Oil & Gas Bulletin

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Turkey increases its gas export-import operations

Trend Az., *11.06.2014*

In January-April 2014, Turkish state-owned pipeline company BOTAS imported 15.01 billion cubic meters (bcm) of gas from various sources versus 12.61 bcm in the same period of 2013, according to a message from the company.

Turkey imports gas from it's neighbor Azerbaijan, which is delivered via the South Caucasus Pipeline (Baku-Tbilisi-Erzurum). In total in 2013, BOTAS imported 38.42 bcm of gas from various sources as compared to 43.09 bcm in 2012. BOTAS' export operations hit 231 million cubic meters (mcm) of gas in January-April versus 188 mcm in the same period of last year.

The company's export operations in 2013 accounted for 694 mcm of gas compared to 622 mcm in 2012. Some 14.93 bcm of gas was sold in Turkey's domestic market in January-April, compared to 13.95 bcm in January-April 2013, according to the message. Last year, this figure was over 37.96 bcm of gas versus 41.44 bcm in 2012.

Iran's gas discount not enough

Hürriyet Daily News, *10.06.2014*

Iran's four-page discount proposal on the price of natural gas it sells to Turkey is "not enough," Energy Minister Taner Yıldız said June 10 after attending a Turkey-Iran Business Forum in Ankara. Iran has also imposed a condition that Turkey withdraws from the five-month-old arbitration talks on the price Iran charges for natural gas, which Turkey has refused, Yıldız added.

The latest concession from Iran came two months ago when it offered a potential discount if Turkey were to increase the amount it buys, but Yıldız said the offer "did not have a concrete price discount."

Negotiations between Turkey and Iran on energy topics and a discount on the natural gas that Turkey buys from Iran will continue next week, the Turkish minister added. Energy-hungry Turkey imports 10 billion cubic meters of natural gas at a price of $507 per cubic meters.

Second tanker of Kurdish oil leaves Turkey despite Baghdad's warning

Hurriyet Daily News, *10.06.2014*

A second shipment of Iraqi Kurdish crude has sailed from the Turkish port of Ceyhan, industry and government sources said, increasing the stakes in a battle with Baghdad over control of oil sales from the autonomous region. The United Emblem suezmax tanker, carrying 1 million barrels of crude, sailed from the harbor on Turkey's Mediterranean coast on June 10, Reuters AIS Live ship tracking showed.

The shipment is the second to leave Ceyhan in three weeks after arriving by pipeline. At least 2 million barrels of Kurdish crude are now at sea, despite protests from Baghdad that only the central government has the right to sell Iraqi oil.

Iraq's oil minister condemned the exports. "What happened in my view was the biggest mistake that has been made by the Kurds and the Turks... and the Iraqi government will take severe measures," Abdul Kareem Luaibi told a news briefing in Vienna on June 9. He repeated that Baghdad would sue the Turkish government and Turkish state owned pipeline operator Botaş for facilitating the sale of the crude. Baghdad was in the process informing the United Nations about Ankara's role in the shipment, he added. "We have no choice but to go to arbitration and they [Turkish government] have been informed," Luaibi said. The Kurdish Regional Government has said the oil shipments are designed to show Baghdad it will exercise control over its own oil sales, but so far it has failed to find a buyer for its first tanker shipment, which left Ceyhan over two weeks ago.

Last week the first tanker, the United Leadership, sailed away from Morocco after the North African country declined to let the vessel unload its 1-million-barrel crude cargo at the Mohammeddia refinery. Italy has also warned oil traders they face potential legal action if they buy the Kurdish crude, after discussions with the Iraq central government at its embassy in Baghdad. The regional government originally said the oil would be sold to German or Italian refiners, but so far the United Leadership has not sailed towards those destinations. On Monday, it remained about 48 km off the Moroccan coast. The United Leadership and the United Emblem are listed in tanker tracking as "For Orders," an industry term indicating that a final buyer of the crude has not yet been arranged.

Until last month, Kurdish oil exports were constrained to a small volume sent by truck to two Turkish ports on the Mediterranean. Iraq's state marketer made threats of legal action but did not follow through. But the start of deliveries on a new Kurdish pipeline that currently pumps around 100,000 barrels per day to Ceyhan means significantly higher revenues for the region. Iraq and Kurdistan have been trying to reach a political agreement over oil sales, but five months after the pipeline started up there had still been no final decision, prompting the regional government to go it alone. Kurdish crude stored at Ceyhan had reached 2.8 million barrels at the end of last week, Turkish Energy Minister Taner Yıldız said on June 6.

Yildiz: Turkey will not increase its stake in TANAP

Natural Gas Europe, *09.06.2014*

Turkey does not plan to increase its stake in Azeri-Turkish Trans Anatolian Natural Gas Pipeline Project (TANAP), Turkish Energy Minister Taner Yildiz said. In the sidelines of a signing ceremony of SOCAR's Star Refinery's $3.3 billion credit in Istanbul, Yildiz stated that Turkey will keep its 30% stake in TANAP. "The share in TANAP is sufficent for Turkey. We're not planning to change our share in TANAP before it become operational in 2018."

In late last month, Yildiz and Azerbaijani Energy Minister Aliyev signed an agreement in Istanbul on increasing Turkey's share in the TANAP project up to 30%.

Azerbaijan's State Oil Company (SOCAR) sold 10% out of its 80% share to the Turkish state-owned BOTAS pipeline company. Following deals with BP - largest shareholder in Shah Deniz – and BOTAS, the stake of SOCAR in TANAP will stand at 58%. In early May, SOCAR's CEO Rovnag Abdullayev said that the company may decrease its stake in TANAP from 58% to 51% gradually in foreseeable future. He did not give further details about the intention. Initial capacity of the pipeline is expected to be 16 BCM per year.

About 6 BCM of natural gas will be delivered to Turkey and the rest to Europe. The pipelines capacity can be further expanded to 31 BCM of natural gas per year. TANAP shareholders plan to lay the pipeline's foundation in the second quarter of 2014 and commission it in 2018. TANAP project cost is estimated to be between $10 billion and $11 billion. The implementation of the Shah Deniz development project and the TANAP project will increase the pipeline's importance for European natural gas consumer countries. Shah Deniz is among the largest gas fields in the world, with nearly 1.4 TCM of natural gas.

Apart from Azerbaijan, gas extracted from the Shah Deniz field is exported to Georgia and Turkey. Shah Deniz I has been pumping gas since 2006 and has an annual production capacity of about 10 BCM of natural gas. The gas to be produced in the second phase of the Shah Deniz field's development will be exported through expansion of the South Caucasus Pipeline and construction of the Trans-Anatolian Gas Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). The route is a strong alternative for Europe to cut its dependence on Russian imported natural gas. Currently, the EU imports more than one third of its natural gas needs via pipelines across Ukraine.

Azerbaijan's Star rising in Turkey

Financial Times, *09.06.2014*

Turkey and Azerbaijan have further cemented their close relations with the signing of a $3.29bn credit agreement for the Turkish subsidiary of Azeri state oil company Socar, for the construction of a 10bn tonnes a year oil refinery to be constructed at Aliaga on Turkey's Aegean coast. The credit package, formally agreed on Friday, is both the largest single project finance agreement in Turkish history and, at 18 years, the deal with the longest maturity to date.

It is also the most diverse, involving no fewer than 23 international financial institutions, including Santander, BNP Paribas, Deutsche Bank, Unicredit and Société Générale.

Socar will contribute a further $2.4bn to the $5.69bn project, of which around $800m has already been invested. The Socar Turkey Aegean Refinery, or Star, will be constructed by a consortium of Tecnicas Reunidas of Spain, Saipem of Italy, GS Engineering & Construction of South Korea and Itochu of Japan. It is the latest example of an increasingly close economic relationship between Turkey and its eastern neighbour Azerbaijan and comes only a week after the signing of agreements for TPAO, Turkey's state oil company, to buy Total's 10 per cent stake in Azerbaijan's Shah Deniz gas field and for Botas, Turkey's state gas transit company, to take a 30 per cent stake in the Azeri-Turkish Trans Anatolian gas Pipeline (Tanap) to carry gas from Shah Deniz to Europe.

Speaking at Friday's signing ceremony, Taner Yildiz, Turkey's energy minister, noted that with the Star refinery the total investment in oil and gas sector projects involving the two countries was expected to rise to around $45bn by 2018. Star is far from the only example of Azeri investment in Turkey's downstream oil sector. When operational in 2018, it is slated to supply the adjacent Petkim petrochemical plant, itself 61 per cent owned by Socar, with 1.3m tonnes a year of naphtha feedstock, saving the company as much as $100m a year. The bulk of the rest of the refinery's output, including 4.95m tonnes a year of low sulphur diesel, are destined for the Turkish market. That should help reduce Turkey's import dependency and may cut as much as $2.5bn from the government's current account deficit in the process.

Also speaking at the signing Shahin Mustafayev, Azerbaijan's development minister, noted that Turkey is his country's main trading partner, with more than 1,000 Turkish companies active in Azerbaijan, a figure he said could only increase. Cooperation between the two countries is set to deepen further with the development of the 31bn cubic metre a year Tanap gas pipeline, which will run nearly 2,000 km across Turkey to its border with Greece. From there it will connect to the 20bn cu m/yr Trans Adriatic Pipeline or TAP project being developed by a consortium of Socar, BP, Statoil, Fluxys, Total and E.ON, which will carry gas through Greece and Albania and across the Adriatic to Italy. Reports last week quoted Socar officials as saying that Total and E.ON were looking to leave the consortium, a move which if confirmed could open the road for Botas to join, further extending Turkish-Azeri energy cooperation into Europe.

Ukraine mulls transferring natural gas via Turkish straits to bypass Moscow

Hurriyet Daily News, *10.06.2014*

Ukrainian companies are in talks with their Turkish counterparts over how to transfer LNG through Turkish straits to bypass Russia, Ukraine's Ambassador to Turkey, Sergiy Korsunsky, has said at a roundtable discussion organized at Kadir Has University in Istanbul.

"One will be responsible for transit and the other will be for storage. That's exactly what the EU demanded from us so that there will be no monopolies," he said. Korsunsky said first of all they have to diversify the sources of gas. "If you look at the map, the only viable way to do it is through the Black Sea.

That's why the idea to build an energy terminal in Odessa was put on the agenda. We understood at the very beginning that it is not easy; it is quite a costly project, and we will need to talk to Turkey about the Bosphorus. But formally, by the Montreux Convention, Turkey cannot stop it," he said. Korsunsky said private businesses in Ukraine were currently talking to private businesses in Turkey about possible routes. "Is it that dangerous? Is it that problematic to organize this? We understand the concern because we were speaking unofficially to government officials, and we were told about serious concerns about possible accidents. We will try to continue these discussions; we will try to find common ground. Maybe we will try to find a common project to do that. But definitely this is high on the agenda of the [Ukrainian] prime minister," he said.

"We expect Turkey will continue to support us, and we expect Turkey will continue to work with us on major projects," Korsunsky said. Korsunsky also claimed that they had confirmation that there were several hundred mercenaries around Donetsk from Russia who were receiving money in return for every soldier and army officer that they kill. "They are well-paid for that. We have figures like 300-350 dollars per day. If they kill a soldier they receive 500 dollars, if they kill an officer they receive 1,000 dollars and special premium; if they are able to take down a helicopter or a tank they receive more. And they don't hide that they are fighting for money. They are trained in Crimea and then they are shipped by cars to the Ukrainian territory, especially to Donetsk. These are the same kind of mercenaries who fought in Georgia, Chechnya and Afghanistan," he said.

Korsunsky also claimed that since Russia took over Crimea after a March plebiscite, there had been human rights violations in Crimea. "They closed Ukrainian schools, Crimean Tatars are being beaten because they speak Crimean Tatar. Now the security service of the Russian Federation is questioning Crimean Tatars about their Muslimhood – they ask them questions like 'For how long have you preached Islam? How often do you go to mosque?' That's the attitude, they're making a file on every Muslim, specifically women who cover their hair," he said. Korsunsky said around 10,000 Tatars had left Crimea and moved to mainland Ukrainesince the annexation. "This is very sad. This is another deportation," he added.

Kurdish oil finds new buyers in Europe despite Baghdad threats

Reuters, *11.06.2014*

Russian oil firm Rosneft bought a cargo of Kurdish oil for a German refinery it co-owns with oil major BP, quietly circumventing Baghdad's ban on independent oil sales by its autonomous region, according to trading sources.

While Iraq and Kurdistan will have to work together to combat an Islamist militant group that this week seized Iraq's second city Mosul, near the Kurdish border, they have been locked in a bitter oil dispute for the past two years, with Baghdad saying only its state company is authorized to sell crude. The militants from the ISIL, an offshoot of al Qaeda, were closing in on Iraq's largest oil refiner on Wednesday.

Baghdad has already blacklisted Austrian firm OMV, so far the only regular buyer of Kurdish crude in Europe. It has threatened measures including revising contracts to develop large Iraqi oil fields as a deterrent to others. Rosneft and BP buy crude oil via separate trading divisions for their German refining venture, Ruhr Oel, although BP is the main operator of the venture. Both companies declined to comment on the Kurdish crude purchase. Rosneft, controlled by the Russian government, has no major projects in Iraq, while BP is among the biggest investors and is leading the project to develop the huge Rumaila field. Outside Europe, Israel and the United States have also been frequent lifters of Kurdish oil.

The dispute escalated at the end of May when Kurdistan started selling oil out of its newly built pipeline to Turkey. Kurdish oil was previously trucked to two Turkish ports, but the pipeline would increase exports sharply. Baghdad has so far successfully fought off the first attempt to sell pipeline crude, with a loaded tanker, the United Leadership, being forced twice to change course abruptly without being able to discharge its cargo. But market sources told Reuters that another tanker with Kurdish oil had quietly been sold into Europe, ending up with Ruhr Oel. The Minerva Antonia cargo loaded around 41,000 tonnes of Kurdish light grade Taq Taq, which had been trucked from Kurdistan to the Turkish port of Mersin on the Mediterranean.

The cargo - around $30 million worth of oil - then sailed to the Italian port of Trieste on May 8, according to Reuters AIS Live ship tracking and two shipping sources. The oil was then pumped through the Trans-Alpine Pipeline for Ruhr Oel's refining facilities into Germany, several industry sources with direct knowledge of the matter said. Because BP is the operator of the refining venture, its German arm, Deutsche BP, featured as the technical receiver of the oil, according to two shipping lists from local agents seen by Reuters and one source with direct knowledge of the matter. Rosneft, which bought the crude, according to market sources, has no obligation to coordinate crude purchases with BP, though the development could still put the British major in an uncomfortable position.

Iraq says southern oil facilities ‘very, very safe’

Reuters, *11.06.2014*

Iraq’s southern oil export facilities, currently its only export outlet, were secure, with shipments now running at around 2.6 million barrels per day, Oil Minister Luaibi said. An al Qaeda splinter group seized control of the northern Iraqi city of Mosul on Tuesday, putting security forces to flight against the Shi’ite-led government.

“All our exports now are from the Basra terminal in the south - and it’s a very, very safe area,” Luaibi told reporters ahead of an OPEC meeting. Iraq’s northern export pipeline, which connects to a Turkish terminal, has been out of action since March after a bomb attack.

Iran’s gas storage capacity hits 8 bcm

Reuters, *12.06.2014*

“Currently the infrastructure (needed) for storing 8 billion cubic meters of natural gas per year has been prepared in Shourijeh and Sarajeh gas facilities,” Samivand told.

Shourijeh storage facility, largest in Iran, will supply gas to North Khorasan, Khorasan Razavi, Mazandaran, Gilan and even Ardebil provinces in north, northeast and northwest of Iran. It will stock more than 700 million cubic meters of gas for possible withdrawal during the cold snap. After completion of its second phase, Shourijeh storage facility will be able to take 20 million cubic meters and deliver 40 million cubic meters of gas per day, adds Tasnim News Agency.

Iran’s first gas storage facility with 3.3 billion cubic meters capacity was inaugurated in Sarajeh district, near the central city of Qom, back in January 2013.

More natural gas reserves needed to sustain an LNG terminal

Famagusta Gazette, *06.06.2014*

Greek Cyprus Energy Minister Giorgos Lakkotrypis said on Wednesday that more local natural gas reserves than the ones currently discovered are needed to render an LNG plan viable.

Speaking to a seminar concerning energy sufficiency and renewable sources, Lakkotrypis recalled the governments decision to construct an on-shore Natural Gas Liquefaction Terminal, noting that this project would grant flexibility with regard to natural gas exports, bring about economic growth and would enable processing natural gas deposits from neighbouring countries.

"However, the fact remains that additional reserves in our EEZ, more than those discovered in block 12, are needed to fund and to sustain the LNG terminal," he said. Exploration work carried out by US Noble Energy in block 12 revealed an estimated gross mean resources of 5 trillion cubic feet (tcf), which is not considered enough to sustain an LNG plant. "While we are continuing negotiations with US Noble and its Israeli partners Delek and Avner for the project, we succeeded in expediting the exploration drilling by Italy`s ENI in blocks 2,3 and 9 by a few months," he added. Noble Energy operates Block 12 with a 70 percent working interest. Delek Drilling Limited Partnership and Avner

Oil Exploration Limited Partnership each own 15 percent. Lakkotrypis met yesterday with ENI`s senior officials discussing the company`s exploration programme in the Cypriot blocks, awarded to a consortium between the Italian energy giant and Korea`s KOGAS. Furthermore, Greek Cyprus granted exploration contracts to French energy giant TOTAL over blocks 10 and 11. Total is expected to begin exploration activity in 2015. Furthermore, Lakkotrypis noted that recent hydrocarbon discoveries offshore Greek Cyprus as well as discoveries in the Levant especially following the events in Ukraine could play a significant role in the security of Europe`s energy supply.

According to Noble Energy, which also has concessions for the development of major Israeli gas fields Leviathan and Tamar, exploration activities offshore Israel and Cyrpus has resulted in the discovery of approximately 40 Tcf of new gas resources for this region. He said that according to forecasts by International Energy Agency, Europe's dependence on natural gas imports will continue to grow from 45% or its current energy needs to 65% by 2020. If we exploit these developments correctly always in collaboration with our neighbouring countries we will render the region as a key player in the developments concerning energy and particulary in the shaping of EU's future energy policy beyond 2020, he concluded.

Greece, securing a central role in the EU energy future

Natural Gas Europe, *07.06.2014*

As discussed in the recent international conference organised in Athens by the Research Centre for Energy Management at ESCP Europe Business School and the Greek Energy Forum, the European Union, through its 2030 Energy Targets, has provided with a blue print of its vision of the energy industry. It does so by defining its development and activities within the EU territories over the next 15 years, and beyond.

Issues such as those of security of supply, energy efficiency, carbon emissions, renewables and many others are covered in different depths and levels of clarity within these Targets.

Targets, whose importance has been highlighted by the recent geopolitical developments and the market dynamics of the energy industry. Greece, a country which up to now has featured on the side-lines of the energy industry, has now an opportunity to take a central role in the future of EU energy industry. Provided that three central pillars for reducing the EU energy footprint and supply risk, as set by the 2030 Energy Targets, are: differentiation, efficiency and development of domestic energy sources, Greece has a lot to offer. Differentiation in energy sources does not only mean the development of renewables to a higher percentage of our energy mix, nor just the increase of availability of Natural Gas in the EU markets. It also implies the intrinsic and highly important adaptation of these sources in our energy demand.

Differentiating our energy sources in key industries, such as that of power generation and transportation in order to move towards cleaner but also cheaper sources, might bear significant benefits in terms of reductions in supply risks in addition to those of efficiency and carbon emissions. The benefits of energy efficiency increases, in an energy net-importing country such as Greece, are clear. The effects of rebalancing its national budget, ensuring higher levels of security of supply and commercial competitiveness will be felt in the short term, and will be sustained in the long term. By investing in developing our own supply sources, we will be essentially reducing our exposure on external suppliers and thus, again, minimising our supply risks. The current hydrocarbon developments in the South East Mediterranean look very promising in this respect.

Greece is making significant steps towards being in the centre stage of these developments, of course benefiting from its strategic geographical position as the centre of the region. By supporting the development of strategic projects throughout the EU, but more specifically in the South East Mediterranean region, such as those of logistics infrastructure, storage capacity and fuel conversion (among others), we can manage to safeguard the energy markets against supply or price fluctuations. Whose risks we have to be mindful of, as they could derive either from changes in the market fundamentals or by financial speculation, especially when the energy markets become more liquid and flexible as we expect in the near future.

Chevron's Bulgaria pull-out a blow for energy security

Financial Times, *11.06.2014*

European advocates of shale gas – and they do exist – have been hoping that the Ukraine crisis might galvanise governments into dropping objections to controversial fracking. But despite a growing and belated recognition that Europe must do more to diversify its energy sources, in Bulgaria at least the unpopular shale movement is going backwards.

Last month, Chevron quietly closed its Sofia office, three years after it was awarded a licence for shale exploration that was scrapped months later. The company did not publicise its withdrawal and it has gone largely unreported.

But the move is indicative both of the political challenges that frackers still face and of Bulgaria's frustratingly inconsistent treatment of energy investors. "Chevron can confirm it has closed its office in Sofia, Bulgaria and will not be pursing an exploration program in Bulgaria," the company said in a statement to beyondbrics: The ban on hydraulic fracturing imposed by the Bulgarian parliament in 2012 following Chevron's successful bid for an exploration permit in northeast Bulgaria remains in place. The uncertainty over Chevron's ability to explore for natural gas from shale in Bulgaria means the opportunity is no longer competitive with other opportunities in our global portfolio. Chevron continues to explore and evaluate investment opportunities in Central and Eastern Europe.

In June 2011, the previous Bulgarian government granted Chevron a five-year exploration licence that included permission to use hydraulic fracturing for shale gas. This gave it access to the 4,000 sq km Novi Pazar field, which initial estimates suggested could contain 300bn to 1tn cubic metres of shale gas. The exploration project was valued at around €50m, with the state receiving €30m. But in January 2012, the same administration cancelled Chevron's fracking permit, days before issuing a broad moratorium on fracking and becoming the second European country effectively to ban the technology. The government cited environmental grounds for the measure, which was overwhelmingly approved by parliament and came after street protests against fracking (pictured above).

On its election last year, the current government said the ban was temporary. But it has more recently changed its tune, saying that it will not change the policy. "The simple explanation [for Chevron's withdrawal] is that the current government and parliament showed no interest in resuming the work of the parliamentary fact-finding commission on shale gas and fracking that was set up with the decision to impose the famous moratorium," says Ilian Vassilev, an energy consultant and blogger and former Bulgarian ambassador to Russia who is deeply sceptical of Sofia's ties with Moscow. "At the time the moratorium was considered a temporary decision, while the commission explored the facts inviting all stakeholders to present their case and soliciting expert evidence.

Under current circumstances, there is no clear sign of change or willingness to move beyond the ban and most importantly there is no political party in the current parliament willing to initiate a review and restart the work of the commission." Shale development could have helped ease Bulgaria's dependence on imported gas from Russia's Gazprom, which currently accounts for around 90 per cent of supply. But fracking remains unpopular across the continent, as shown by recent protests in Poland and the UK, which have been more supportive of the shale sector. The Bulgarian government has little to gain politically from lifting the moratorium, with the alleged influence of pro-Russian businesses another factor.

Bulgaria's energy outlook more broadly is characterised by uncertainty. For some months in the wake of the Ukraine crisis, the Socialist-led government remained strongly supportive of South Stream, a Gazprom pipeline project that would bring gas to central Europe through Bulgaria, bypassing Ukraine. Its efforts went as far as re-designating the project in an attempt to circumvent EU rules. But on June 8, Plamen Oresharski, Bulgaria's prime minister, bowed to international pressure and froze construction work on South Stream. There is potential in Black Sea gas exploration, particularly the Khan Asparukh block where a consortium of Total, OMV and Repsol have an exploration contract. Neighbouring Romania has had some very promising offshore finds. But Vassilev asserts that other tenders have "failed to attract serious interest".

Bulgaria's approach to energy policy under successive governments has been inconsistent. The previous administration issued swingeing cuts to feed-in tariffs for renewable energy, including retroactive reductions – always a red flag to investors. Perhaps most notorious has been the three-decade saga of the Belene nuclear power plant, a Russian backed and constructed project that was axed half-way through construction by the last government in what may have been a trade-off for continued support for South Stream.

The Socialists currently in power campaigned for resuming the project in the last election, and government lawmakers occasionally promise to restart what many analysts consider a white elephant. Bulgaria has the potential to develop a broader energy mix, including Russian imports, domestic resources, and potentially supply from other sources including LNG and the proposed Azerbaijan-fed Trans Adriatic Pipeline. Arguably the current government is stuck in a difficult position given Russia's leverage, the EU's demands without existing viable alternatives, and the popular mood. But policy inconsistency is undermining its appeal to investors and suppliers alike.

South Stream in Bulgaria “hostage to geopolitics”

ITAR-TASS, *09.06.2014*

Bulgarian Socialist Party (BSP) is surprised about Bulgaria’s decision to suspend the implementation of the Russian South Stream pipeline project, BSP Deputy Chairman, Chairman of the parliament’s Foreign Affairs Committee Yanaki Stoilov told ITAR-TASS.

Stoilov declared the BSP support for the project provided the European Union’s requirements were taken into account. Describing the decision to suspend the project announced by the Bulgarian Prime Minister Plamen Oresharski as “confusing”, he said the project would better be adjusted during its realization.

The project has obviously become “hostage to geopolitical interests”, while the government should have been tougher in asserting the national interests, Stoilov believes. The politician finds it inappropriate that the decision was announced after Oresharski had met the US senators. The issue should be discussed by the European Union, Bulgaria and Russia as the parties directly involved, Stoilov said, adding the suspension of the project was not on the agenda of the meeting among ministers and deputies a day earlier. Stoilov declined to predict what would happen next, doubting the government system and the government’s capability to continue working. The country is now “entering the new development stage, and Bulgarian internal affairs are unforeseeable”, the politician believes.

EU-Moscow row over South Stream gas pipeline

BBC, *09.06.2014*

Russia has accused the EU of imposing "creeping" economic sanctions following Bulgaria's decision to halt construction of a gas pipeline. The South Stream pipeline, financed by Russia's state gas giant Gazprom, would ship gas to western Europe via the Balkans, thus avoiding Ukraine. But the European Commission says the pipeline may break EU competition rules and asked Bulgaria to suspend work.

Serbia's prime minister has denied his country has also halted building work. Reports on Sunday had quoted Serbian ministers as saying the work was on hold until the EU, Russia and Bulgaria resolved their dispute.

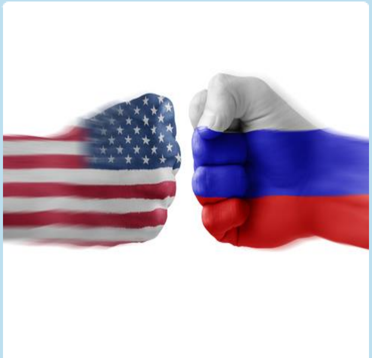
But speaking on Monday, Prime Minister Aleksandar Vucic said no such decision had been made. Serbia is in talks with the EU on joining the bloc. Bulgaria is already an EU member state. Construction work on the South Stream pipeline began in Bulgaria in October 2013. It is intended to deliver Russian gas to southern Europe without passing through Ukraine and if built, it would deliver 63 billion cubic metres of natural gas a year. The project was initiated amid disagreements between Gazprom and Ukraine and Belarus over the pricing of Russian gas, which led to gas supplies to some parts of Europe being cut off.

It took on added significance following the upheaval in Ukraine. But the European Commission says Bulgaria may have broken EU public procurement laws by choosing local and Russian bidders for its part of the pipeline, and earlier this month, asked Bulgaria to stop work. On Monday, Russia's EU envoy Vladimir Chizhov said the move by Brussels was a "creeping shift to economic sanctions against Russia"."It is hard to shake off the feeling that the European Commission's blocking of the start of work on the construction of Bulgaria's key section of South Stream has been done for purely political purposes," Russia's Itar-Tass news agency quoted him as saying.

Bulgaria has previously said it is being targeted by Brussels as a means of retaliating against Russia over the situation in Ukraine. Bulgarian Energy Minister Dragomir Stoynev said on Sunday that the project remained "irreversible and important for both Europe and Bulgaria" and that he was sure a solution would be found. The EU and the US have imposed sanctions on a number of Russian individuals and companies following Moscow's intervention in Ukraine and its annexing of the Crimean peninsula, but Gazprom has not been targeted. The firm supplies 30% of Europe's gas - some 15% via Ukraine - and has warned exports will be affected if sanctions are expanded. Meanwhile, Gazprom has also threatened to cut supplies to Ukraine over an unpaid gas bill that it puts at more than $2bn (£1.2bn). This too would affect European supplies.

South Stream suspended under US pressure to EU's detriment

ITAR-TASS, *11.06.2014*



The Russian Foreign Minister Sergei Lavrov said on Monday a third force had interfered with the construction of South Stream: "Some countries that cannot be suspected of sympathizing with Russia's partnership with the EU want to use this initiative to disrupt the energy dialogue."

"It is in the US interests to preserve the Ukrainian gas transportation system as the key one for gas supplies to the EU, as a part of it will be held by US companies," the director general of the Institute of Energy Strategy, Vitaly Bushuyev, told. "The US does not want Russian gas in Europe in order to stake out this place for its own shale gas in the future."

"In terms of energy, neither the US nor the EU needs Ukraine without its pipelines. Hence all this fuss over South Stream, intended as an alternative to Russian gas transit to Europe through Ukraine," a source from Gazprom's management told ITAR-TASS on the condition of anonymity. Experts describe the European Commission's energy policy supporting the project's freeze as short-sighted. "It is exactly South Europe, for which South Stream is being built, that will be hit first," believes the director of the National Energy Institute, Sergei Pravosudov. Non-implementation of the contract will benefit none except the US, believes an economist at the Russian Presidential Academy of the National Economy and Public Administration, Ivan Kapitonov.

In its claims against Gazprom Brussels formally refers to the so called Third Energy Package that prohibits upstream companies from transporting and distributing gas in Europe. According to the deputy director of the National Energy Security Fund (NESF), Alexei Grivach, the dispute had been a smoldering conflict until the US interfered recently. "Washington is doing its utmost to upset the South Stream project halfway," believes NESF Director Sergey Pikin. Reuters reports the US Ambassador to Bulgaria Marcy Rice is concerned about the fact that the country had chosen for the pipeline construction the Russian company Stroytransgaz controlled by the companies of sanctioned Gennady Timchenko. Experts say Bulgaria may fall first victim to the blocking of the project.

In 2010, when Russia had to suspend gas supplies because of Ukraine's overdue debt, Bulgarians were simply freezing in their homes. Bulgarian experts say on the condition of anonymity: "Arm twisting will continue until Bulgarian politicians recognize that they should first listen to their own citizens and protect Bulgarian interests instead of obeying external pressures we are witnessing now." "The US insists South Stream is blocked not only because of Stroytransgaz's participation in the works. This is the tip of the iceberg," a professor of the Gubkin Russian State University of Oil and Gas, Andrey Konoplyanik, told ITAR-TASS. "In reality, the US wants a new pipeline construction tender, so that the U.S. companies can also participate."

"Senator McCain's 'love' of Russia has long been an open secret, but the current conflict is dominated by economics rather than politics," the expert believes. State Duma member Vyacheslav Nikonov has described South Stream suspension as a result of "the US geopolitical attack". "It is no secret the US is going to intercept the Ukrainian pipeline system to supply shale gas to Europe in five or six years," he told ITAR-TASS. "Therefore, Washington is blocking South Stream through pressures on the European Union."

The new conflict is another period of disagreement over the Third Energy Package, where the last word is to be said by the countries interested in Russian gas supplies, that is Austria, Hungary, Italy and other EU states, Nikonov believes. "Gazprom can lay part of South Stream through Turkey that does not fall under the Third Energy Package, or through Greece to Serbia, bypassing the territory of Bulgaria," Nikonov believes. NESF deputy director Grivach believes Gazprom can settle Brussels' formal claims, make the EU accept South Stream and thus have an unpleasant surprise in store for Washington. Bushuyev believes the recent European Parliament election swept to power more "pragmatists that will be less eager to sacrifice economic benefits for the sake of politics".

TAP confirms plan despite E.ON, Total withdrawal

Natural Gas Europe, *06.06.2014*

Trans Adriatic Pipeline (TAP) sent a clear message on Thursday: despite some difficulties, the project will make its way from Turkey to Southern Italy.

According to a press release, TAP has issued a contract notice for two compressor stations, one in Greece and one in Albania. 'TAP is continuing its pre-qualification of potential suppliers for the construction of the 870 kilometer - long high pressure natural gas pipeline with its associated infrastructure across Greece, Albania, and Adriatic Sea with landfall in Southern Italy,' reads a note released on lat Thursday.

This is particularly relevant in a moment major players like France's Total and Germany's E.ONare withdrawing from the project. Total and E.ON currently hold 10% and 9% shares, respectively, in the project. 'The scope for this contract will include the Engineering, Procurement and Construction of one compressor station in Albania near Fier, and one compressor station in Greece near Kipoi (with fiscal metering.'TAP also confirmed it will soon issue contract notices for Turbo Compressors and Large Diameter Valves.

EU gas strategy may hurt Norway

Reuters, *09.06.2014*

The European Union's supply security plans are due to be considered at a summit at the end of June. Europe has to "stress test" its own supply before next winter, to see what would happen if Russia cuts supply reported newspaper Aftenposten.

Russia's invasion of the Crimean peninsula has created uncertainty about ongoing supply to the EU. Currently Russia supplies 39 percent of Europe's gas needs, Norway 34 percent, and Algeria 14 percent. The EU has to import 53 percent of its energy, including oil and gas, at a cost of one billion euros a day.

It was feared brokering meetings last week between Russia, Ukraine and the EU over Ukraine's gas bill to Russia were not successful. If the conflict between Russia and Ukraine's new regime continues, Europe was concerned gas supplies would be broken. The proposal includes measures to improve self-supply and infrastructure, uses more energy sources, and increase energy solidarity between member states. It's all designed to decrease dependency on countries outside the EU, including Norway. Through an extensive pipe network, Norway exports more than 100 million cubic metres to EU countries each year. Last year that was valued at NOK 245 billion (USD 41.1 billion), accounting for 27 percent of all Norwegian exports.

While Norway is known as a "reliable" EU partner, it is no longer certain that Europe will take all the gas Norway can supply as it seeks to diversify its sources. Gas exports to Europe had accounted for a growing share of Norway's export earnings, but now the EU countries want to develop enough energy of their own to create competition and drive prices down."It is unclear how much the EU has a need for in the long term, and what Norway's share of that should be," Karen Sund of consultancy firm Sund Energy told Aftenposten. "Moreover, Norway's role in the EU/EEA is unclear. Sometimes we are treated like we are members of the EU, other times not. We are in limbo." "Norway has invested heavily in delivering gas to Europe through pipelines," said Thina Saltvedt, Nordea Markets' head oil analyst. "If the EU sharply cuts gas imports, it will impact us hard."

Saltvedt said gas was going to become a more important revenue source, eventually worth more than oil, as oil production on the Norwegian continental shelf falls away. However, she said Norway didn't have a lot of options over which countries it could supply gas to. Currently 95 percent is exported through pipelines to Europe, 4 percent is cooled and transported by ships as LNG, and 1 percent is consumed in Norway. "We have very little flexibility over who we can deliver gas to," she said. "Moreover it is significantly more expensive to freeze gas and send it by ship rather than pipe. We are totally dependent on Europe's imports." The Ministry of Oil and Energy said it was not concerned by Europe's plans. "Norway is a stable and predictable energy supplier to the EU," Einar Holmen, an advisor within the ministry, told Aftenposten. "This is emphasized constantly by the EU and also in the Commission's plan. The EU want to strengthen the bonds with stable partners, where Norway is specifically named.

There is not reason to believe that the EU will have less of a need for energy cooperation with Norway going forward, on the contrary." Europe's ability to create its own gas depended on easing the ban against shale gas developments in Germany, and exploring possibilities in Poland and Denmark. Great Britain planned to start harvesting its own gas by 2017. "This can go both ways for Norway," said Saltvedt. "The more the EU countries can produce themselves, the greater the competition will be for Norway. At the same time, this can lead to gas strengthening its position as an energy source, something which will provide increased infrastructure development. It may increase demand – for Norway's gas as well." "Norway is emerging as a safe and stable supplier compared with countries like Russia, Libya and Egypt," she continued. "Moreover new environmental requirements can be positive for the position of gas because sun and wind will not be able to replace all fossil fuels. To reach the goal of climate targets, gas can therefore play a more central role."

European gas landscape: continuity and change

Natural Gas Europe, *09.06.2014*

At Flame in Amsterdam, the Netherlands, Prof. Jonathan Stern of the Oxford Institute for Energy Studies waxed nostalgically on the natural gas happenings when the first such natural gas conference had been held in 1995. He commented, "There are some elements of great change and also of some continuity."

At that time, according to a BP report, natural gas prices had fallen – Europe was importing gas at $2.40. Professor Stern also offered a tidbit he said he considered topical: "Turkmenistan had just resumed deliveries to Ukraine after a 4-month cut due to non-payment."

These phenomena, he suggested, showed both the continuity and change in the European gas industry. And these days were not the happiest times Europe's natural gas industry had faced; he mentioned the challenge of an impending Russian supply cut of supplies to Ukraine. Meanwhile, he noted that European hub prices were low. As the first speaker of the overview, Rune Bjornson, Senior Vice President, Statoil, said that members of the gas community were living in many different worlds, so it was unclear how things would pan out for industry players Europe.

In this context, he pointed out how crucial predictability was considering gas was a long-term industry with huge, upfront investments, not to mention that Europe was still pulling itself from the financial crisis and the Ukraine crisis was casting a long shadow. He explained, "It is precisely in those situations that predictability is of vital importance to our industry."Admitting that the industry was used to handling risk and external shocks, this still pointed to the need for Europe establishing an energy policy and regulatory framework.

“It should be a framework that reduces rather than adds to the risk,” said Mr. Bjornson. “And are we there today? In my mind, far from it.” He observed that Europe seemed to be moving in the wrong direction - “increasingly interventionist” - multiple layers of regulation creating complexity and uncertainty for investors. Despite this, there was hope, according to him. “This can be turned around with less interventionism as a result. To achieve this our industry should speak in a clear and uniform voice,” he said, especially regarding the EU’s 2030 framework. Regulatory predictability, he said, was essential for building the gas value chain. He provided examples, like Statoil and its partners investing US$ 28 billion in the Shah Deniz field development offshore Azerbaijan; Statoil, he said, continued to develop new gas fields on the Norwegian continental shelf, which required new infrastructure. All of this mandated long-term predictability.

Regarding European policy and the role of natural gas, Mr. Bjornson said the uncertainty could especially be felt in the power sector, which was important for gas demand. He reported that gas demand for power had fallen for 3 consecutive years; in the UK gas demand was barely half what it was 3 years ago, while German gas to power was also slumping. This affected Statoil as a supplier, but also those investing in new gas turbines. “Now we are seeing these gas plants being mothballed one by one. More than 20% of total gas power gas capacity has been taken out of the market just in the last couple of years,” he remarked. Europe would need to make such investments in the future, but this would only happen if the regulatory framework were strengthened, said Mr. Bjornson, who said the problems were increasing with the increase of market intervention.

“This is very clearly seen in Germany, where the Energiewende has created a very costly system and, in the long term, actually fail to deliver energy security. The climate benefit of more renewables is basically offset by increased use of coal,” he explained. The UK, he added, used to be a frontrunner in market liberalization but was becoming a highly regulated system. “Each technology in the power sector seems to be equipped with its own subsidy scheme,” he observed, like a scheme for new nuclear plants that guaranteed a price; the same could be said for renewables. The subsidies, said Mr. Bjornson, were affecting the power market, because they were squeezing the profits of conventional power plants, which often resulted in the introduction of capacity mechanisms, which acted as a kind of correction.

This meant investments were put on hold. “As a commercial player,” he said of Statoil, “we would like to be exposed to real competition, fair and open markets. In that way we can expend our efforts on delivery, a cost efficient product rather than lobbying to get a piece of the subsidy pie.” In contrast, he said, the European gas market, with its increasing liquidity and the breaking up of old monopolies, was showing what could be achieved. Price convergence could be observed, too, as well as 3rd party access to transportation capacity, enabling increased interconnectivity. He said, “In sum, this has led to a more efficient and predictable market, to the benefit of both consumers and suppliers.”

Mr. Bjornson said he was concerned by the EU’s joint purchasing model for gas, which he said was not a system that belonged to a free market and would skew the competition and affect the liquidity of gas sellers, leading to greater uncertainty and hindering the ability of the market to correct itself. Even more political measures would be necessary in a “vicious circle of intervention.”“We believe that the 2030 Framework provides an excellent opportunity and can be an important tool to fix what has been broken in European energy policy. Reading the proposal for the Framework, I’m cautiously optimistic.

Policy makers seemed to have learned from the mistakes of setting the policy targets for 2020." Measures in different countries should be better coordinated, he said, and diverging national policies would cause harm to the internal market, but member states were deeply divided on that. He continued, "It is understandable that different countries have different priorities and therefore different policies, however to restore this important predictability a robust and consistent European Framework needs to be in place as soon as possible. "In light of the current debate on energy security, we do not want politicians to resort to short-term fixes that would further undermine the energy markets," he said, which meant the industry needed to send a strong message to keep the 2030 timetable to start investing and avoid reducing the role of gas in the EU's drive to diversify its energy sources.

Strengthening the ETS price was crucial, as was cutting subsidies to renewables to enable power sources to compete on an even playing field, which in turn was the key to attracting investment. RWE's Stefan Judisch, CEO, RWE Supply & Trading, offered the midstream perspective of Europe's gas business, pondering whether or not it had turned a corner – were markets recovering? Mr. Judisch recalled some of the predictions he had made over his years in the business, with a view to the future. He said his final production was that the industry would face even more structural change and should not believe that what was being seen in Europe was an isolated event. He explained, "Gas will gradually take over the role of oil, while the growth in oil demand will stop and then, first the liquid and then the solid fuel market will be exposed to declining consumption caused by renewables.

So what the message is, basically, is what we see here in Europe, driven by Germans' obedience for implementing frameworks that are spreading into Europe, is now spreading in the world and this is a fundamental structural change of our understanding of the energy market."As evidence, he pointed out the growing role of gas in the transport sector, away from diesel and petrol, with LNG the biggest winner. Still, according to him, it was renewables that were squeezing natural gas. Mr. Judish showed an IEA chart that showed the role of natural gas in power generation was on the decline.

"It's not happening solely because of interventions and subsidies," he said. "It's happening because it's simply economically sensible." In a comparison of levelized costs for various sources of electricity in Germany, he showed that photovoltaics were competitive with combined-cycle generation, even without subsidies. RWE, he said, had made the wrong call about solar, because the company had overestimated the costs for solar and hadn't considered the competitive dynamics. The next black swan to be dealt with, concluded Mr. Judisch, was the battery, whose price would drop in a few years. So while gas was replacing fuels, renewables were replacing gas.

Gas market transparency trails power as EU scrutiny tightens

Bloomberg, *10.06.2014*

Natural gas companies and grid operators in European Union are behind their power market counterparts in providing flow and supply data under rules designed to prevent insider trading.

The Agency for the Cooperation of Energy Regulators is discussing whether it can oblige gas importers in Europe to report disruptions of flows into the region, according to Alberto Pototschnig, a director at the organization. Data such as Russian inflows and liquefied natural gas cargoes to Europe have to be published under two-year-old European Union rules on energy market transparency.

"Gas trading has a legacy of long-term contracts, the conditions of which are not publicly known, whereas power is traded more in organized markets," Pototschnig said yesterday in an interview in Ljubljana, Slovenia, where ACER is based. Under the EU's wholesale energy market integrity and transparency rule, known as Remit, companies must publish outages, flow data and, by next year, will have to report to ACER all trades in the region's 900 billion-euro ($1.2 trillion) power and gas markets. Energy costs hinge on how much is being produced at any given time, so unexpected supply interruptions can cause price swings that may benefit those with advance knowledge.

There needs to be "more transparency in the gas market," Folker Trepte, a Frankfurt-based partner at PricewaterhouseCoopers LLP, said by phone on June 6. "What's least transparent is import data from Russia or Qatar and it will be difficult for the EU to change this under Remit." Information relating to the capacity and use of production, storage, consumption or transmission of electricity, natural gas or LNG, including planned or unplanned unavailability of these facilities, must be reported under Remit. ACER can't force foreign countries to disclose information on operations outside the EU, Pototschnig said.

Stockholm-based Vattenfall AB, the Nordic area's biggest utility, has published live data from its reactors since at least 2004. Germany's biggest generators, EON SE and RWE AG, started releasing near real-time power plant outage information in 2007 after industry groups campaigned for more transparency. Utilities throughout Europe have since stepped up publishing gas and power data on their own websites to meet the transparency requirements of Remit. Centralized PlatformsWhile Remit makes energy markets more transparent, it's one of several trade reporting requirements under EU regulations, according to Rune Bjoernson, a senior vice president at Statoil ASA,Norway's biggest energy company. "We need to comply with all these systems, which makes it even more complex and costly," Bjoernson said in a May 20 interview. "We would like a more coordinated approach to that."

To make generation and supply data easier to see, the European Energy Exchange AG in Leipzig, Germany, and London-based National Grid Plc are creating centralized platforms to display outage data. EEX plans to start its transparency platform by the end of this month. The exact date isn’t yet known, Eileen Hieke, a spokeswoman for the exchange, said by e-mail June 5. The size of the plant, fuel type, reason and duration of outage will be published without the operating company or unit name, she said. EON plans to get rid of its own Remit website and report details of outages via EEX, Markus Nitschke, a spokesman for the Dusseldorf-based utility, said by e-mail on June 5.

National Grid plans to start a platform for power data by the end of this year at the request of utility SSE Plc, Mark Malbas, a London-based spokesman for the company, said by e-mail on June 5. It already operates a website for gas market information. ACER reviewed 13 cases of potential breaches of Remit rules last year, compared with 10 in 2012, the regulatory group said in its annual report today. Guidelines on the trade data that companies need to submit have been delayed until after summer, the European Commission said yesterday. Trade monitoring will begin six months after the data requirements are published. The number of cases needing investigation for possible market abuse will probably increase once ACER has the trade information, the agency’s Pototschnig said.

Russia blocks gas price talks to promote South Stream

EurActiv, *12.06.2014*

Following trilateral talks on gas pricing involving Russia and Ukraine and hosted today (11 June) by the European Commission, Yuri Prodan, the Ukrainian energy minister, told EurActiv that Russia obstructed progress on purpose, as it wanted to convince its EU partners about the advantages of the Gazprom-favoured South Stream pipeline, which is intended to bypass Ukraine.

Prodan made this comment as he walked out of the Commission headquarters, where he had been negotiating with his Russian counterpart Novak, and Gazprom's Miller. The talks were hosted by Energy Commissioner Oettinger.

After the talks Novak, Prodan and Oettinger held separate press conferences, which clearly indicated a failure to reach an agreement. Novak said Russia had proposed a “discount” on the gas price under the 2009 contract, negotiated under former Ukrainian Prime Minister, which was $485 per thousand of cubic metres (tcm), in contrast to the price since April of this year, at $385/tcm. He said that this was a gesture by Russia, which took into account the difficult economic situation of its neighbour. This price, he said, would dissuade Ukraine from resorting to reverse gas flows from its Western neighbours. Regarding the accumulated debt, Novak said no progress had been reached.

He explained that up to 16 June, Ukraine needed to repay accumulated gas debts for November and December 2013 of $1.451 billion, with $500 million worth of partial payments for April and May. Speaking after Novak, Prodan said that the price of $385 per tcm was still high, and that the proposed “discount” was based on a “political” decision by the Russian government, which was able to change at any time. Therefore, the Russian proposal was not acceptable, he argued. Prodan also said that many proposals, including reverse flows, were beyond this figure. The minister also made it clear that his country would take the issue to the Stockholm Court of Arbitration.

Oettinger admitted that both sides had been unable to reach an agreement, but said that they would remain in touch ahead of a new deadline on 16 June, when Gazprom has threatened to cut off Ukraine's supplies. He added that over the next 48 hours, the three sides would try to make progress through telephone contacts. As Ukrainian diplomats told EurActiv, the Russian proposal was clearly a no-go, and Russia knew it. Earlier today, Ukrainian Prime Minister Yatseniuk made informed a cabinet meeting that Kyiv rejected this proposal. Asked by EurActiv if Moscow's tactics could be explained by the push to build the South Stream gas pipeline, which will reach EU soil under the Black Sea, bypassing Ukraine, Prodan said that there was no doubt that Russia played the gas disruption card precisely to convince its EU partners over the advantages of South Stream. The issue of the South Stream pipeline is expected to feature high in the 26-27 June EU summit, which will discuss ways to decrease the Union's dependence on Russian gas.

Ukraine pumps 867 million cubic meters of Russian gas within week

ITAR-TASS, *09.06.2014*

Ukraine has increased the volume of natural gas in its underground facilities to 12.6 billion cubic meters, which is 68% of the storage to guarantee smooth transit in winter.

Gas Storage Europe (GSE) reports Ukraine's underground gas storages are filled by 39%. Under the current gas price of $485.5 per 1,000 cubic metres, Naftogaz has pumped within a week 867 million cubic meters of gas worth $420.9 million. Naftogaz of Ukraine's Andrei Kobolev said earlier that Ukraine did not have sufficient financing to pump into the underground storages the Russian natural gas at the price of $485.5.

Ukraine, Russia fail to reach deal in natural-gas talks

Wall Street Journal, *09.06.2014*

The European Commission hosted the meeting in Brussels in hopes of averting a possible disruption of Russian gas supplies as early as this week and said the two sides agreed to meet again by Wednesday. The marathon talks ended without a definite breakthrough at 3 a.m. on Tuesday, the deadline which Moscow had set Kiev to pay off its gas debts.

Russia said that failure to do so could result in disruptions of gas supplies to Ukraine, a move that could also hit supplies to some EU countries. The 28-country block gets more than one-third of its gas imports from Russia, almost half of which is sent via Ukraine.

"All sides will now meet again either Tuesday evening or Wednesday morning," said a European Commission spokeswoman. No further details were immediately available. The feud was sparked after Kiev's gas bills soared in the wake of popular protests that toppled Kremlin-friendly President Viktor Yanukovych in February. Russian gas monopoly OAO GazpromOGZPY +1.07% scrapped Ukraine's previous discounts in April and raised its gas price 80% from $268.50 to $485.50 per 1,000 cubic meters, the highest rate in Europe.

Gazprom has continued billing Ukraine at the higher rate, saying it is owed $4.46 billion in unpaid bills, while Kiev has refused to pay until a lower price is agreed upon. But tensions appeared to ease after Ukraine paid a first installment of $786 million to Gazprom on June 2. Following private talks in Brussels and Berlin this past week, Gazprom Chief ExecutiveAlexei Miller and his Ukrainian counterpart, Andriy Kobolev of Ukrainian state energy firm Naftogaz, signaled they were inching closer to a compromise.

They haven't divulged the details of the price negotiations, but looked set to agree on a sum to settle Kiev's outstanding debts until a new price for gas is agreed upon. The EU's Energy commissioner Günther Oettinger, who has been acting as a go-between, said last week that "real progress" had been made. The more conciliatory tone in the gas talks coincides with a tentative political thaw in relations between Kiev and Moscow. Last week, Ukraine's newly-elected President Petro Poroshenko met Russian leader Vladimir Putin in France during commemorations of the D-Day landings. However, intense fighting between separatists and Ukraine forces continues in the east of the country.

Russia points finger at Ukraine for holding out gas discount

Natural Gas Europe, *11.06.2014*

After calling Germany's Chancellor Angela Merkel to reassure her about Russian intention 'to reach a mutually acceptable agreement' with Ukraine, President Vladimir Putin accused Kiev to boycott gas talks.

The Kremlin offered to bring prices from $485 per 1,000 cubic metres to around $385. According to Russia, Ukraine held out the offer and the time is running out. 'Let's see what results the talks bring today or tomorrow and in the coming days. We have agreed that we will not introduce prepayment before June 16 of this year, not before Monday, in other words,' Putin said during a Government Cabinet meeting.

Also on Wednesday, Ukraine's Prime Minister Arseniy Yatsenyuk said that the country wants to avoid a price discount, asking for a brand new contract. 'The Russian side has issued a proposal to decrease the gas price by USD 100 with the so-called discount. I want to officially state, we know perfectly such Russian traps, the discount is introduced with a decision of the Government of the Russian Federation and is cancelled with a decision of the Government of the Russian Federation as well. Therefore, our position has been and still remains the same – changes to the deal,' Yatsenyuk said as reported by a note released by the office of the Prime Minister.

Putin endorses arctic exploration

Natural Gas Europe, *06.06.2014*

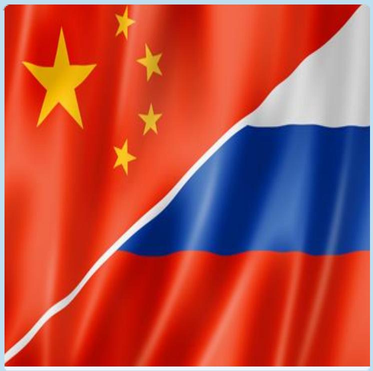
Russia's Vladimir Putin held a meeting on the development of hydrocarbon reserves on the Arctic shore and shelf, speaking in favour of industrial facilities and transportation routes for the revival of the Northern Sea Route.

"Unfortunately, there has also been a lot of speculation and even provocations. However, you and I, we understand that humanity has to work in the Arctic; it is forced to develop these territories." Putin said on Thursday, as reported by a note released by the Kremlin. At the same time, he openly praised foreign experts taking part to the conference, asking them to contribute to the safe development of the area.

'We are grateful to our foreign colleagues who have joined us today to hear and even take part in the discussion. We wanted you to see how these issues are approached in Russia, so you become part of this process as our partners and understand the level of discussion that is taking shape in society and among experts, including not only your colleagues, oil and gas producers, but also the experts and representatives of environmental movements and organisations.' he said. Last month, Rosneft signed an agreement with the Ministry of Emergency Situations to cooperate in Russia's Arctic shelf.

Russia - China gas deal and the Ukrainian crisis

Hurriyet Daily News, *08.06.2014*



The Ukrainian crisis played an implicit role in compelling Russia to conclude a deal with China as soon as possible. That is, the current crisis threatens the sustainability of the Russian energy trade with Europe in the future as EU countries have already started to seek alternative supply routes.

Likewise, Russia also aims to elude mutual interdependence in energy trade with Europe, and circumvent economic sanctions to be implemented by the West as a result of the Ukrainian crisis by diversifying its export markets and reaching out to Asian horizons.

It is a fact that Russia's diversification of its natural gas export markets cannot immediately change the overall picture. That is basically because Russia's mid-term plans for diversifying its energy markets primarily look toward the post-2020 period. Europe is still the largest export market for Russian natural gas and it will probably remain so for years to come considering that around 30 percent of Europe's natural gas consumption, an amount which corresponds to 170 bcm, was procured by European countries from Russia in 2013. But Russian President Vladimir Putin is already threatening Europe with halting the flow of natural gas to Ukraine, through which 50 percent of European gas imports fromRussia are transported westward. That is why the issue of diversifying trade partners in the energy field entails a high level of urgency for Moscow. Putin was evidently in a rush to conclude a deal with China in order to guarantee access to alternative markets.

It is also worth noting that after the annexation of Crimea by Russia, Moscow was subjected to several economic sanctions in addition to asset freezes and visa bans by the West. This situation poses a noteworthy challenge to Putin's goal to modernize theRussian economy through FDI and integration to international value chains of manufactured consumer goods as Russia finds itself gradually more alienated from the West, i.e., Western capital and markets. Therefore, drawing itself closer to Chinathrough an energy deal that foresees the realization of the world's largest construction project to date in Siberia, and entails increased Chinese investment in various other fields, was a shrewd commercial move just in time on Russia's part.

Even as of today, Beijing is Moscow's largest trading partner with the annual trade volume between the two countries reaching up to $90 billion, according to 2013 estimates; and this amount is projected to surpass $200 billion by 2023, especially thanks to the projected expansion of energy trade between the two. Against a backdrop of intensified and smooth relations with China, it seems inevitable that Russia will grow further away from Europe in the aftermath of the Ukrainian crisis in terms of economic and energy cooperation.

This reality becomes crystal clear considering that Russia will possibly be able to deliver a total of 68 bcm of natural gas on an annual basis to Asian markets (primarily to China) with additional pipeline projects to be completed in less than a decade. Indeed, a joint enterprise formed by Exxon Mobil, BP and Rosneft is already preparing to initiate a drilling and fracking operation in Siberia in order to reinforce Russian gas exports to China. Also today, Gazprom is planning to build an LNG plant together with a terminal on the Pacific coast near the city of Vladivostok. With these projects in mind, it is not hard to predict that Russia's "Asian capital" will gradually become a processing and delivery hub of natural gas for China.

For Western oil companies, expanding in Russia is a dance around sanctions

New York Times, *10.06.2014*

Like many chief executives of American companies, Rex W. Tillerson of Exxon Mobil didn't attend the major business forum in Russia last month, at the urging of White House officials. But the company's exploration chief, Duffin, did.

Mr. Duffin signed an agreement with Sechin, the head of the state-owned Rosneft, to expand its joint ventures to drill offshore in the Arctic Ocean, to explore for shale oil in Siberia and to cooperate on a LNG plant in Vladivostok. The deal came just weeks after the US government imposed sanctions on the personal dealings of Mr. Sechin, a former military intelligence agent and longtime aide to President Putin.

Despite the push by Western governments to isolate Moscow for its aggression in Ukraine, energy giants are deepening their relationships with companies here by striking deals and plowing more money into the country. Along with Exxon, BP of Britain and Total of France also signed contracts at the business forum in St. Petersburg to explore for shale oil in Russia. Exxon plans to drill its first exploratory well offshore in the Russian sector of the Arctic Ocean this summer. Statoil of Norway is in talks for another shale joint venture. Royal Dutch Shell's chief executive, Ben van Beurden, met with Mr. Putin in April and told him, "Now is the time to expand," referring to a liquefied natural gas plant project.

The companies are taking a calculated risk, given the threat of further sanctions. But they also want to protect their long-term interests in Russia, the world's largest energy-exporting nation. "They are likely to continue to engage until there is a clear policy signal that they should stop. It is not rational to think they would act in any other way," said David L. Goldwyn, who served as the State Department's special envoy and coordinator for international energy affairs during President Obama's first term. "If the government wants them to stop, it needs to say louder they should stop." Exxon declined to comment on the deal signed in St. Petersburg. Total and BP have emphasized that their agreements fully comply with sanctions.

So far, the United States and the European Union have imposed only limited sanctions, aimed largely at individual Russians and a handful of companies. The existing sanctions don't explicitly bar the energy giants from operating in Russia. Though Mr. Obama authorized an executive order on March 20 that could outlaw such deals, it has not yet been put into effect by the Treasury Department. The risk for energy companies is that the next stage of sanctions, called the third phase, will be broader, cutting off dealings with major sectors of the economy like finance, metals and energy. The United States and its allies proposed such sanctions at a Group of 7 summit meeting in Brussels last week, to be carried out if the violence in Ukraine did not subside within a month. While the companies are not violating the current rules, they are walking a fine geopolitical line.

At the St. Petersburg gathering on May 24, the British oil giant BP signed a $300 million preliminary agreement with Rosneft to study shale oil deposits in the Volga Valley and Ural Mountains, west of the area where Exxon Mobil will be working. BP’s chief executive, Robert W. Dudley, an American citizen, attended the forum. But David Campbell, BP’s Russia chief and a British citizen, signed the agreement with Mr. Sechin. Also at the business forum, Total signed a deal with Lukoil, another Russian oil company, for exploring more than 1,000 square miles of western Siberian wilderness for shale oil. “My message to Russia is simple — it is business as usual,” Total’s chief executive, Christophe de Margerie, told journalists there.

To keep it that way, oil companies are publicly and privately pushing back against more sanctions by speaking out at shareholders’ meetings and by lobbying in Washington. “We have a responsibility to stand with our partners in a difficult time,” Mr. Dudley of BP told an audience at the St. Petersburg forum. Mr. Tillerson, Exxon’s chief executive, told reporters last week in Dallas that the company was making its skepticism about sanctions clear to the United States government. “Our views are being heard at the highest levels,” he said. “There has been no impact on any of our business activities in Russia to this point, nor has there been any discernible impact on the relationship” with Rosneft, he added.

The energy giants, in part, are wary of offending their partners in Russia. Several big Western companies have large existing investments and important joint ventures in Russia that they want to protect from a government that is sometimes seen as fickle on property rights. Exxon has a wide-ranging relationship with Rosneft, including existing oil production off Sakhalin Island in eastern Russia. BP has a nearly 20 percent stake in the Russian company. In all, Western energy companies have invested an estimated $35 billion in Russia. The future opportunities could prove even more valuable. The recent agreements signed by BP, Exxon and Total will help Russia push its petroleum industry into the high-tech field of extracting oil from shale.

The big Western companies mostly arrived late to the shale boom in the United States as smaller companies took the lead, and Russia, which geologists estimate has the greatest potential for shale outside of the United States, represents a chance to gain an early edge. In the last few years, shale formations like the Bakken in North Dakota and the Eagle Ford in Texas have added three million barrels a day to the oil output of the United States. Exxon is also gaining access to offshore drilling sites in the Russian Arctic Ocean, while the waters off Alaska remain tied up in lawsuits and regulation. Exxon and Rosneft plan to drill the first exploratory well this summer in the Kara Sea, one of the shallow extensions of the Arctic Ocean north of Russia, where there could be enormous oil and gas resources.

And Exxon is joining with Rosneft to explore the Bazhenov shale formation in western Siberia, an area that has already produced tens of billions of barrels of oil through conventional drilling methods — a good sign for shale drillers, according to geologists. “Compared to other opportunities worldwide, Russia is certainly one of the most promising,” said John Webb, an analyst at the market research firm IHS who specializes in Russian energy. Rosneft welcomed the deals: Extracting oil from these types of reserves represents a technical challenge, the statement said. “That is why Rosneft teamed up with the best international companies like Exxon Mobil and Statoil for the scope of exploring and producing those resources.” The energy giants, in a sense, are betting that the Russian oil and gas industry will not be hit by direct sanctions.

The energy industry provides financing for the Russian government and military, making sanctions a threat to continued action in Ukraine. But the United States and Europe must tread carefully, given the industry's major role in world markets. From its swamps, tundra and wilderness, Russia pumps about the same volume of oil as Saudi Arabia, while exporting more energy than the desert kingdom, if oil and gas are counted together. Russia supplies about one-third of the gas to heat homes and generate electricity in Europe. And Russian oil and gas exports help ease energy reliance on the politically volatile Middle East. For that reason, many analysts think Russian energy companies like Rosneft are simply too big to punish. The companies are making "a hedged bet that the Russian energy sector will escape sanctions and the Ukraine crisis will quiet down," said Cliff Kupchan, a Russia analyst at the Eurasia Group.

Arithmetic, an enemy of Gazprom

Natural Gas Europe, *11.06.2014*

Little is actually known about the terms of the May 21 contract between Gazprom and CNPCapart from its duration. The statement of Gazprom CEO about the overall value of the contract totaling $400 billion must be treated as unrealistic: the price of Russian gas is indexed according to a sliding scale, and it is absolutely unknown what it is going to equal three decades from now.

We can be sure it will cost Russia over $100 billion to develop the gas fields in Yakutia and Irkutsk Region and connect them with a crossing point on the Chinese border rather than $55 billion quoted by Vladimir Putin in Shanghai.

The breakdown, as Gazprom economists toldRusEnergy, is as follows: Development of Chayanda and satellite fields in Yakutia (capable of producing 34 bln cubic meters a year) will cost at least $22 billion; development of Kovykta in the Irkutsk Region (needed to raise the annual flow to the announced 38 billion cubic meters) and a pipeline link to Chayanda will add $20-25 billion; a gas processing facility in Belogorsk (which will remove helium and other components from wellhead gas) will cost $15 billion. The initial version of pipeline is estimated to require $33 billion to be built, but a full-capacity transportation system will need a capex of $46 billion. We also know that first gas from Russia can reach the Chinese border in 2020, the earliest, and the first annual volume will be just 4.5 billion cubic meters. To be able to export 38 billion a year, Gazprom will have to spend another ten years installing extra boosters on the pipeline and drilling new wells at the fields. It means the contract can begin to be carried out fully only after 2030.

What about the commercial viability of the Chinese contract? Gazprom planners estimated in their pre-feasibility study that the payback period would be in the range of 15.5 to 16.5 years, if calculated on the base of net profit, but a discounted net profit base produces a period of 30 years or, in some scenarios, 'never at all.' It is not a commercial project (just as Gazprom is basically not a commercial company but an instrument of Putin's geopolitical initiatives.) The essential goal of the Russian government here is to create a new export outlet for natural gas.

Rosneft steps up investments in Priobskoye field

Natural Gas Europe, *06.06.2014*

Rosneft subsidiary Yuganskneftegaz officially opened two new oil and gas production units at the Priobskoye field, with the intention of completing 535 new wells in the next seven months.

'Production gain is provided not only by increased number of producing wells. The enterprise also applies new technologies of mechanized extraction,' reads a note released on Friday. The field, which was discovered in 1982, is in the Khanty–Mansi Autonomous Okrug of Western Siberia. Both Rosneft and Gazprom Neft have interests in the field. Priobskoye started production in 2000.

Russia, Qatar compete in natural gas market

Al-Monitor, *11.06.2014*

The tension between Moscow and Doha over Syria is perhaps the most visible aspect of their relationship. Russia remains committed to al-Assad, while Qatar is among the advocates of his ouster. This conflict reflects underlying differences in their attitudes toward Sunni Islamist ideologies — first concretely manifested during Russia's wars in Chechnya, when Chechen separatists found financial support in Qatar.

As senior Russian officials routinely cited these conflicts and the terrorism they produced as their country's top national security threat, this could have become a defining issue in their relations.

Russian President Vladimir Putin's eventual pacification of Chechnya, which he subcontracted to the brutal and corrupt Chechen President Ramzan Kadyrov, may have prevented this by sharply reducing the day-to-day violence. Nevertheless, the two are rivals in important respects, as curious as this may seem given that Russia's land area is over 1,400 times larger than Qatar's and its population is nearly 70 times larger. The reason for this is of course natural gas, as Russia and Qatar are among the world's leading producers and exporters. Accordingly, they cooperate in some respects, particularly in defending their shared interests, while competing in others.

But unlike issues of national security and terrorism, the gas trade is just business. And so far, both Moscow and Doha have been prepared to take the view that business is business. Russia's cooperation with Qatar is increasingly visible in the Gas Exporting Countries Forum (GECF), an emerging international organization with the rather broad goal of "supporting the sovereign rights of member countries over their natural gas resources." Moscow has been seeking to create a "gas OPEC" for some time, hoping to further enhance its energy leverage with an OPEC-like cartel that Russia could lead by virtue of its position as the world's largest holder of natural gas reserves and, until recently, the world's largest producer. The GECF finally took shape in 2008, after seven years of ministerial meetings, and was soon headquartered in Doha (Qatar has the third-largest gas reserves and the second-highest exports within the group, by a very wide margin) with a Russian secretary-general to lead its administrative apparatus. (The current secretary-general is Iranian.)

During the GECF's July 2013 Moscow summit, Putin urged the group to defend long-term supply contracts and oil-based pricing formulas — key points in the "Moscow Declaration," the GECF summit communique. This was likely not too difficult, in that most suppliers want and need long-term predictability in making the massive infrastructure investments required to produce and transport natural gas. No less important for Russia, Putin won the somewhat obliquely-phrased rhetorical support of the GECF in his battle with the European Union over its so-called "third energy package," which mandates the separation of energy production and transportation businesses to promote competition.

The summit statement announces the forum's commitment to "enhance the global-scale coordination of actions to protect the interests of the Gas Exporting Countries in all areas including interactions with regulatory authorities of gas-consuming countries." Despite this, Qatar's gas exports have been causing problems for Russia and its gas monopoly Gazprom — although the root cause lies in the United States. After developing extensive facilities to export liquefied natural gas (LNG) to the United States, Qatar's intended customer faded away as US shale gas production soared. Qatar's redirection of its LNG to European markets swelled the spot market for gas, putting significant downward pressure on natural gas prices and eventually contributing to conditions that forced Gazprom to refund $2.7 billion to its European customers in 2012 alone.

Qatar's choices are significant because it exports a third of the world's LNG, now overwhelmingly to Asia. Although the spot market for LNG is just 20% of the overall market, it nevertheless can have a significant impact on pricing and other contract terms, as it has in Europe. Russian companies have been quite slow to enter LNG markets and, as a result, Russia's gas exports travel overwhelmingly by pipeline. Interestingly, some have argued that Moscow may have turned the tables in the recent $400 billion gas deal between Gazprom and China National Petroleum Corp., which they see as a challenge to Qatar in the mid to long term.

This competition between Russia and Qatar reflects fundamental structural tensions in the GECF that will likely limit its long-term influence. The Organization of Petroleum Exporting Countries (OPEC) has long faced its own challenges, primarily in setting and enforcing production quotas — something political scientists see as a classic problem of collective action. In OPEC, members have strong incentives to exceed their quotas and therefore secure additional revenue, though if too many do so their combined actions can drive down prices and harm everyone. Nevertheless, at least in today's global economy, OPEC members are relatively confident that they can sell whatever oil they produce in the highly developed international oil market.

This exacerbates the collective action problem, but also insulates OPEC members to some extent.Natural gas markets are of course fundamentally different. Most gas is still delivered by pipelines with fixed starting and ending points and cannot be quickly, easily or cheaply redirected to other customers. Even the more flexible LNG exports require massive capital investments to build liquefaction and re-gasification facilities. This consideration drives exporters' interest in long-term supply arrangements. Russia is especially concerned precisely because so much of its gas travels by pipeline. As a result, however, the competition among gas exporters is much sharper than that between oil exporters — and losing out can be very costly.

Thus, while GECF members may be able to cooperate to defend their preferred contracting principles, major consumers can also find ways to divide them and set them against one another. From this perspective, Gazprom and Qatargas, among others, are directly competing. Still, in the case of Russia and Qatar, Doha appears to have found at least one way to mitigate any tensions arising from competition for customers. The Qatar Investment Authority has committed $2 billion to the government-connected Russian Direct Investment Fund for infrastructure projects in Russia. Coming as Western governments attempt to isolate Moscow economically, it is a significant gesture that the Kremlin will notice and understand — "business is business" also means "nothing personal." As US and European relations with Russia continue to erode, that message may matter.

Shale gas is America's geopolitical trump card

Wall Street Journal, *08.06.2014*

When Russia and China announced a $400 billion deal last month for Russia to supply China with 38 billion cubic meters of natural gas annually for three decades, some analysts heralded it as a tectonic geopolitical shift.

Instead, Putin's haste to sign a deal that had been in the making for more than a decade confirmed his country's political weakness. Despite being buoyed by high energy prices in the first decade of this century, Russia is in decline. Demographically it is shrinking; it has severe health problems; and it is a "one-crop economy" heavily dependent on energy exports.

Russia needs reforms to build a diversified, entrepreneurial economy, but its actions in Ukraine have brought on sanctions that weaken its access to Western ideas and technology. Becoming China's gas station does nothing to reverse this trend. The real geopolitical shift is the shale-energy revolution that took off in the past decade. While the technologies of horizontal drilling and hydraulic fracturing are not new, their pioneering application to shale rock is largely a product of American entrepreneurship in the past decade. Ten years ago, many experts were speaking of "peak oil"—the idea that even reserves in Saudi Arabia had topped off. The U.S. was regarded as increasingly dependent on energy imports and was building terminals to import high-priced liquefied natural gas.

Instead, North America is now building terminals to export its low-cost LNG, and the continent is expected to be self-sufficient in energy in the 2020s, according to a broad consensus of energy experts. The Energy Department estimates that the country has 25 trillion cubic meters of technically recoverable resources of shale gas, which when combined with other oil-and-gas resources could last for two centuries. The shale revolution has a number of implications for American foreign policy. Shale-energy production boosts the economy and produces more jobs. Reducing imports helps the balance of payments. New tax revenues ease government budgets. Cheaper energy makes industry more competitive internationally, particularly energy-intensive industries like petrochemicals, aluminum, steel and others.

There are also domestic political effects. One is psychological. For some time, many people at home and abroad have bought into the myth of American decline. Increasing dependence on energy imports was often cited as evidence. The shale revolution changes that dependence and demonstrates the combination of entrepreneurship, property rights and capital markets that are this country's underlying strength. Skeptics have argued that lowered dependence on energy imports will cause the U.S. to disengage from the Middle East. This misreads the economics of energy. A major disruption such as a war or terrorist attack that stopped the flow of oil and gas through the Strait of Hormuz would drive prices to very high levels in America and among our allies in Europe and Japan.

Moreover, the U.S. has many interests other than oil in the region, including nonproliferation of nuclear weapons, protection of Israel, human rights and counterterrorism. As for the costs of maintaining our Fifth Fleet in the region, many bases are paid for by host countries, and the marginal costs of keeping naval resources there instead of elsewhere do not add greatly to the budget. The U.S. may be cautious about overextension in the Middle East, but that is more the product of experience with the costly invasion of Iraq and the general turmoil of the Arab revolutions rather than illusions that shale produces political "energy independence."

The ability of the U.S. to use oil sanctions to bring Iran to the bargaining table on nuclear issues depended not only on Saudi willingness to make up the million barrels of oil per day that Iran lost, but also on the general expectations that were created by the shale revolution. Other benefits of the shale revolution for American foreign policy include the diminishing ability of countries like Venezuela to purchase votes in the U.N. and regional organizations of small Caribbean states by shipments of oil, and, if the government will approve more exports of liquefied natural gas, the eventual reduction of Russia's ability to coerce its neighbors by threats to cut off gas supplies. In short, there has been a tectonic shift in the geopolitics of energy, but it was not the Russia-China gas pipeline deal.

IEA says China natural gas demand to nearly double

Wall Street Journal, *10.06.2014*

China's natural gas demand is forecast to nearly double by 2019, offsetting slower growth in Europe and elsewhere, the IEA said in its annual medium-term gas market report. Global gas demand is expected to rise by 2.2% a year by the end of 2019 compared with 2.4% projected in last year's outlook, the IEA said. Liquefied natural gas will meet much of this demand, with new pipelines also playing a role.

In a shift away from the traditional dominance of state-owned suppliers, private-sector operators in Australia, Canada and the U.S. are taking the lead in the expansion of LNG trade, which is expected to grow by 40% to reach 450 bcm by 2019.

Half of all new LNG exports will originate from Australia, while North America will account for around 8% of global LNG trade by 2019, the IEA said. "We are entering the age of much more efficient natural gas markets, with additional benefits for energy security," IEA Executive Director Maria van der Hoeven said. "While demand growth is driven by the Asia-Pacific region and especially China, supply growth for the international gas trade is dominated by private investments in LNG in Australia and North America." However, high LNG prices are threatening to crimp demand and that could open the door to increased coal use, she added.

China's power, industrial and transport sectors will drive overall Chinese gas demand to 315 billion cubic meters in 2019, an increase of 90% over the forecast period, the report said. While China will remain a significant importer, half of its new gas demand will be met from domestic resources, most of them unconventional. Chinese production is set to grow by 65% to 193 billion cubic meters in 2019 from 117 billion cubic meters in 2013, the report said. Meanwhile, in Europe, consumption isn't expected to recover to its 2010 peak over the next five years due to weak power demand growth and government support for renewables. Moreover, there will be no meaningful diversification of European gas supplies through the end of the decade, the report said.

Rise in oil and gas security sector revenues

Financial Times, *03.06.2014*

The security market for oil and gas assets is tipped to grow between this year and 2021, according to a new analysis by Frost & Sullivan. The predicted increase is from $19.63 billion in 2013 to $24.68 billion.

"Security system manufacturers will find more opportunities and earn higher profits from the upstream oil and gas segment than the midstream or downstream segments," said Frost & Sullivan Aerospace & Defense Research Analyst Evans. "Regardless of this, security system manufacturers must continue to provide solutions across all segments, with particular focus on surveillance and intrusion detection."

The study notes, however, that although cyber-attacks are a threat to the oil and gas industry, many companies remain focused on areas such as fire detection and prevention when spending on security systems. National and international legislation and initiatives highlighting the need for protection against cyber-attacks are needed, it said. "With the implementation of the aforementioned measures, cyber-security will emerge as the highest-priority area for oil and gas companies," Evans said. "In preparation for this, market participants should try to integrate Internet connection sharing and ICT systems so that a holistic view of the infrastructure can be obtained. This will enable end users to ascertain where the attack is coming from, and treat the cause rather than the symptoms."

Only a fraction of big gas export projects will be built - Shell

Fox Business, *09.06.2014*

Only a fraction of the natural gas export projects being developed around the globe will become reality as high costs and weakening gas prices torpedo those that until recently promised huge returns on investment.

Large natural gas field discoveries on and offshore have prompted several countries to plan liquefied natural gas (LNG) export projects, including in North America, Australia, East Africa and the east Mediterranean. But high development costs and low profit margins in the gas sector mean most of these will fail, Royal Dutch Shell's director of projects and technology told Reuters in an interview.

“There is always so much talk about these big LNG projects around the world, but only a small fraction of them will get built,” said Matthias Bichsel, who is also a member of Shell’s Executive Committee. “Costs in the oil and gas sector are still on the rise and outpacing inflation, and gas projects are extremely price-sensitive because the margins are so thin,” he added. Bichsel, without commenting on specific projects, said that in Australia, high labor costs had caused problems for developers. The country hopes to overtake Qatar as the world’s biggest LNG exporter. Shell is building the world’s first floating liquefied natural gas (FLNG) project in Australia, named Prelude, which will be the biggest maritime vessel ever constructed. It also has a 25 percent stake in the massive Gorgon LNG project on Australia’s western coast, led by Chevron.

The development’s costs have soared from initial estimates of $37 billion in 2009 to almost $55 billion on the back of high labor expenditures and complex technology. Also in Australia, Shell exited the Wheatstone LNG project after selling its stake to Kuwait Foreign Exploration Petroleum Co in January, and cut hundreds of jobs at its Arrow LNG project, where it has yet to take a final investment decision. Late last year, Shell abandoned a proposed gas-to-liquids (GTL) project that would have made diesel from natural gas in the U.S. state of Louisiana. While costs are soaring, gas prices have been dropping for most of this year, reducing the outlook for developers’ return on investment and prompting analysts to say many new gas projects will struggle to receive the required financing.

European forward gas prices, which are used to make investment decisions for big pipeline and gas field projects, have dropped more than 15 percent since the beginning of 2014. They are close to five-year lows, and most analysts expect further declines as new producers flood markets with gas. In Asia, where 70 percent of global LNG trading takes place, spot LNG prices have fallen more than 35 percent this year to their lowest since late 2012. In the east Mediterranean, where Israel and Greek have discovered large offshore gas fields, Australia’s Woodside Petroleum last month pulled out of an agreement to take a stake worth up to $2.7 billion in Israel’s flagship Leviathan gas project. Woodside is a specialist LNG developer and was targeting sales in Asia with its involvement in Israel. “After many months of negotiations it is time to acknowledge we will not get there under the current proposal,” Woodside CEO Peter Coleman said at the time. In Central Asia, France’s Total pulled out of Azerbaijan’s huge Shah Deniz II gas project, which is expected to produce 16 billion cubic meters (bcm) of gas for export to Turkey and Europe towards the end of this decade. Norway’s Statoil had reduced its stake in the project in May. In North America, several LNG export terminals are also beginning to have trouble attracting buyers.

In East Africa, where impoverished Mozambique and Tanzania hope recent offshore gas discoveries can bring future wealth, analysts have said developers will struggle to find necessary financing and that costly production delays are likely. “I believe the speed with which the East African projects have been promised is somewhat ambitious since all infrastructure there has to be built from scratch,” Shell’s Bichsel said. Mozambique and Tanzania hope to export their first cargoes around the turn of the decade. In Asia, uncertainty over future pricing of LNG has led consumers to hold off signing 20-year deals amid expectations that prices will soon enter a period of decline. As a result, final investment decisions on new projects have come to a virtual standstill, while cost blowouts in Australia are further deterring investors from signing up. Despite the troubled perspective for many gas projects, Bichsel said the outlook for the sector was positive.

Announcements & Reports

► Kurds Use Oil Tankers to Challenge Baghdad's Control

Source : STRATFOR
Weblink : http://www.stratfor.com/sample/analysis/kurds-use-oil-tankers-challenge-baghdads-control

► Iraq's Energy Faceoff

Source : STRATFOR
Weblink : http://www.stratfor.com/sample/image/iraqs-energy-faceoff

► New Energy, New Geopolitics: Background Report 3

Source : Center for Strategic and International Studies
Weblink : http://csis.org/publication/new-energy-new-geopolitics-background-report-3

► Costs, Competitiveness and Climate Policy in EU

Source : Oxford Institute for Energy Studies
Weblink : http://www.oxfordenergy.org/2014/04/costs-competitiveness-and-climate-policy-distortions-across-europe/

► Oxford Energy Forum (No. 95)

Source : Oxford Institute for Energy Studies
Weblink : http://www.oxfordenergy.org/2014/04/oxford-energy-forum-issue-95/

► This Week in Petroleum

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/oog/info/twip/twip.asp

► Natural Gas Weekly Update

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/totalenergy/data/monthly/pdf/mer.pdf

► Prime Supplier Report

Source : Energy Information Administration
Weblink : http://www.eia.gov/pub/oil_gas/petroleum/data_publications/prime_supplier_report/current/pdf/c007.pdf

Upcoming Events

►Utility Energy Storage Europe

Date : 18 - 19 June 2014
Place : London – United Kingdom
Website : http://atnd.it/6753-0

►Gas Storage and Transmissions

Date : 18 – 19 June 2014
Place : London – United Kingdom
Website : http://atnd.it/6752-0

► Iran Oil & Gas 2014 Summit

Date : 23-25 June 2014
Place : Dubai
Website : http://www.iransummit.com/

►ECSEE 2014 - The Second European Conference on Sustainability, Energy and the Environment

Date : 3 – 6 July 2014
Place : Brighton – United Kingdom
Website : http://ecsee.iafor.org

► 2014 EIA Energy Conference

Date : 14-15 July 2014
Place : Washington – USA
Website : http://www.fbcinc.com/e/eia/?src=home-b1

►3rd International Conference on Smart Grid Systems (ICSGS 2014)

Date : 17 – 18 July June 2014
Place : Bangkok, Thailand
Website : http://www.icsgs.org/

►International Conference on Energy (ICOE) 2014

Date : 12 – 13 August 2014
Place : Colombo – Sri Lanka
Website : http://www.energyconference.com

► *4th Erbil Oil & Gas International Exhibition*

Date : 1 – 4 September 2014
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/

► *South Russia Oil & Gas Exhibition*

Date : 2 – 4 September 2014
Place : Krasnodar – Russia
Website : http://oilgas-expo.su/

► *2nd East Mediterranean Oil & Gas Conference*

Date : 9 – 10 September 2014
Place : Paphos – Greek Cyprus
Website : http://www.eastmed-og.com/Home.aspx

Supported by PETFORM

► *All Energy Turkey- 2014* ***(in Turkey)***

Date : 24 – 25 September 2014
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/?lang=tr

► *Turkey International Underground Gas Storage Conference*

Date : 29 – 31 October 2014
Place : Ankara – Turkey
Website : http://tugs2014.org/