productivity gains.

In other words, and at the risk of stating the obvious, Texas ain’t Canada or Russia.Exxon also has a lot of acreage in the Permian shale, but it is gassier than Chevron’s. What Chevron has in the Permian is a means to smooth out the lumpiness of spending and production, inherent to mega-projects, that bedevils Big Oil. It can offer a more credible path to raising output and keeping costs in check in the near term until larger projects elsewhere come onstream.Does it solve everything?

No. Chevron is still borrowing to pay its dividend. But, then, so is Exxon. And, as I explained here, Exxon’s stock has less leverage to oil prices than most rivals, with its appeal resting chiefly on its apparent invulnerability. That’s just less apparent these days -- which makes the valuation gap between the two oil majors ever more so.

Announcements & Reports

Energy Subsidy Reforms and The Impacts on Firms: Transmission Channels and Response Measures

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/energy-subsidy-impact-firms-transmission-channels-response-measures/

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

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

International Gas Summit

Date : 28 - 29 November 2016
Place : Nice, France
Website : http://gassummit.org/

5th Greek Cyprus Energy Symposium

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

European Gas Conference

Date : 23 - 25 January 2017
Place : Vienna, Austria
Website : http://www.europeangas-conference.com/

North Africa Oil & Gas Summit

Date : 26 January 2017
Place : Milan, Italy
Website : http://nas.theenergyexchange.co.uk/

CIS Oil & Gas Summit

Date : 26 – 27 April 2017
Place : London, United Kingdom
Website : http://cissummit.theenergyexchange.co.uk/

Big Gas Debate 2017

Date : 14 June 2017
Place : London, United Kingdom
Website : http://www.theenergyexchange.co.uk/big-gas-debate/

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