First tranche of Kurdish Iraqi oil revenue deposited in Turkey's Halkbank

Hurriyet Daily News, *23.06.2014*

Turkish Energy Minister Taner Yildiz said the third tanker carrying oil from the semi-autonomous region of KRG has departed Turkey's Mediterranean port of Ceyhan, announcing payments from the oil sales are now being transferred to Turkey's state-run Halkbank.

A fourth tanker is being loaded with oil from KRG at the Turkish port, Yildiz also said on June 23 and added that $93 million for the first cargo loaded last month had been deposited at the lender. Turkey does not know who is buying the cargoes but believes the crude is being sold to Mediterranean markets, Yildiz told reporters.

Over the past weekend, a cargo of disputed crude oil from KRG's new pipeline was delivered for the first time in Israel, despite threats by Baghdad to take legal action against any buyer. The SCF Altai tanker arrived at Israel's Ashkelon port early on June 20 morning, ship tracking and industry sources said. By the evening, the tanker began unloading the Kurdish oil, a source at the port said. The Kurdish Regional Government said on June 21, a day after the news was first reported, it did not deal with Israel in the sale. "The KRG categorically refutes the claim that it has sold oil to Israel," a spokesman for the Ministry of Natural Resources said in an e-mail.

"The KRG has not sold oil either directly or indirectly to such a destination." In a statement on its website earlier on June 21, the KRG said: "We are proud of this milestone achievement, which was accomplished despite almost three weeks of intimidation and baseless interferences from Baghdad against the tanker-ship owners and the related international traders and buyers." Securing the first sale of oil from its independent pipeline is crucial for the Kurdish Regional Government (KRG) as it seeks greater financial independence from war-torn Iraq. But the new export route to the Turkish port of Ceyhan, designed to bypass Baghdad's federal pipeline system, has created a bitter dispute over oil sale rights between the central government and the Kurds.

Iraq looking to import fuel from Turkey

Hurriyet Daily News, *22.06.2014*

Iraq has requested to fill its gasoline gap with fuel from Turkey after the shutdown of the country's biggest oil refinery amid clashes with armed insurgents, Turkish Energy Minister Taner Yildiz has said.

Speaking to journalists during the opening ceremony of a geothermal power station in the western Turkish province of Aydın, Yildiz said the closure of the Beiji refinery created a daily gasoline gap of 4,000 tons in Iraq. He said Turkey's state-owned TUPRAS had the capacity to respond to these demands, though the transportation would cause queues of tankers at the Habur gate, which has limited capacity.

Turkey plans to pour $1.2 billion in gas storage

Hurriyet Daily News, *23.06.2014*

TPAO has allocated a budget of $1.2 billion for increasing its send-out capacity of natural gas storage in Silivri in a move to solve the country's long-lasting storage problem in the sector. The gas pumping capacity of the storage tank located on the European side of Istanbul, which currently stores 20 million cubic meters per day, will double by 2017 and reach 75 million cubic meters per day in 2019.

While speaking to reporters at the World Petroleum Congress, the TPAO Acting President and Chief Besim Sisman said the company is working to ramp up gas send-out capacity to avoid any gas shortages during the winter.

In addition to increasing the existing capacity, the company is looking for new storage fields, Sisman said. There are few places in Thrace and in the southeastern province ofDiyarbakır that we are considering, he added. When asked about the possibility of partnering with two private companies, who have received their license from the country's energy watchdog EPDK (Energy Market Regulatory Authority) for storing in the southern province of Mersin, Sisman said they would be willing to help if they were asked, but as of yet this has not been the case. Also touching on Turkey's intensified efforts to discover gas, Sisman said they are prioritizing searches in the Mediterranean and Black Sea.

ExxonMobil in talks with Turkey over shale gas exploration

Reuters, *23.06.2014*

U.S. oil firm ExxonMobil is in talks with state-run Turkish Petroleum Corporation over a venture to explore for shale gas in the country's southeast and northwest regions, a Turkish energy official said. Exxon held talks with TPAO in 2012 to over a partnership in shale, but the negotiations were inconclusive. Turkish officials say talks have since advanced and are likely to result in an agreement.

"ExxonMobil is coming to Turkey to partner up with TPAO," Selami Incedalci said late on Sunday. He said ExxonMobil was interested in onshore opportunities in the southeast and Thrace, in northwestern Turkey.

Turkey wants to reduce its annual energy bill of around $60 billion and is developing domestic resources including nuclear, coal, solar and wind energy. With domestic gas consumption rising, and its location well-placed to supply international markets, major exploitable reserves could be a game changer for Turkey'seconomy and highly lucrative for whoever finds them. Investors from the United States, Europe and Canada are also interested in Turkey's shale gas and oil, Incedalci said, adding that the Ministry was planning to hold talks with potential investors in October.

Royal Dutch Shell is also drilling for shale gas in the region around the southeastern city of Diyarbakir, while Canadian firm TransAtlantic Petroleum is also active in the region. Estimates of how big Turkey's shale gas reserves are vary wildly. One energy official said data from some international bodies suggested Turkey could have a massive 20 trillion cubic metres (cbm) of total reserves. Another industry expert said proven reserves so far stood at just 6-7 billion cbm. That compares with U.S. Energy Intelligence Administration's (EIA) assessment of 7,299 trillion cubic feet of estimated shale gas reserves in the United States, among the world's top producers of the commodity.

Azerbaijan to open new stage in European energy security

Azer News, *20.06.2014*

Azerbaijani gas will be the first alternative source for the European Union is due to reach European countries in 2019. Greece will be the starting point in the European direction transportation route. Gas will be transported through the Trans Adriatic Pipeline in the amount of ten billion cubic meters with the possibility of the further expansion.

On the basis of the commercial contracts with the European buyers, Greece will get about one billion cubic meters of Azerbaijani gas. That is not big amount, but for the country, which is highly dependent on one source, this gas will play an important role in Greece's energy security.

The consumption of gas in Greece amounted to 3.6 billion cubic meters in 2013 which is 11.5 percent less than in 2012, according to BP's recent statistical review. In total Greece imported three billion cubic meters of gas through the pipeline. 2.4 billion cubic meters of that amount Greece imported from Russia. The importance of the Trans Adriatic Pipeline was recently stressed during the meeting of Azerbaijani President Ilham Aliyev with Prime Minister of Greece Antonis Samaras in Athens. In particular, Samars said that TAP, which will transport Azerbaijani gas to the European market, will play an important role in meeting Greek, Italian and Albanian needs in gas. "This vertical corridor will provide the Balkan countries, as well as Central and Eastern Europe with natural gas coming from the South to the North.

I am confident that, in accordance with the plans and our previous talks, we will discuss the issue of increasing the volume of fuel that will be transported by TAP in the future. We expect that, mainly by SOCAR, Azerbaijan will become the most active and interested party in the energy landscape," Samaras said. It was also stressed the importance of the acquisition of DESFA's assets by Azerbaijan's State Oil Company. This purchase have a big importance in terms of increase of Azerbaijan's role in providing European energy security, as well as attracting foreign investments in Greece. President Aliyev said that the TAP project will create a new format of broad regional cooperation of the Caspian Sea, the Caucasus and Europe.

The importance of TAP also consists in the wide opportunities which it provides in terms of the expansion of the pipeline's capacity, as well as creating new market directions for Azerbaijani gas. Through agreements with other pipeline system operators and national governments, and its commitment to channel a proportion of TAP's capacity into the South Eastern European region, TAP has the potential to create new gas markets and enhance energy security in South East Europe. Currently TAP works with the developers of the proposed Ionian Adriatic Pipeline, which will start in Albania and runs to the North through Montenegro, Bosnia and Herzegovina, Croatia and beyond, perhaps to Slovenia and through Slovenia to northern Italy or Switzerland. It is expected that TAP will get a concrete delineation after 2020-2022.

TAP's landfall in Italy also provides opportunities for transporting Caspian gas further to the west - to France, Switzerland, Germany, Austria, Belgium, and even the UK. In particular, TAP can reach Austria and Hungary via the Trans Austria Gas pipeline, Germany and France via the Transitgas pipeline through Switzerland. TAP can also supply Bulgaria by connecting to existing or planned infrastructure such as Interconnector Greece-Bulgaria. Bulgaria's gas consumption amounted 2.4 billion cubic meters in 2013 while Italy consumed 57.8 billion cubic meters of gas last year, according to BP. Italy imported 24.9 billion cubic meters of gas from Russia. The launch of transportation of Azerbaijani gas to the European market in 2019 will open a new page in the history of energy. It will mark new milestone for European energy security. The EU countries will get new energy supply source while Azerbaijan will strengthen its position as a reliable supplier.

First oil delivery from disputed Kurdish pipeline set for Israel

Reuters, *20.06.2014*

KRG looked set to unload its first cargo of disputed crude oil in Israel from its new pipeline after weeks of seeking an outlet as Iraq's central government has threatened legal action against any buyer.

The SCF Altai tanker was anchored near Israel's Ashkelon port early on Friday morning, ship tracking and industry sources said. The tanker is expected to dock early on Saturday, local sources said. Securing the first sale of oil from its independent pipeline to the Turkish port of Ceyhan is crucial for the Kurdish Regional Government as it seeks greater financial independence from war-torn Iraq.

But the new export route to Turkey, built to bypass Baghdad's federal pipeline system, has created a bitter dispute over oil sale rights between the central government and the Kurdish Regional Government (KRG). The first tanker of its pipeline oil is still homeless after loading in May. After a false start sailing to the United States, the United Leadership tanker turned back towards Morocco, where it is anchored after local authorities refused to let it discharge for the Mohammedia refinery. It was not clear whether the crude in the SCF Altai has been sold to a local refiner or was slated to discharge into storage, potentially for another destination. "We do not comment on the origin of crude oil being imported by the private refineries in Israel," an Israeli energy ministry spokeswoman said. The SCF Altai did not arrive directly from Ceyhan.

The United Emblem was the second tanker to load crude at Ceyhan from the KRG pipeline at the start of last week. It then made a ship-to-ship transfer near Malta to the SCF Altai, local shipping and market sources said and ship tracking showed. Israeli refineries have taken Kurdish crude oil before bu in small volumes, which were shipped to Turkish ports by truck. Some oil has also been stored there. The KRG began exporting a small volume of its Taq Taq crude grade by truck to Turkey in early 2013 and then added another grade Shaikan at the start of this year.

Israel has less to lose than other U.S. or European refiners, because it has no contract for Iraqi oil. Iraq participates in the boycott of Israel along with many other Arab states. Italy has warned traders and refineries about the legal risks of importing the oil. Large companies with oilfield interests in southern Iraq have stayed clear, although a joint refining venture by Rosneft and BP used a cargo of trucked oil in May. The KRG's pipeline is currently pumping around 120,000 barrels per day to Ceyhan. The region's natural resources minister is aiming to export 400,000 bpd by year-end.

Crude prices could climb if Iraq instability persists, SAFE warns

Oil & Gas Journal, *20.06.2014*

Despite continuing US production increases, global crude oil prices could climb as much as $40/bbl if instability in Iraq persists, Securing America's Future Energy (SAFE) warned in a recent report.

Combined with expected rising global demand during this year's second half, the loss of even one third of Iraq's total production could trigger such a worldwide crude price increase, the June 17 issue brief said. It noted that exports from Iraq's Kurdish north, which were as high as 209,000 b/d in 2009, effectively ceased on Mar. 2, contributing to 3 million b/d of total global supply outages.

"Nearly 100% of Iraq's 2.5 million b/d of crude exports currently exit the country through its southern oil complex centered on Basra," SAFE's report said. "While the predominantly Shia south has remained relatively secure, political disintegration in Iraq along sectarian lines would add to the current oil price risk premium and the potential for significant upside would remain." While near-term price increases would be troubling, market implications in the long run could be a greater concern, it suggested. SAFE's issue brief cited the International Energy Agency's baseline forecast scenario for Iraq, which has production there growing from 3.3 million b/d in 2014 to nearly 6 million b/d by 2020 and 8 million b/d by 2035.

"Between today and 2020, the IEA expects Iraq to account for 60% of the increase in [the Organization of Petroleum Exporting Countries] crude oil production capacity," SAFE's report said. "After 2020, Iraq accounts for the majority of oil production growth within OPEC, is the major driver of crude oil production growth globally, and is effectively a necessary component to meeting rising global demand growth in an even modestly cost-effective way." SAFE Pres. Robbie Diamond said, "The situation in Iraq has the potential to inflict serious damage on the US and global economies. The short-term risk is of further violence and a damaging price spike. But the turmoil in Iraq contributes to a broader, long-term outlook of underinvestment, violence, and corruption in key oil producing countries, particularly within OPEC."

Iraq Kurds unveil plan to ramp up oil exports

Hurriyet Daily News, *26.06.2014*

Iraq's self-ruling Kurds outlined plans to swiftly ramp up oil exports now that their forces have seized control of Iraq's main northern oil fields. Kurdish Natural Resources Minister Ashti Hawrami told Reuters the Kurds had plans to increase their exports eight-fold by the end of 2015, including pumping oil from the fields taken by Kurdish fighters two weeks ago.

"We expect to be able to export 1 million bpd by the end of next year, including crude from Kirkuk," he said, although he insisted the Kurds would share the proceeds with Baghdad. "We want to work with Baghdad under the constitution, and they will get their share of the oil they export from Kirkuk."

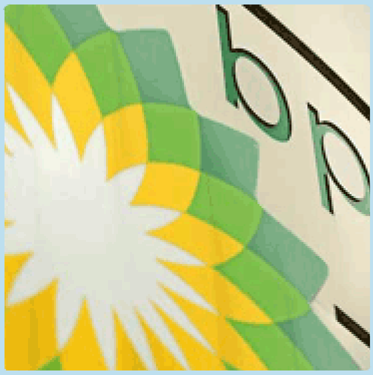
Kurdish oil sales are firmly opposed by the central government in Iraq which says they violate the constitution. Increasing them to such levels would radically alter the balance of power in Iraq, potentially requiring the central government to seek payment from the Kurds for some revenue, rather than the other way around. Two weeks ago Kurdish "peshmerga" troops took control of Kirkuk – a city Kurds consider their ancestral capital – and outlying rural areas rich in oil, expanding their territory by more than a third. The Kurds say they were filling a security vacuum after Iraqi troops fled from Sunni fighters of the hardline Islamic State in Iraq and the Levant, who seized the biggest northern city Mosul at the start of a lightning offensive on June 10. Hawrami told the fall of Mosul had transformed Iraq, suggesting this would require a new settlement over oil rights.

"Resources and revenues must be shared. But pre-Mosul Iraq has gone and there is now a new reality," Hawrami said during an interview at his office near Kurdish regional parliament. Iraqi oil was sold by the government in Baghdad and the Kurdish region given a fixed percentage of the total income. But that deal has unravelled this year after the Kurds began pumping their own smaller amounts of oil to port in Turkey and the central government cut off their share of budget funds. The Kurds sold their first tankers full of oil to Israel last month. The 125,000 barrels of oil per day the Kurds have so far been able to pump abroad provides only a fraction of the money they have received in the past from Baghdad, but control of the oil fields in Kirkuk could bring a larger windfall.

Western oil firms have rushed to do business with the Kurds, defying blandishments from Baghdad, which says any such deals are illegal. About 20 Western energy executives were waiting to meet Hawrami on June 25 when Reuters visited his office. "Oil companies and governments around the world are now showing increasing interest in buying our crude. Many have already done so," he said. "Baghdad made the same threats when the big energy companies first wanted to come and work here," Hawrami said. "We know how this plays out." He added that the Kurds would not act on their own: "We need to have an agreement with Baghdad. We're not going to start exporting oil from Kirkuk unilaterally." Hawrami said exports could double "within a month or so" to around 250,000 bpd and hit 400,000 bpd by the end of 2014.

BP restarts stalled gas project in Egypt

Natural Gas Asia, *26.06.2014*



BP's $10 billion gas project in North Alexandria concession, which was stalled for three years, has restated and production is expected by 2017, Egypt's oil minister said Thursday. According to news agency Reuters, Sherif Ismail, who was on a visit to Al-Aseel oil field in the western desert told reporters that initially 450 million cubic feet per day of gas is expected to be extracted.

Output would rise to 800 million cubic feet per day in 2018, the minister said. Many new gas projects in the country have been stalled as the government has found it difficult to play foreign companies.

The North African nation has diverted most of the gas produced to domestic market where demand has surged due to generous state subsides. This diversion has resulted in fall in exports. Egypt's natural gas exports in April dropped by 80.9 percent compared with corresponding period last year, state-run Information and Decision Support Centre (IDSC) said earlier this month. In another move that could help improve investor confidence, Ismail said Egypt would pay $1.5 billion of the money it owed to foreign energy companies by the end of 2014, adds Reuters. According to the news agency, the government has promised to pay companies including BG Group and BP $3 billion by the end of 2017 as it tries to lure back investors to help it develop its reserves.

Gas discovery could help 'Cyprus standoff'

Reuters, *20.06.2014*

Natural gas discoveries in Greek Cyprus could be the key to successful peace talks on the island, the president of the Republic of Northern Cyprus, Dervis Eroglu, said on Thursday. "Energy sources are important factors defining the foreign policies of world nations," Eroglu at the "Energy Workshop" in Northern Cyprus's capital Lefkosa.

Underlining that energy has also been a negative factor in sparking conflicts and competition among countries, Eroglu said the gas fields discovered off the southern coast of Greek Cyprus are of particular concern to Turkey, Israel, Syria, Lebanon, Egypt and Greece.

Lakkortrypis and Oettinger meet during Brussels visit

Natural Gas Europe, *24.06.2014*

Natural Gas Europe had met with the Minister of Energy of Greek Cyprus Lakkotrypis in his office in Nicosia to discuss the natural gas developments in Greek Cyprus, Greek export options, its collaboration with its Eastern Mediterranean neighbors on energy matters, how the gas reserves can affect diplomacy and Greek Cyprus' eventual contribution in strengthening Europe's energy security.

This article is the first of a series of articles related to this meeting. The minister of energy of the Republic of Cyprus Lakkotrypis travelled to Brussels on Monday 23 June to meet with the European Commissioner for energy Oettinger.

The purpose of the visit is to discuss Greek Cyprus' natural gas reserves and the potential contribution of Greek Cyprus to Europe's energy security. In his office in Nicosia prior to departing for Brussels, Lakkotrypis told Natural Gas Europe that Greek Cyprus is key to the EU for it can constitute an alternative source of natural gas to the EU and an alternative route. When asked if it were a realistic assumption to suggest that Cypriot gas could be part of the solution to the EU, Lakkotrypis answered affirmatively. He insisted that the Eastern Mediterranean as a whole could play an important role in diversifying Europe's sources of energy and energy routes. Lakkotrypis added that while it is a fair argument that the Eastern Mediterranean's current reserves are not sufficient to satisfy Europe's natural gas needs, tapping into the region's reserves in the future would allow Europe's to move closer to its energy strategy.

The EU has been committed for the past decade to diversifying its sources of energy. The Ukraine crisis has reminded Europe of the pressing need to take serious action towards strengthening its energy security and loosening Russia's grip over its market. Natural Gas Europe asked Lakkotrypis if Greek Cyprus will enter the export market in time to benefit from attractive gas prices before the entry of new players affects supply and pushes prices down. The minister answered that the Government of Greek Cyprus has studied several scenarios involving LNG and pipeline options and has allocated a deadline for each possibility.

ENI and Kogas will start drilling offshore Greek Cyprus by the end of the summer. The results of their exploration activities will be key in determining the fate of the onshore LNG terminal in Vassilikos. Lakkotrypis commented on the eventual collaboration between Israel, Greek Cyprus and Turkey by saying that any sort of collaboration with Turkey has one prerequisite: a fair and sustainable solution to the Island of Cyprus problem. When asked if Turkey can realise its energy hub ambition, Lakkotrypis added that Europe will most probably avoid making of Turkey another Ukraine and will seek to diversify its routes.

GCC firms urged to invest in Greek Cyprus oil & gas sector

Gulf Daily News, *24.06.2014*

Big opportunities lie ahead for GCC investors as Greek Cyprus gears up to tap significant hydrocarbon resources below the Eastern Mediterranean seabed, a consultant has said. "An estimated 27 tcf of natural gas have already been discovered and GCC countries need to move fast to set up joint ventures and partnerships," Business Links Consultancy president and managing director told the GDN.

Mr. Yiangou was speaking on the sidelines of the Al Dana and Ferguson Partners conference. His company is a business development firm located in Greek Cyprus and specialises in business match-making within Europe and the Middle East.

"Roughly 7tcf of natural gas in the Aphrodite field could be worth upward of $70 billion at current prices. "Bidding for blocks and licences has been held over the last few years, with oil and gas giants Total, ENI and Texas-based Noble Energy all securing contracts to operate in the Aphrodite field," he said. "Extensive exploration and drilling is set to begin in October," Mr Yiangou said. He feels it is a good opportunity for major home-grown GCC oil and gas companies. "Greek Cyprus is looking to multinational oil and gas companies as well as infrastructure projects aimed at converting gas to liquid thereby creating jobs, spurring growth and boosting exports. "The cheap availability of energy is also going to allow us to create other industries such as petrochemicals and heavy manufacturing," he said.

Southeast Europe: Gas trends unfolding

Natural Gas Europe, *23.06.2014*

The 8th South East Europe Energy Dialogue that was held in Thessaloniki-Greece on the 11 &12th of June 2014 was filled by interesting notices and streams of information regarding the unfolding trends in the modern day natural gas sector in Europe and in Southeast Europe in particular. The conference was under the auspices of the Greek Presidency of the EU and the World Energy Council.

Trends in gas production in Europe were examined closely. According to the CEO of the Gas Strategies consulting, Chris Walters, gas production in the Continent will be reduced by at least 100 bcm by 2030.

That means that Russia, North Africa and Azerbaijan will be key winners of such developments since they will have to fill up for the loss. Regarding a potential US role with regards to a shale gas revolution, it was noted that there will be indeed some developments occurring in that aspect, on the other hand, the EU is starting to rely again more on cheap coal which in turn decreases profit margins for gas, making a trans-Atlantic gas trade less likely at least for the short term. A great deal of attention was paid to infrastructure gas projects in Southeastern Europe, with the general technical director of Greek DEPA placing importance in the Interconnector Greece-Bulgaria along with a potential new LNG installation codenamed Aegean LNG that will boost diversification in the region, especially if an East Med pipeline would bring gas from Israel and Greek Cyprus.

Croatia from its part through the words of the director of development of the Plinacro Company, Vladimir Durovic, is aiming at the realization of the Ionian-Adriatic Pipeline, an extension of the Trans-Adriatic Pipeline (TAP) from Albania to Croatia through Montenegro. The TAP-TANAP system of pipelines, which is in essence the Southern Corridor connecting Shah Deniz to EU, is going to have another importance according to the member of the Greek regulator agency for energy (RAE) Michalis Thomadakis, and that is the existence of reverse flow capacities so that a larger market hub will be created pushing prices downward in the long-term. By late 2015 he assesses that the overall plan by RAE and DESFA regarding a gas hub in Greece in particular will have been completed whilst the EU's Projects of Common Interest (PCI) will include in Southeast Europe most of the Greek propositions that are specifically tailored made to pursue the aspect of gas hub.

The general director of the Turkish Angoragaz, Gokhan Yardim, stated that Turkey has immense gas sector potential, with a current established gas network with a length of 13,000 km and expanding, while the country although relying heavily in Russia for its imports with some 57% share from Gazprom, it also actively seeks alternative suppliers. Moreover, he estimates that Turkey is better placed in acting as a physical and virtual gas hub for the region. His Greek colleague the CEO of M&M gas Panayiotis Kanelopoulos, is optimistic that this role could be taken by Greece, only if the country moves fast in upgrading its infrastructure in gas storage, interconnectors and LNG terminals.

Regarding the latter, CEO of Copelouzos group, Konstantinos Sifnaios, believes that the proposal by his company to build a floating storage and regasification unit (FSRU) in the region of Alexandroupolis right beside the borders with Bulgaria (IBG) and Turkey (TAP-TANAP) greatly facilitates such aim. Overall, the general sentiment as expressed both in the limelight and in the sidelines of the conference, is that the Southeastern European region can play an enchased role for the EU's energy diversification and security, in light of the increasing reliance of almost all member states in natural gas imports in the mid-term. In that respect emphasis should be noted into linking peripheral markets together, and upgrading import terminals and storage capacities, so as to create thereafter more flexible pricing mechanisms though the use of trading hubs.

South Stream project companies

Voice of Russia, *25.06.2014*

There are currently four shareholders in the South Stream natural gas pipeline project. Gazprom is partnering with three European energy majors – Italy's Eni, France's EDF and Germany's BASF through its hydrocarbon subsidiary Wintershall. The latter is one of Gazprom's partners in the Nord Stream pipeline project on the Baltic seabed as well as in some gas field developments in Siberia.

Originally, South Stream was a 50-50 joint venture between Gazprom and Eni, but subsequently the Italian oil and gas company agreed to grant part of its share to two other partners.

Back in 2011 EDF and Wintershall officially joined the project. Under the agreement, Eni retained a 20 percent share, while the new partners got 15 percent each. At this stage, the JV, which has been set to construct and operate the offshore section of the pipeline, is unlikely to be changed, analysts say. One of them is Grigory Birg, an investment analyst at Moscow-based independent analytical agency Investcafe. "Given that foreign companies are already controlling 50 percent of the South Stream project company, I believe it's unlikely that their share will increase as Gazprom would probably not like to lose control over such a project of strategic importance," Grigory Birg said.

For the onshore section of the pipeline, Gazprom set up joint ventures with key energy companies in the European partner states, e.g. Bulgaria's Bulgargaz, Serbia's Srbijagas and Slovenia's gas distributor Geoplin Plinovodi. The Hungarian section is going to be built and operated by the equally owned JV between Gazprom and the state-owned Hungarian Development Bank MFB. It should be noted that the recent talks between Gazprom and EU officials over the fate of the pipeline project in Brussels, were not attended by any of Gazprom's partners, though Wintershall criticized the decision by the EU energy commissioner Guenther Oettinger to freeze high-level discussions.

Standing up to Gazprom: What Ukraine can learn from Lithuania

Reuters, *24.06.2014*

Russia and Gazprom, cut their gas supply to Ukraine last week amid a dispute that includes Gazprom's demand that Ukrainians pay $485 per thousand meters of gas – an 81% price increase. Yet weeks earlier, Gazprom agreed to cut Lithuania's gas price to $370, a reported discount of about 20 percent. As Ukraine and much of Europe grope for ways to reduce their vulnerability to Russia's politicized gas prices, how did Lithuania achieve this? Can Ukraine do the same?

If anything, Lithuania and its Baltic neighbors, Estonia and Latvia, have been even more vulnerable than Ukraine and much of Europe to Russia's gas pressures.

For years, the Balts have relied on Russia for 100 percent of their natural gas (receiving it, as does Ukraine, via the Soviet-era pipeline system). Their isolation from the energy infrastructure of the rest of Europe has made them "energy islands." Even though the Baltic states are EU members, it is Ukraine whose gas sector is strategically more important for Europe. This is because the pipelines supplying Ukraine continue westward to European markets, supplying 15 percent of EU total needs. Thus, the gas cutoff to Ukraine could constrict the supplies of a number of EU countries, as did Ukraine cutoffs in 2006 and 2009. In the cold European winter months this is particularly worrisome not only for statesmen and industries but for many households who rely on gas for heating.

Russia repeatedly has hiked its gas prices to both Ukraine and Lithuania at times of political tension with them. In April, Gazprom raised its price to Ukraine from $268.50 to $485 per thousand cubic meters, an echo of its increases following Ukraine's pro-democracy Orange Revolution in 2005. The company boosted its price to Lithuania to one of the highest in Europe when Vilnius showed its intent to implement the European Union's anti-monopoly regulation that forces gas supply companies such as Gazprom to divest from their ownership of pipeline systems. That rule, enforced by Lithuania, will force Gazprom to sell its 37-percent stake in the Lithuanian national gas company and pipeline operator – a process currently being finalized. Spurred by Russia's politicized pricing of gas for Lithuania, the EC in 2012 launched an antitrust investigation against Gazprom for abusing its dominant market position in eight Central and Eastern European EU member states.

Gazprom's agreement last month to lower its price for Lithuania surprised many. Lithuanian media speculated that the new contract might be linked to a promise that Lithuania's gas company would withdraw an arbitration case against Gazprom over unfair pricing. Some credited the EC antitrust investigation. Lithuania's governing Social Democrats took credit, citing their improvement in relations with Moscow over those of the previous, center-right government). But the main factor was that Lithuania is poised for the first time to buy from an alternate supplier. In December, the Klaipeda liquid natural gas (LNG) terminal will start operations, producing gas at a price lower than what Gazprom has been charging, Lithuanian Energy Minister Jaroslav Neverovic said last month.

Klaipeda will be a “floating” terminal – a ship as long as three football fields that will anchor at a jetty in the harbor, unload LNG carriers and turn the liquid back into gas to be pumped ashore. With a projected capacity of 2-3 billion cubic meters (bcm) per year, the terminal will be able to can meet Lithuania’s annual consumption needs, which in 2012 were 2.7 bcm. The strategic importance of this project cannot be overstated. Most significantly, Lithuania will now be able to buy gas from world markets rather than solely from Gazprom. Even if the LNG market remains less economical than long-term contracts with Gazprom, the mere presence of the terminal will firstly, strengthen Lithuania’s bargaining position vis-à-vis Gazprom – an outcome already demonstrated in the recent re-negotiations. Secondly, the LNG terminal and the option of alternative gas supplies would weaken Russia’s ability to threaten gas cutoffs or higher prices as a means to exert political concessions.

The newly enhanced gas interconnector between Latvia and Lithuania will enable the terminal to transfer some of these benefits to neighboring Latvia and Estonia. As Ukraine faces what may be a protracted gas showdown with Moscow, would a Ukrainian LNG terminal offer a solution? Amid its dispute with Gazprom in April, Ukraine revived its plansfor an LNG terminal to be built near the Black Sea port of Odessa. The land-based (rather than floating) terminal could annually provide Ukraine with up to 10 bcm of gas, which could reduce the country’s imports from Russia by a third. But such a terminal would take years to complete and along with the required pipeline infrastructure could cost roughly $1.3 billion. A floating LNG terminal similar to that in Klaipeda could be a faster, cheaper alternative.

Whether via LNG terminals or not, greater diversification of energy sources and routes should be Ukraine’s main priority reducing its vulnerability in its gas relationship with Russia. Already, Ukraine is working on making its pipeline connections to western neighbors reversible. This would let Kyiv import about 10 bcm of gas annually from Slovakia, Poland and Hungary. Energy efficiency in Ukraine has been less discussed but is an equally important priority. For decades Ukrainian households and industry have enjoyed cheap gas and have not pursued economic restructuring or energy conservation that could decreased their reliance on Russian gas. Thus, only Kyiv’s comprehensive reassessment of Ukraine’s energy sector – including securing alternative sources, routes, technologies, and economies – could facilitate a long-term solution to its ongoing gas conflict with Moscow. Meanwhile, let us hope that the current gas war is resolved before the coming winter months.

PM Tusk says Poland may avoid payments for excess Qatari gas

AFP, *23.06.2014*

Poland may avoid having to pay for the LNG it has agreed to buy from Qatar but cannot bring into the country because of delays in building a Polish gas terminal, Prime Minister said on Wednesday. Under the "take-or-pay" contract signed in 2009 with state-run exporter Qatargas, Poland's gas monopoly PGNiG will buy 1 million tonnes of LNG annually for 20 years at a price closely correlated to crude oil. Delivery of the gas was intended to begin this year.

The deal requires state-controlled PGNiG to pay for the LNG whether Poland's first gas terminal on the Baltic coast is ready or not.

Construction problems have delayed the facility's launch beyond 2014. "There is zero threat that we will pay for gas without the terminal ready," PM Donald Tusk said. "We are holding talks with the (Qatari) investor. There are several ways of avoiding this problem. "There are (investors) interested in buying out this fragment of the deal," he added. "We could also unload the gas somewhere else and bring it to Poland some other way. And there's a possibility of delaying deliveries and accepting greater volumes when Poland is ready." PGNiG has already signalled it wanted to renegotiate the deal, which could saddle Eastern Europe's biggest economy with some of the highest prices in the world - a steep bill for a country seeking to wean itself off Russian supplies.

Fracking could free Europe from Putin

New York Times, *23.06.2014*

NATO Secretary General Anders Fogh Rasmussen recently announced that the Russian intelligence service was covertly funding European environmental NGOs to support their campaign against fracking.

The former Danish Prime Minister stated that he had "met allies who can report that Russia, as part of their sophisticated information and disinformation operations, engaged actively with so-called non-governmental organizations – environmental organizations working against shale gas – to maintain European dependence on imported Russian gas."

The accusations do not seem too far-fetched. Russia is very keen on dissuading Europe from exploiting its shale reserves. Disregardful of their own massive fracking projects in Siberia, Vladimir Putin uses environmental arguments to push an EU-wide fracking ban. In a similar fashion, he tries to discourage the US from exporting of Liquefied Natural Gas (LNG) to Europe. This is an option some European politicians such as Britain's Foreign Secretary William Hague suggested as a way to reduce European energy dependency from Russia. It is currently on the table in the negotiations between the European Union and the United States (TTIP). Instead of building the infrastructure for transatlantic LNG exports, Putin actually advises the US to concentrate on the Asian market, which according to him would be more profitable for American companies. Moscow's goal clearly is to keep the EU dependent on Russia.

And indeed, large parts of Europe heavily rely on Russian gas imports: Finland, Lithuania and Bulgaria get all their gas, while and it is the source for about 40 percent of Germany's supply. That is why EU leaders remain reluctant to impose sanctions on the country, despite the near-universal condemnation of Russian actions in Ukraine. Poland's Prime Minister Tusk recently warned Chancellor Merkel that "German dependence on Russian gas could effectively limit." Still, many EU politicians talk mostly about expanding renewable energies as a way of making Europe independent of Russian energy. Connie Hedegaard, the European Commissioner for Climate Action, said the Ukraine crisis should be a "wake-up call" for European countries to make the switch from Russian gas to clean, renewable sources of energy. But this simply ignores reality.

According to the International Energy Agency (IEA), Europe gets just 1.3 percent of its energy from renewables like solar and wind, whereas it gets about 75 percent from fossil fuels and most of the remainder from nuclear. Even an extremely optimistic scenario from the IEA suggests that by 2035, Europe will only be able to generate 8 percent of its energy from these renewables. Focusing on them is simply populism without realism. Moreover, subsidizing ever more green energy is becoming unaffordable. Spain is already paying more in subsidies to wind and solar than they spend on their higher education, making a dramatic increase exceedingly unlikely. But perhaps the best illustration comes from Germany, the EU's largest economy with the biggest focus on renewables. Last year alone, German consumers subsidized renewable energies to the tune of $27 billion, contributing to an inflation-adjusted 80 percent rise in household electricity prices since 2000.

Yet the intermittency of renewables has increased the country's reliance on fossil fuels since the nuclear phase-out of 2011. As Spiegel pointed out: "Consumer advocates and aid organizations say the breaking point has already been reached. Today, more than 300,000 households a year are seeing their power shut off because of unpaid bills." Economic models for Europe show that the current climate policies will cost an excruciating $280 billion annually. Fracking could be a way out of this dilemma, but it requires the European Union to rethink its fear of new technology and look seriously at extracting its shale gas. The EU has enough gas trapped in shale to free the bloc from reliance on Russian energy supplies for at least 28 years. Yes, fracking has attracted a host of environmental concerns, and some are valid enough to warrant strong regulation, but many are vastly exaggerated. Perhaps the most infamous is the much-viewed clip of a faucet catching fire – originating in the film Gasland – which turned out to be spurious, as the gas was entirely natural in origin.

What many climate-worried campaigners and technology-averse politicians fail to mention is that with good regulation, shale gas will not only make Europe less dependent on Russian supplies, but that it is also this decade's best solution in terms of cutting CO2 emissions and improving living standards. The amazing truth is in fact that fracking has succeeded where Kyoto and carbon taxes have failed. Due to the shale boom in the US, natural gas has replaced an unprecedented ten percentage points of the much more polluting coal. For 2012, when accounting for more wind energy and the economic crisis, the shift to gas has managed to reduce CO_2 emissions by about 300 megatonnes (Mt). Compare this to the fact that all the wind turbines and solar panels in the world reduce CO_2 emissions, at a maximum, by 275 Mt. In other words, the US shale gas revolution has by itself reduced global emissions more than all the well-intentioned solar and wind in the world.

Moreover, the economic benefits of fracking are indisputable: As natural gas prices in the European Union have doubled since the year 2000, U.S. prices have fallen by about 75 percent in the past few years. Annually, the global solar and wind subsidies cost $60 billion, whereas the US is making at least $100 billion from cheaper energy. Despite the strong opposition from environmental groups, there is a silver lining on the horizon. Even the European Commission, whose environmental agenda is strongly influenced by the precautionary principle, is now considering shale gas as a means to increase the Union's energy security.

A European fracking bonanza promises to reignite the crisis-ridden economy, with industries and consumers strongly benefitting from cheaper gas prices. Moreover, it could be the biggest source of CO2 reductions this decade. Of course, fracking is not the silver bullet to solve climate change. In the long run, we need to switch to green energy. But as long as green technologies cost more than fossil fuels, this change will never happen. Shale gas can help us reduce emissions while we focus on research and development to drive down the cost of future renewables. Europe should not be impressed by Russia's red herrings.

The real reason Shell halted its Ukrainian shale operations

Natural Gas Europe, *25.06.2014*

Shell has blamed strikes by the government in Kiev against its own citizens in southern Ukraine as the reason it decided to declare a halt to its shale oil projects. In reality, the truth may be closer to the fact that company is disappointed with the economic viability of what it once thought was a large shale deposit and is looking for a way out.

After a series of dramatic statements and the signing of a $410-million letter of intent, a veil of uncertainty is being drawn around the Ukrainian shale. Royal Dutch Shell CFO said in an interview that the decision was prompted by the need to protect the company's business interests in Ukraine.

By walking away, Shell will be able to “freeze” its involvement in the failed initiative while simultaneously minimizing the damage to its reputation. In accordance with the contract, Shell’s Ukrainian counterparts will, in the end, have to wait another 50 years to get their hands on that long-awaited “freedom gas.” Shell will also be able to demonstrate its concern for its employees who work in the region where a brutal civil war is on the verge of breaking out. “Shell is in the East, and there’s a security risk there,” said Anders Aslund, a senior fellow at the Peterson Institute for International Economics. According to a recent statement by the former head of Royal Dutch Shell, Peter Voser, “the company is now analyzing its business in shale,” which, translated from the streamlined language of press releases, means: The project is not earning its keep and we need to do something.

A little background: In January, 2013, Shell, along with Nadra Yuzivska, LLC and the Ukrainian government, signed a production-sharing agreement for the exploration, development, and extraction of hydrocarbons from the Yuzivska site (8,000 sq. km), a geological formation located in the Kharkiv and Donetsk regions. By the middle of that same year, the company had lost $2.4 billion on shale gas deposits in the U.S. and was forced to document a very large drop in profits -- 60 percent over the same period in 2012. Shell’s first disappointment in the Ukrainian gas market turned out to be related to the quality of the metal in the pipes that Ukrainian post-Soviet industry was capable of providing.

At the time, company spokesmen claimed, “We have repeatedly stated that we are prepared to use Ukrainian goods, provided that the price and quality can meet that of foreign equipment. But at this stage, those pipes do not yet exist in Ukraine. Shell lobbied Ukraine’s Interdepartmental Commission on International Trade to have seamless steel casing pipes and production tubings with an outside diameter of up to 406.4 mm. brought in from Japan. Of course it was impossible to avoid having all this reflected in the final price of the project. In March of 2014, it became clear that the Belyaevskaya-400 well Shell had drilled in the Pervomaysk district of the Kharkiv region in search of shale gas was not going to return a profit. Not only were there no pipes, there was no gas.

“Gas was not found in our district. Exploration work proved that it wasn’t there,” the head of the Pervomaisk district state administration of the Kharkiv region, Viktor Namchuk, admitted on Feb. 28, 2014. As in many other Eastern European countries, optimistic predictions about the amount of recoverable shale gas turned out to be several times higher than the realistic assessment of the reserves. Likewise, Ukraine’s neighbors - Lithuania, Bulgaria, and Poland - have also seen shale projects shut down because they turned out to be less than economically viable. By the spring of 2014, Total, Chevron and Eni had also abandoned many shale projects in Eastern Europe for various reasons. The current heated situation in Ukraine means that politicians in the EU and U.S. cannot announce the suspension of exports from the “shale revolution” in the region, but the business community has already begun to head for the exits.

Gazprom in talks to buy Abu Dhabi's OMV stake-source

Reuters, *26.06.2014*

Russian natural gas champion Gazprom is in talks to buy a 24.9 percent stake in Austrian oil and gas firm OMV, a source familiar with the talks told Reuters, a deal that would deepen already controversial Austro-Russian ties if it comes to fruition.

Buying the stake would give state-controlled Gazprom a beachhead in the European Union, which has serious issues with its planned gas pipeline through central Europe to Austria and has imposed sanctions over Russia's annexation of Crimea. "Talks were held but they have yet to decide on pricing," the source said.

Austrian state holding company OIAG, which holds 32 percent of OMV in a shareholder pact with Abu Dhabi's International Petroleum Investment Co (IPIC) and coordinates any shareholding changes, said it had seen no sign IPIC wanted to exit. "It's news to me," Siegfried Wolf, an Austrian businessman with close ties to Russia who was elected OIAG chairman on Thursday, told a news conference. But he said OIAG, which has right of first refusal to buy the stake from IPIC, would not necessarily know about any such talks until the point at which IPIC was ready to sell. He added he had not spoken to IPIC about the issue.

A Russian gas industry source dismissed as "rubbish" prospects that Gazprom would buy the stake in OMV, with whom it signed a pact this week to build a branch of the disputed South Stream pipeline to Austria. Veteran Austrian opposition lawmaker Peter Pilz told Kurier newspaper and Reuters he had "concrete indications" that IPIC and Gazprom had held discussions on the issue. Gazprom and IPIC declined to comment, while OMV referred questions to its major shareholders. Shares in OMV closed up 2.9 percent at 33.085 euros, making a 25 percent stake worth around 2.7 billion euros ($3.7 billion). "As a shareholder of OMV, Gazprom would get closer control over the construction and operations of the South Stream pipeline," said Mikhail Korchemkin, director of U.S.-based consultancy East European Gas Analysis.

"However, there may be a conflict of interests, because Gazprom would be buying gas from itself." Another analyst said: "Strictly from the share-price point of view, I don't see much difference whether IPIC or Gazprom would hold the stake. But if Gazprom were to make an offer for the whole company, of course that would be a different story." The analyst did not want to be named because of the political nature of the issue. OMV was the first western company to sign a long-term gas-purchasing contract with the then-Soviet Union in 1968 and is still a major Gazprom customer. Pilz said he was concerned about creeping Russian influence in Austria, whose president defended hosting a controversial visit by Russian President Vladimir Putin this week, saying talks were more fruitful than sanctions. IPIC, which has held its OMV stake for 20 years, owns stakes in a number of European companies, including Spain's Cepsa.

Repsol announces biggest discoveries in Russia in 2 years

Natural Gas Europe, *24.06.2014*

Repsol made two discoveries in the Russia's Karabashsky blocks, in the West-Siberian Ouriyinskoye field, branding them as 'Russia's largest hydrocarbons discovery in the last two years.' 'The recoverable resources from the Gabi-1 and Gabi-3 wells are estimated by the Ministry of Natural Resources and Environment of the Russian Federation at 240 million barrels of oil equivalent, a considerable addition to the resources Repsol currently holds in Russia,' they said.

The discoveries in the relatively unexplored area of West Siberia will allow the company to confirm the good reserve replacement rate (275%) registered in 2013.

'The company has for the last three years beaten its own resource addition targets outlined in its 2012-2016 strategic plan.' Repsol is working with Alliance Oil in Russia. The two companies created the joint venture called AROG to combine Alliance Oil's knowledge of the area with Repsol's technologies. The company based in Madrid recently reported a 39% drilling success rate, outshining the industry average of 20-25%.

Prodan and Oettinger to discuss reverse gas supply via Slovakia

Voice of Russia, *25.06.2014*

Guenther Oettinger, and Yury Prodan, Verkhovna Rada-appointed Ukrainian Minister of Energy and the Coal Industry, are to meet here on Wednesday to discuss matters concerning a reverse supply of natural gas to Ukraine via Slovakia and prospects for a resumption of three-sided talks on natural gas among Moscow, Kiev, and Brussels.

The meeting will be a closed-door one and no specific decisions are expected to be made, an official in the European Commission (EC) press service said. "The meeting will be of technical nature and will be held in a closed-door mode," the EC official pointed out.

According to to the TASS news agency, at the meeting, Ukraine expects to discuss the possibility of giving greater scope to reverse deliveries of gas from Slovakia. The European Commission intends to study the possibility of a resumption in mid-July of the three-sided talks among Russia, Ukraine, and the European Union on prices of natural gas and Kiev's debt. The EC reported earlier that the maximum amount of gas supplied from Slovakia in a reverse mode might be about eight billion cubic metres of gas a year. A price of reverse-supplied gas has not yet been confirmed. The EC announced earlier that it hoped for a resumption of the three-sided talks in mid-July, emphasizing that it does not regard contersuits as an obstacle to the talks. European users currently receive gas in full amount. EU Energy Commissioner Guenther Oettinger and the Verkhovna Rada appointed Minister of Energy and Coal Industry of Ukraine Yuriy Prodan will discuss today in Brussels the issues of reverse gas through Slovakia and the prospects for the renewal of tripartite negotiations between Moscow, Kiev and Brussels.

No concrete decisions are expected to be made during the closed meeing of the officials, the press service of the European Commission told Itar-Tass . "The meeting is of a technical nature and will be held behind closed doors," said the representative of the EC. According to ITAR-TASS sources, Ukraine expects to discuss the possibility of expanding reverse gas supplies from Slovakia. The European Commission intends to explore the possibility of resuming in mid-July the tripartite talks between Russia-Ukraine-EU on gas prices and Kiev debt. EC had previously reported that the maximum amount of the Slovak reverse gas may be about 8 billion cubic meters of gas per year. The price of this gas has not been confirmed yet. Tripartite negotiations, started on May 2 in Warsaw, were interrupted on June 16, because of a disagreement between Ukraine and the Russian Federation on a mutually acceptable price for gas and Kiev gas debt repayment. "Naftogaz" has fully repaid the debt for the period from January to March 2014, but did not paid 1.454 billion US dollars for November-December 2013 period, and have been missing payments since April. By reference to the gas price, effective since April 1 (485.5 dollars per thousand cubic meters), only for April and May Ukrainian debt is about 3 billion US dollars.

"Naftogaz" refused to pay it, challenging the validity of this price. In the 1st quarter of 2014 the price of gas for Ukraine was 268.5 US dollars per 1000 cubic meters and had been formed as a result of cumulative action of two discounts - for the basing of the Russian Black Sea Fleet in Crimea,which was automatically cancelled after the transition of Crimea under Russian jurisdiction, as well as discounts, provided by Russia to Ukraine within the framework of an anti-crisis package of assistance in November 2013. The second discount for Ukraine has been cancelled since April 1, due to Ukrainian arrears for gas. During the tripartite talks, "Gazprom" has settled on a compromise and agreed to receive payments from "Naftogaz" for April and May deliveries, basing on the price, offered to Ukraine from June 1 (of 384.86 US dollars per thousand cubic meters).

The head of "Gazprom", Alexei Miller said that the price is fair and was supported by the EC. He noted that it corresponds to the recommendations of the International Monetary Fund for Ukraine. But the Ukrainian side linked the debt repayment agreement with the original gas prices of June 1. Appointed by Verkhovna Rada Energy Minister Yuriy Prodan insisted on price of 326 US dollars per thousand cubic meters as a compromise, requiring changes in the whole system of gas pricing, and, actually, reviewing the entire existing contract. The average price of Russian gas supplies to Europe is 380-390 US dollars for 1 thousand cubic meters. After the failure of negotiations, "Gazprom" switched Ukraine to the prepaid plan and laid an action in the Stockholm arbitration court to collect "Naftogaz Ukrainy" debt in the amount of 4.5 billion US dollars.

Ukraine considers importing LNG from Croatia

ITAR-TASS, *26.06.2014*

Ukraine is considering importing liquefied natural gas (LNG) from Croatia under the Adriatic Gas Corridor project, the Ukrainian gas transportation company Ukrtransgaz said on Wednesday, June 25.

It quoted its chief engineer Oleg Mikhalevich as saying at an international seminar on energy future and security, held in Tbilisi, Georgia, that Ukraine was considering joining the Adriatic Gas Corridor project initiated by Croatia and supported by Hungary and the European Commission. Gas will be supplied from an LNG terminal to be built by Croatia on the island of Krk in the Adriatic (Adria LNG project).

The gas corridor will consolidate the gas transportation systems of Croatia, Hungary and Ukraine and increase the amount of natural gas supplied to Ukraine from other sources. Ukraine's underground gas storage facilities near its western border will allow the country to build up gas reserves for both the project participants and Western and Central European countries. Ukraine is also exploring the possibility of joining the project to build the Trans Anatolian Natural Gas Pipeline (TANAP) which will transport 10 billion cubic meters of Azerbaijani gas across Turkey to Europe. Since its capacity can be doubled, Ukraine would be interested to use the pipeline for additional gas supplies for its needs.

Ukraine to declare state of emergency

Natural Gas Europe, *21.06.2014*

Despite no alteration in the gas flow to Slovakia, Ukraine and Russia are warming up to the possibility of open-faced confrontations. Ukraine is trying to push forward a law to increase storages, reduce gas consumption and replace gas with alternative fuels, while moving forward with reverse gas supplies from Europe.

"We understand that re-equipment of the army will be complete at some point. The rearmament programme is planned through 2020," CEO of Rostec State Corporation Sergei Chemezov told Putin on Thursday. In the meantime, gas flow from Ukraine remains in normal mode.

“Today we must be prepared to any development of the scenario in settlement gas crisis, as it lies not at the economic but at the policy level. A draft law has been designed which stipulates introduction of the state of emergency in energy sector, but it is pending approval by the Parliament that should determine the time and conditions under which the state of emergency will be declared,” Volodymyr Hroysman, Vice Prime Minister, Minister of Regional Development, Building, Housing and Communal Services, said on Thursday evening. On the other hand, Russia is playing a more complex game. It is also sending clear messages to Western countries, with President Vladimir Putin’s office releasing a note about Russian military production. ‘According to the state at 09:00 (CET), 20. June 2014 related to transmission from East to the European Union, Eustream didn´t record pressure reduction or gas volumes decrease at the Compressor Station Veľké Kapušany on the border with Ukraine,’ reads a note released on Friday by Eustream.

A Russo-Ukrainian gas war III?

Natural Gas Europe, *23.06.2014*

Few bilateral gas relations are as complicated and as far-reaching as those between Russia and Ukraine. As it was, these relations are uniquely opaque, considering that they affect numerous countries downstream of Ukraine.

Gas meters referred are situated on Russian side of the border and the contract is supposedly secret, but headline prices per 1000 meter cube have always leaked to the press or were officially announced by successive Ukrainian prime ministers or by Gazprom. The current contract was signed in 2009 by then Prime Minister Yulia Timoschenko and it runs until 2019.

It stipulates a price of $450 / 000 m3 initially, with a subsequent indexation on crude and HFO. This is to be compared with the last price of $385 which Gazprom offered before the breaking off the current negotiations. More significantly, this is to be compared with current price marker of $200 on the continental gas hub TTF. The 2009 contract has a take-or-pay clause which allows Ukraine to reduce its imports. This is significant because Ukraine’s floundering industry has less need for gas, and in future years if it can pacify its eastern regions, it stands to develop considerable shale gas reserves there. The current arbitration between Gazprom and NAK NaftoGaz concerns article 4.4 of the 2009 contract which stipulates that the price can be renegotiated at the request of any of the parties if the formula gas price “does not reflect gas market conditions”.

With the transition to more market-based pricing, Ukraine has a case to make there, and it wants to apply it retroactively as well and get a $6b refund for overpayments for gas since 2010. Importantly, NAK Naftogaz Ukrainy has decided to participate in Europe’s gas storage transparency initiative. To its credit, it is the only non-EU 28 to do so (cf. http://transparency.gie.eu/). Under pressure from the IMF, it has also agreed in March to raise its domestic gas and heating tariffs by 56 and 40% in 2014 respectively, and 20 - 40% in 2015-17 [IMF Country Report No. 14/106]. This should help reduce NaftoGaz’s burden on the state budget, but also metered consumption.

The gas war might be more than metaphorical. On 17 June a segment of tank gas line exploded in the Poltava region. While the inquiry will determine whether this is a failure in maintenance or an act of sabotage, the timing of the blast, two elements make this blast suspicious: it occurred two days after the break-off of direct negotiations between NaftoGaz and Gazprom, and the location of the line does not affect Gazprom's gas exports through Ukraine. It also occurs in a context of active sabotage attempts against Ukraine's infrastructure and attacks on the country's territorial integrity.

Russia sees normalization in Ukraine; Austria backs South Stream

Natural Gas Europe, *23.06.2014*

Russia claimed it is interested in a progressive normalization of the situation in Ukraine, saying that "the only way to settle the crisis in Ukraine is through peaceful dialogue." Russian declarations came while rebel groups opened fire several times in Eastern Ukraine near Kramatorsk, Sloviansk, Artemivsk and other cities. As a consequence, Ukraine broke the ceasefire on Sunday, but remained committed to a normal gas flow of Russian gas to Europe.

'During the day gunmen undertook consequent armed and mortar attacks on Ukrainian border guards near Chervonopartyzansk, Biriukovo and Nozdrivka in Lugansk.

Provocations continue. Gunmen's assaults aimed at escalating the situation require strong and immediate international condemnation. Ukraine calls on all international partners to support our sustained efforts to restore peace and unconditional implementation of the Geneva declaration of 17 April by its all Sides,' reads a joint statement of the Ministry of Foreign Affairs and the Ministry of Defense of Ukraine. President of Ukraine Petro Poroshenko openly called Russia to ensure sufficient protection. "Russia is expected to ensure sufficient protection of border from terrorists, as well as unconditionally use its absolute impact on illegal terrorist groups in the east of Ukraine to make them immediately ceasefire and lay down their weapons. Any further encouragements for terrorists will have critical consequences," the press release illustrates.

Eastern Ukraine is particularly rich in hydrocarbons and some companies started explorations in the area. RUSSIAN GAS TO EUROPE On Monday, Slovakia's Eustream said that gas flow from Ukraine was in normal mode. 'According to the state at 09:00 (CET), 23. June 2014 related to transmission from East to the European Union, Eustream didn´t record pressure reduction or gas volumes decrease at the Compressor Station Veľké Kapušany on the border with Ukraine,' reads a note published on Monday. In the while, Austria openly backed the South Stream project on Monday. "We need not only more suppliers, but also more variety in the routes that energy can flow to us," Foreign Minister Sebastian Kurz said on the eve of a visit by Russian President Vladimir Putin.

Putin arrives in Austria to guarantee Europe warm winter

Bloomberg, *24.06.2014*

Russian President Putin arrived in Austria. The day before, the director of energy company OMV, Royce, supported the construction of the "South Stream" gas pipeline and urged not to turn economic integration into "political football."

"One should not turn this economic integration into political football," he told, adding that it was the foundation for economic prosperity, Xinhua reports. Royce said that the supply of energy to Europe without Russia's participation is an unrealistic scenario. President Putin is expected to sign a contract with the Austrian company to build South Stream pipeline to Austria, bypassing Ukraine.

Russia - EU gas transit through Ukraine compliant with contract

Ria Novosti, *23.06.2014*

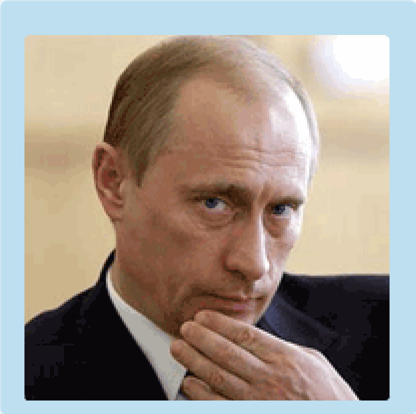
Russia's EU-bound gas flows through Ukraine comply with transit contract parameters, Gazprom spokesman Sergei Kupriyanov said Monday. "The transit of Russian gas through Ukraine is flowing according to contract parameters with a volume over the last 24 hours of around 205 million cubic meters," Kupriyanov said.

Earlier on Monday, reports appeared in the media that some of the Russian gas travelling to Europe remained in Ukraine last week. The Russian Energy Ministry denied reports that Ukraine is siphoning off gas bound for Europe and said the gas meters were merely showing a technical recalculation.

Starting June 16, Gazprom was forced to switch to a prepayment system for Russian gas deliveries to Ukraine after talks on Kiev's debt repayment and price revisions mediated by EU Energy Commissioner Gunther Oettinger failed. Ukraine refused to cover its unprecedented debt and is no longer receiving gas from Russia, effectively functioning as a transit country in the Russia-EU supply chain. The Russian gas giant assured European consumers of its gas that flows through Ukraine would not be affected, continuing daily deliveries of 185 million cubic meters intended for the European market.

Putin: US unhappy with South Stream because it wants to deliver gas to Europe

AFP, *24.06.2014*



“They do everything to disrupt this contract. There is nothing unusual here. This is an ordinary competitive struggle. In the course of this competition, political tools are also being used,” the Russian president said after holding talks with his Austrian counterpart, President Heinz Fischer, in Vienna.

“We are in talks with our contract partners, not with third parties. That our US friends are unhappy about South Stream, well, they were unhappy in 1962 too, when the gas-for-pipes project with Germany was beginning. Now they are unhappy too, nothing has changed, except the fact that they want to supply to the European market themselves,” Putin stated.

Should this happen, American gas ”will not be cheaper than Russian gas – pipe gas is always cheaper than liquefied gas,” Putin stressed. Russia and Austria have signed an agreement to construct the Austrian arm of the US$45 billion South Stream gas pipeline project, which is expected to deliver 32 billion cubic meters of Russian gas to the country, bypassing Ukraine. But President Putin stressed that Moscow is not bypassing Ukraine for political reasons. “These are natural steps to expand the transport infrastructure,” Putin said. ”[Moscow is not] striving to bypass Ukraine.” He reminded that the Nord Stream, South Stream, and Blue Stream projects started a while ago. “It is wrong to always say that we are doing anything against anyone,” Putin noted.

He added that Russia, just like its ”partners,” can and will ”create the most favorable conditions, and have contacts and contracts with many partners.” Russia will continue ”to promote our product in emerging markets,” Putin stressed. At the same time, Austrian President Heinz Fischer hailed the project, calling the South Stream gas pipeline ”expedient” and ”useful.” The joint South Stream Austria project will be 50 percent owned by Gazprom – Russia’s largest gas producer – and 50 percent owned by Austria’s OMV Group, the country’s largest oil and gas company.

Fischer stated that if anyone criticizes Austria, they should also criticize other member countries and their companies. “I suppose that there will be no such moment when such a country as Austria will not be holding talks with a partner, which has intense relations with us, and will not be ready to negotiate with it,” the Austrian leader said. “We know such a dialogue does not contradict any EU decision,” he added. Construction of the Austrian section is expected to begin in 2015. The first deliveries could begin in 2017, reaching full capacity in January 2018. OMV spokesman Robert Lechner was slightly more optimistic, saying the first South Stream deliveries to Austria could come as early as 2016.

OMV says Europe without Russian energy ‘unrealistic’

Reuters, *23.06.2014*

It is unrealistic to think Europe could entirely wean itself off of Russian energy supplies, the chief executive of Austrian energy group OMV told a newspaper, calling for accelerated negotiations to approve the proposed South Stream gas pipeline. Roiss was speaking before President Putin visits Vienna on Tuesday, during which OMV and Russian partner Gazprom are to sign a contract on bringing the South Stream gas pipeline to Austria, as agreed in April.

“A third of our gas comes from Russia, in some regions even 100 percent,” and in return Europe sends cars and machinery to Russia, Roiss told the WirtschaftsBlatt.

“One should not make this economic integration into a political football, because our economy and prosperity are based on it,” he said in remarks published on Monday. The South Stream pipeline would bring Russian gas to Europe without transiting Ukraine, which has been locked in a violent standoff with Russia after the ousting of Ukraine’s pro-Moscow President Viktor Yanukovich touched off a separatist uprising. “If we can get large quantities of gas from a certain region then we have to give investors the chance to build gas highways. Negotiations for South Stream should thus be accelerated and not put on ice,” Roiss said, while acknowledging that the project would have to conform to European law. Against the backdrop of conflict in Ukraine, the pipeline plan has become a focus of tension between Russia and the European Union.

OMV offers Gazprom stake in Austrian gas exchange

ITAR-TASS, *24.06.2014*

International oil and gas company OMV based in Vienna has offered Russian state-controlled energy giant Gazprom a stake in the Austrian gas exchange, OMV CEO Roiss said.

“We have always said that if a company supplies gas to Austria then it should have a chance to participate in that exchange. We have offered Gazprom a stake, but it is not part of this agreement,” He assured that Russia’s South Stream gas pipeline project would fully comply with the legislation of the European Union. “This project means investments in the energy security of Europe and it will fully comply with the EU legislation,” Roiss stressed.

The statement by Gerhard Roiss came after the company signed a shareholders’ agreement with Gazprom on building the Austrian section of the South Stream gas pipeline intended to bring Russian natural gas to Europe bypassing transit countries like Ukraine. On Monday, spokesperson for OMV Robert Lechner said that first gas is expected to be pumped to Austria through the South Stream pipeline at the end of 2016. The Austrian section of the South Stream gas pipeline is about 50 kilometers long, and the pipeline capacity is up to 32 billion cubic meters of gas a year. Earlier reports said the project may achieve its rated capacity early in 2018.

OMV joins South Stream pipeline project

Natural Gas Europe, *25.06.2014*

Austria has formally joined the South Stream pipeline project, with the signing of an agreement between Austrian energy group OMV AG and Gazprom to build the Austrian section of the proposed project. The signing in Vienna between OMV CEO and Gazprom CEO, co-incided with a visit to Vienna by Putin to hold discussions with Austrian President Heinz Fischer about the South Stream pipeline and Ukraine's crisis.

The joint venture will build and operate the 50-kilometer (30-mile) with capacity to carry upto 32 billion cubic meters of gas a year, which is approximately 20 percent of Russian exports to Europe, Gazprom said in a statement.

The agreement includes the final investment decision based on approved criteria for the pipeline construction in Austria. The parties expect all the construction permits to be obtained until late 2015. South Stream in Austria is scheduled for commissioning in late 2016. The Austrian link "isn't very long, but that doesn't diminish its importance because it is the endpoint of South Stream," commented Gazprom's Miller Today's agreement will strengthen the role of Baumgarten, the gas hub where the pipeline will terminate, in central and eastern Europe, he said. OMV's Roiss said the deal will increase Europe's security of gas supply and will comply with EU legislation, which seeks to increase competition in the market. "Europe needs Russian gas and it will need more Russian gas as its own supply dwindles," commented Roiss. Earlier, the OMV CEO had called for the European Commission to accelerated negotiations to approve the pipeline project, saying that it was unrealistic to think Europe could entirely wean itself off of Russian energy supplies

Koch to start EU power trading as it plans LNG expansion

Business Week, *25.06.2014*

Koch Supply & Trading, a unit of Koch Industries Inc., will start buying and selling European electricity and expand its liquefied natural gas business to take advantage of a globalizing market for the fuel.

The trading unit of the second-largest closely held U.S. company by revenue is hiring one or two power traders in Geneva and plans to be ready for trading next year, Stephen Cornish, director of Koch Supply & Trading, said in a telephone interview from London. The company will expand into Turkey and the Caspian region in 2015 and open an office in Tokyo for its LNG business this year, he said.

Koch is expanding in power as companies from Bank of America Corp. to Cargill Inc. pull out of the market as prices trade near a nine-year low after the euro region's longest recession cut demand. As many as 120 European power and gas traders lost or changed their jobs last year in the biggest shakeout of the industry since the collapse of Enron Corp. more than a decade ago. "We don't build our business based on whether the markets are up or down," Cornish said. "There are a lot of counterparts out there that are re-evaluating their business models and are looking for high quality counterparts to do deals with. In that scenario we think we can add value." German year-ahead power, a European benchmark, fell to the lowest since 2005 in April and traded at 34.50 euros ($46.93) a megawatt-hour at 10:17 a.m. London time today, according to data from European Energy Exchange AG.

Thirty-day volatility fell to 4.3 percent today, its lowest since June 2003. Koch is looking to expand into mainland European power markets from Geneva, its base for gas trading and origination in Europe, the Middle East and Africa, after a separate London-based business focused on the U.K. exited the market in 2011, Deanna Altenhoff, a spokeswoman for Koch, said June 23 by e-mail. Koch Energy Europe Ltd. traded natural gas, power and emission credits, according to a company statement in 2010. Koch started trading crude oil in 1969 and added global gas and LNG to its portfolio in 2012, according to the company's website.

As part of a large industrial conglomerate, which itself is a gas consumer, Koch benefits from dealing with industrials, which "want to talk to like-minded companies," Cornish said. "When it comes to power, we believe there should be an opportunity for us there too," Cornish said by telephone from London on June 13. "We are getting requests to get involved in that market to map over the success that we have had in European natural gas." Koch Supply & Trading plans to enter Turkey and the Caspian region next year, he said. In addition to Geneva, the company has an Amsterdam office for its gas sourcing needs and a presence in Dusseldorf, Germany, for some of its marketing activity, he said.

The company's LNG business is based in London with trading and origination operations in Singapore and Houston and satellite offices in Rio de Janeiro and Dubai. The company may expand further in the Far East and in South America, if opportunities arise, he said. Renewables, shale gas, the 2008 economic crisis and the Fukushima nuclear disaster in Japan have all impacted the market, Cornish said. While the global LNG market will remain tight through next year, trade will start to increase in 2016 as Australian projects now under construction start producing the super-chilled fuel and U.S. exports begin, the International Energy Agency said in its medium-term natural gas market outlook on June 10. Koch has done LNG deals in both the Atlantic and Pacific regions, according to Cornish. "We have a natural need to be in the market," he said. "If you are a natural market participant with a global reach, a great balance sheet, and lots of physical activity, you have a significant role to play."

Mozambique's National Hydrocarbon Company, Shell Plan GTL Project

Natural Gas Asia, *26.06.2014*

Mozambique's ENH and Shell signed an agreement this week to conduct a feasibility study for a proposed gas-to-liquid (GTL) project and development of hydrocarbon exploration activities in Mozambique.

At the signing ceremony Chairman of the Board of Directors, ENH, Nelson Ocuane said that this agreement is part of the efforts of ENH to become a prominent and integrated oil company operating in Mozambique and other countries. "Our mission is to add value to natural resources of the country and a proposed GTL is an appropriate response to this, since it allows the development of the gas chain," Ocune said.

The two parties also agreed to conduct a joint study to identify some areas of high potential for hydrocarbons in Mozambique. The agreement contemplated that in the future, the parties may acquire joint rights in the area of hydrocarbons, Noticias adds.

EU mulls cutting energy use by 35%

The Guardian, *23.06.2014*

To maintain European Union's emissions-cutting momentum, a 30% cut in energy usage is needed by 2030, rising to 35% if the European Union (EU) wants to reap the benefits of energy security, jobs and growth, says a draft communication for the bloc's energy efficiency review, seen by EurActiv in late last week.

The target would be indicative – or non-binding on member-states – until 2017 at least, and would be based on an absolute reduction in primary energy consumption of 1312 Million tonnes of oil equivalent (Mtoe) for the 35% figure, and 1218 Mtoe for the 30% goal.

The paper is broadly in line with findings from an impact assessmentrevealed by EurActiv last week, which show that higher efficiency targets would bring optimum levels of GDP growth, jobs, energy security and emissions cuts. But no agreement on a final goal to complement a planned 40% greenhouse gas emissions cut was reached at a meeting between the EU president José Manuel Barroso and a cabinet of top Commissioners on 18 June. Barroso himself is thought sympathetic to a robust 2030 energy savings target, and is said to have given a green light to the energy and climate commissioners, Gunther Oettinger and Connie Hedegaard, to push for a higher headline figure than 25%. A number in the 30%-35% range remains firmly in play. This faces strong opposition though from the EU's secretary-general Catherine Day, a key power in the current Commission regime, who is holding out for a 25%-27% energy savings goal on grounds of cost-effectiveness.

"The bottom line is that this [target] has to be fully in line with the rest of the 2030 package, it has to be politically acceptable, it also has to be technically feasible," one EU official said. "If you have a higher energy efficiency target then that has implications for costs in the non-ETS (Emissions Trading System) sectors, especially for some member states." The position is grounded in upfront investment costs, a particular form of modelling, and parts of the 2030 impact assessment which anticipate citizens taking low carbon investment decisions on the basis of a €40 per tonne carbon price by 2030, in the 40% of Europe's industry that the ETS covers.

Environmentalists argue that this is "ivory tower thinking," because it assumes that the carbon price will one day drive home-owners to renovate their houses and farmers to change their livestock. Speaking at a German-Danish 2030 targets workshop on 18 June, the Green MEP Claude Turmes, simply asked: "Where is the political majority for that sort of carbon price?" Recent attempts to modestly raise the cost of allowances provoked strong reaction from business lobbies, even though the current price of around €5 a tonne is far too low to affect investments in energy efficiency or renewables. Despite grumbles from Barroso's office that their lobbying is fragmentary and counter-productive, officials in the EU's energy and climate action departments insist that targeted energy saving measures will deliver quantifiable emissions reductions, without threatening the ETS itself.

In the short term, the new draft communication proposes: A review of the Ecodesign and Energy Labelling Directives, which deal with the efficiency of household products, due for the end of 2014 bringing forward reviews of the Energy Efficiency and Energy Performance of Buildings Directive to 2015. A review of progress towards meeting the new 2030 objective in 2017, at which stronger measures could be unfurled. The bloc's 28 member states are already committed to a 2020 target that would slash energy consumption by 20%, compared to 2005 levels. According to the communication, "with full implementation and monitoring of already-adopted legislation, the EU can put itself on track to achieve this target, saving 170 Mtoe." "But we cannot be complacent," the document adds. "The Commission therefore intends to return to the topic in 2017, in particular to review whether national implementation is going as intended, or whether it is necessary to revert to the issue of binding energy efficiency targets."

Sources close to the EU president's office say that it would be a mistake to conclude from the impact assessment and draft communication that recommendations for higher efficiency targets had been "concreted". A Brussels consensus holds that the 40% goal favoured by the new impact assessment would be unacceptable to the UK and Visegrad countries, but that a 'binding at EU-level' energy savings target, probably higher than 27%, would eventually be forthcoming. The January 2030 package proposed a 27% indicative target for the share of renewable energy in countries' national energy mixes, even though its impact assessment found that a 30% goal would create 568,000 more jobs and save €260 billion in fossil fuel imports. Industry sources say that any attempt now to over-ride the findings of the EU's efficiency impact assessment and communication would raise questions about the wisdom of spending so much money on them in the first place. "Impact assessments are made to be followed and if they're not, that is not a very cost-effective use of Commission or tax-payers resources," Andoni Hildago, a spokesman for the European Insulation Manufacturers Association told EurActiv.

European gas strategy could support coal usage in short term

Natural Gas Europe, *20.06.2014*

European gas strategy hinges on stress tests and related short term solutions, while also working to decrease reliance on gas imports.

"In the short term, our Strategy proposes to launch stress tests that simulate supply disruption, as a worst case scenario. On the basis of these we will detail emergency plans and backup mechanisms. These may include increased gas stocks, reverse flow pipelines, fuel switching to decrease gas demand, or other very short term measures to reduce demand," Gunther Oettinger, European Commissioner for Energy, said on Thursday.

From Oettinger's speech seems clear that coal could increase its share in the energy mix in the short term. However, this would be a transitory measure. In the longer term, a more complex strategy will be implemented. Renewables and the creation of one single market remain Europe's top priorities, said the Commissioner. The Commission is looking to diversify supplier countries and routes, strengthen emergency mechanisms, protect critical infrastructure, moderate energy demand, increase indigenous production, and further develop energy technology. In essence, it means we need to complete the internal energy market: building missing infrastructure links and strengthening regional cooperation, and make further progress on the third energy package."

Difficulties are clear, exacerbated by differences between countries. As pointed out by Oettinger, while Portugal, Spain, Ireland and the UK don't "have Russian gas," there are 18 Member States that import between 10 and 80% of gas from Russia, and there are 6 Member States that are 100% dependent on Russia. Oettinger also noted that a deal between Kiev and Moscow would be beneficial for Ukraine, Russia and also the European Union. "This is not a zero-sum game. If we can't come to a package, to solve the issues of price and debt, we will all loose."

EU sets energy security as priority for next 5 years of policy-making

Reuters, *23.06.2014*

Europe's best chance of standing up to the supply insecurity caused by the Russia-Ukraine conflict is a close-knit energy union to thwart Moscow's divide and rule strategy, a draft document laying out the next five years of EU energy policy says.

A week ago, Russia cut off gas to Ukraine because of a row over pricing and unpaid bills. Gas storage is ample and no nation has reported problems, but as the European Union relies on Russia for about 30 percent of its gas needs, roughly half of which is piped via Ukraine, it is nervous of knock-on effects if the crisis drags on.

"Geopolitical events, the worldwide energy competition and the impact of climate change are triggering a rethink of our energy and climate strategy," a draft document on the "strategic agenda" for the next five years. "We must avoid Europe relying to such a high extent on fuel and gas imports. To ensure our energy future is under full control, we want to build an Energy Union aiming at affordable, secure and green energy." The document is expected to be published after a meeting of EU heads of state and government on Thursday and Friday. EU nations are divided over the best response to the Russia-Ukraine crisis, with some favouring the Russian solution of seeking to bypass Ukraine via Gazprom's planned South Stream pipeline.

The project was not mentioned at all in the draft document. A final agreement between Gazprom and Austria's OMV over South Stream is expected to be signed on Tuesday when Russian President Vladimir Putin will visit his counterpart Heinz Fischer in Vienna. The giant pipeline would ship gas directly from Russia, via the Black Sea and into western Europe, making Ukraine all but irrelevant as a transit nation, but the European Commission, the EU exeuctive, says South Stream breaches EU law on competition and intergovernmental agreements. It has suspended efforts to make it conform, while Russia has gone to the World Trade Organization in protest at EU regulations.

Poland, a neighbour of Ukraine and traditionally wary of Russia, has spearheaded the idea of an energy union, which has been gaining Commission support, although it is likely to rile Eurosceptics, such as Britain, which insist on the right to make their own energy decisions. The Commission is also pushing for the broader completion of the single energy market, with better interconnections across borders to share out available supplies and even out pricing differences. Poland's idea is based on countering Gazprom's practice of negotiating different deals with different nations with a system for more transparent price negotiations, supervised by the Commission or another official EU body. It argues that would foil Russia's strategy of divide and rule and lower prices for member states most dependent on Russian gas, who have historically had limited bargaining power.

Europe needs single energy market

CNBC, *25.06.2014*

Europe needs a "single market for energy" to bolster investment and move away from its reliance on Russia, boss of Enel told. Starace, CEO of Enel, said the EU faces "structural" issues in its energy market as individual member states act alone rather than in a unified way. While Europe has "diversification" in its energy mix, the lack of coherent policy does not allow the continent to reap.

"Each single state had its own different policy, its own different view of markets. As a result of all this what we have in Europe is a great diversification which is one of the best things to have," Starace told.

"The only thing is we can't use this diversification because we have single markets that don't allow this diversification to bear fruit. So I think the real thing we need in Europe is a single market for energy. That will let this diversification come to the surface." Europe's energy policy has been in the spotlight during the Ukraine crisis after its reliance on Russian gas was scrutinized. The EU depends on Russia for around 30 percent of its gas requirements which are piped through Ukraine. While the continent has not felt a dramatic impact from the geopolitical tensions, the potential for knock-on effects was highlighted when Russia turned off the gas to Ukraine earlier this month over payment issues.

While the U.S. has pushed ahead with fracking and the extraction of shale gas, Europe has not embraced the practice which has proved controversial. Environmental campaigners have said the technique, which involves pumping a mixture of water, sand and chemicals into shale rocks, causes contamination of water and methane gas leaks. The EU has instead put emphasis on green energy, aiming for a 30 percent cut in energy usage and 40 percent in greenhouse gases by 2030. Critics of the targets say renewable energy is too expensive and not sustainable due to the fact it is often funded through government subsidies. Starace said that the EU needs to agree on a unified energy policy soon or risk much-needed investment in the sector. "I think you have to separate Europe and the rest of the world. In Europe everyone is waiting for these decisions, what kind of environment do we need…what kind of market? Until this is cleared it is mistake to really push big investments," he said.

Eni signs PSC for block offshore China

Oil & Gas Journal, *21.06.2014*

Eni signed a production sharing contract with China National Offshore Oil Corp. for Block 50/34 off the southwestern coast of Hainan Island in the South China Sea.

The block covers 1,922 sq km in 40-90 m of water. Eni said the contract provides for a 6.5-year exploration period in three phases. In its 2012 notification of blocks available, CNOOC described the area as on the southeastern slope of the Yinggehai basin and western Yabei sag of the Qiongdongnan basin. It said the block had 5,123 line-km of 2D seismic coverage. Past drilling of six wells on the block had yielded oil and gas discoveries, according to CNOOC.

LNG exports dominate Senate committee hearing on US gas potential

Oil & Gas Journal, *21.06.2014*

LNG exports quickly took center stage at a June 19 US Senate Energy and Natural Resources Committee hearing to examine "how to harness a game-changing resource for export, domestic consumption, and transportation fuel."

Members and witnesses focused on the topic hours after the FERC announced it had approved Cameron LNG LLC's plan to liquefy and export gas from its existing import terminal in Hackberry, La. "We now have the opportunity to turn what would have been natural gas import terminals into export terminals, while ensuring US manufacturing will continue to be able to compete economically on global markets."

"I think it's time to move beyond the speculation and get to the nuts-and-bolts business of getting things done," Ranking Minority Member Lisa Murkowski (R-Alas.) said a few minutes later. "I have long advocated LNG exports. If I have one goal at this hearing, it is to establish there are reasons for optimism about DOE's procedural change, but there also are reasons for skepticism. The mechanics about licensing remain murky, especially for final timing." Said Mark Udall (D-Colo.), "The ongoing crisis in Ukraine and Russia's announcement this week reinforced my belief that developing our gas resources is important not only to our domestic economy, but also in being able to help our friends overseas," who a day earlier introduced an updated version of his bill aimed at facilitating US LNG export application reviews.

“I want to responsibly take advantage of our vast gas resource both for domestic consumption and for exports to global markets,” he maintained. Protect consumers But other committee members reiterated their concerns that aggressively allowing more US LNG exports might raise domestic gas prices so high that the recent US manufacturing renaissance would be halted. “Our policies on natural gas exports, transport, and use have a tremendous impact on consumers,” said Tammy Baldwin (D-Wis.). “Discussions should fundamentally protect American consumers and give them a seat at the table.” “I appreciate there’s a window of opportunity internationally, but we have 10 million people out of work in our country,” added Debbie Stabenow (D-Mich.). “When we look at the incredible opportunity we have from this gas boom and compare it with what people in other countries have to pay, it’s something we don’t want to give up. From our standpoint, this is a huge competitive advantage.”

Asserting that consumers are primarily concerned about prices, Martin Heinrich (D-NM) said, “There’s a fair amount of consensus that the sweet spot will be where it’s high enough to encourage production, but low enough to be good for consumers and encourage manufacturing growth.” Christopher A. Smith, the deputy assistant US energy secretary for oil and gas in DOE’s fossil energy office who was among the 5 witnesses testifying at the hearing, responded, “This goes to the heart of the public interest decision we’re dealing with. Price is an issue which gets a lot of our attention,” “When we evaluated the first authorization we issued, we contracted the [National Economic Research Associates] study which looked at price and potential impacts on jobs and consumers,” he said. “We also have to consider, in the public review process, comments from a broad range of stakeholders.”

Another witness, Daniel J. Weiss, who directs the Center for American Progress’s climate strategy, observed, “Right now, the Asian market’s price is about 4 times ours, and the European market is about 60% higher than what we pay. “Our price has helped gas become a substitute for dirtier coal and is helping protect children from respiratory diseases. We should consider what the domestic impact on jobs, wages, and health would be from more exports,” Weiss said. ‘Arsenal of energy’ Domestic energy abundance serves US foreign policy interests by turning the country into an “arsenal of energy” that is able to help friends and allies diversify from costly and dangerous dependence on suppliers like Russia and Iran, according to a third witness, Robert McNally, president and founder of the Rapidan Group LLC.

“In the case of gas, the striking swing of the US from future importer 10 years ago to future exporter now has weakened Moscow’s ability to impose high, non-market based prices for gas in Europe,” he told the committee. “In Asia, the prospect of LNG exports is already boosting Japan’s bargaining position with LNG suppliers in its long-term contracts… I would want to aim right at Russia’s pocketbook and deem every LNG export project in our national interest.” A fourth witness, Elizabeth Rosenberg, who directs the Center for a New American Security’s Energy, Environment, and Security Program, said, “For all we can do, we won’t change the fact that Russia will continue to be a very significant gas supplier to Europe “We can encourage changes in pricing for gas and power in Europe, and export more LNG to diversify Europe’s sources and let it negotiate for lower prices from Gazprom.” Exporting more LNG would deepen US trading ties with strategic states, including those in Europe and Northeast Asia, she testified. “It will bolster the US economy, improve the energy security of partners abroad, and allow the US to more effectively spur and support multilateral action to counter international security threats,” Rosenberg said. “With respect to LNG exports, time is of the essence,” declared the fifth witness, America’s Natural Gas Alliance Pres.

US gas push wins Eastern Europe praise

Financial Times, *26.06.2014*

Eastern European governments have praised US lawmakers for advancing efforts to expedite American natural gas exports, as action by Russia forces European gas users to look for alternative supplies. The House of Representatives on Wednesday passed a bill that would give the US energy department no more than 30 days from the completion of an environmental review to decide whether to approve applications for liquefied natural gas export terminals.

A debate on exporting LNG from the US's shale revolution has been fuelled by the Ukraine crisis, which has left the US's allies anxious about their dependence on Russian gas.

The bill that passed the House was not as bold as some previous versions, which would have automatically approved all existing multi-billion dollar export terminals or all LNG exports to members of Nato. There are 25 pending export applications. By watering down the bill, its Republican backers won more support from Democrats, who are wary of anything that could encourage more hydraulic fracturing or lead to higher natural gas prices in the US. The Obama administration has not come out against the bill, but it is not clear whether Harry Reid, the Democratic majority leader in the Senate, will allow its Senate counterpart to be voted on. The countries that have lobbied Congress to expedite LNG exports include the Czech Republic, Hungary, Poland, Slovakia and Lithuania. A Czech diplomat in Washington said: "[The bill] is a good step in the right direction. We are happy we are moving closer to facilitating LNG exports, but the original bill was more ambitious."

The Hungarian embassy welcomed bipartisan support for the bill, which passed by 266 votes to 150. It said: "Expediting US LNG exports would create jobs in the US and send a clear message to Europe that America does everything in its power to promote [the] energy diversification of its allies." The bill prioritizes America's overseas competitors at the expense of US consumers and manufacturers. But some industry groups that are big gas consumers – and politically influential – hit out at the bill. America's Energy Advantage, a trade group for manufacturers and other groups, said: "The bill prioritizes America's overseas competitors at the expense of US consumers and manufacturers." The Industrial Energy Consumers of America said the 30-day deadline did not give the energy department enough time to consider the domestic economic impacts of the pending export applications.

Cory Gardner, a Republican congressman from Colorado who is the legislation's chief sponsor, told the Financial Times: "This bill accomplishes something that doesn't happen enough around here. It grows American jobs, and adds to the energy security of our friends and allies around the world." Even if the bill becomes law, US LNG will not arrive in Europe soon because the first planned terminal will not be completed until the end of 2015, and it could take several years to build newer terminals. However, Mr Gardner said that by sending a signal about future US supplies it would help European gas buyers to negotiate better deals today.

E&Y: US oil, gas companies' reserves, profits up in 2013

Oil & Gas Journal, *24.06.2014*

A slight decrease in capital spending by US oil and gas companies in 2013 gave way to a 9% increase in oil and gas reserves, strong oil prices, and improving natural gas prices, Ernst & Young reported on June 24 in its annual US oil and gas reserves study.

The study examines US upstream spending and performance data over the past 5 years for the largest 50 companies based on yearend 2013 oil and gas reserve estimates. Capital expenditures in 2013 declined 7% to $173.5 bn from the previous year. E&Y credits lower unproved property acquisition costs and lower exploration costs.

Although exploration costs declined 15% in 2013, the level of spending represented the second highest amount of the 5-year study period. Development spending increased every year of the 5-year study period to reach $106.7 billion. Independents, large independents, and integrated companies each experienced an increase in development spending, but each spent less on exploration. "While we saw lower capital expenditure numbers in 2013, that is due in part to the advancement in technologies and processes that are making exploration and production less expensive and more efficient," said Deborah Byers, E&Y oil and gas leader. A 53% increase in after-tax profits to $33.4 billion for the study companies in 2013 was facilitated by an 11% increase in revenues and significant decrease in property impairments, E&Y says. In 2012, study companies reported a 58% decrease in after-tax profits, which E&Y attributed to low natural gas prices.

Revenues reached $199 billion in 2013 as oil production and oil prices increased. Production costs for the year increased mainly because of higher lease operating expenses, and many companies made strong investments in their 2013 operations with a plowback percentage of 125%, E&Y says. Oil, gas reserves rise Yearend oil reserves increased in each year of the study and reached 25.4 billion bbl in 2013. After decreasing in 2012 because of downward reserve revisions caused by depressed natural gas prices, yearend gas reserves climbed to 178.7 trillion cu ft. While natural gas prices fared slightly better last year, positively impacting gas reserves, gas production dipped slightly for the first time in the study's 5-year period.

Extensions and discoveries for both oil and gas reserves in 2013 were the highest of the 5-year study period. These additions for oil reserves encompassed 4.1 billion bbl in 2013 and contributed to an oil production replacement rate of 222%, excluding purchases and sales. Extensions and discoveries of 29.9 tcf were reported for gas reserves, and the gas production replacement rate was 229%, excluding purchases and sales. "Large independents accounted for the largest absolute increases in oil and gas reserves in 2013, though the gas reserves still remain below the level we saw in 2011," Byers said. The US oil and gas reserves study is a compilation and analysis of certain oil and gas reserve disclosure information reported to the Securities and Exchange Commission.

In China-Russia gas deal, why China wins more

Fortune, *21.06.2014*

To the casual observer, it's easy to doubt that China and Russia would have ever struck a natural gas supply and purchase deal during Russian President Vladimir Putin's meeting with Chinese President Xi Jinping in Shanghai last month.

After all, countless summits between Chinese and Russian leaders have come and gone with no final agreement signed for the long-discussed plans to ship more Russian gas to China. However, Putin and Xi finally ended an energy courtship, agreeing to a $400 billion deal for the delivery of 38 billion cubic meters of natural gas to China starting in 2018.

Long before the Chinese and Russian leaders on May 21 toasted their supply contract, the two countries had viewed each other as attractive natural gas partners. Russia regarded tapping into the Chinese market as essential to its plans to diversify its exports away from Europe, where natural gas demand is projected to grow at a substantially slower pace than in China. Meanwhile, the surge in China's natural gas demand in recent years made the Chinese eye their northern neighbor, the world's largest natural gas exporter, as an important source of supply to fill the gap between China's domestic natural gas production and consumption. Developments in the months leading up to the Shanghai summit may have provided Russia and China with added incentives to get serious about a natural gas marriage.

For Russia, the new imperative is the country's increased isolation from the United States and Europe in the wake of Russia's annexation of Crimea and the resulting Western sanctions. Europe's renewed interest in finding alternatives to natural gas supplies from Russia, and the calls by U.S. policymakers and pundits for Washington to expedite the process for granting LNG export licenses and lift the virtual ban on crude oil exports to help wean Europe off Russian energy, undoubtedly made signing a gas pact with China even more appealing to Moscow. For China, the country's poor air quality and it's "war on pollution" declared by Premier Li Keqiang in March likely increased the desirability of Russian natural gas.

Indeed, the Chinese government's announcement in April that the country aims to more than double the country's natural gas consumption from 170 bcm in 2013 to 400-420 bcm in 2020 means China now needs Russian gas more than ever. The major obstacle that Russia and China encountered on past attempts to make it to the altar was price. Russia did not want to sell gas to China at a price lower than it commanded in Europe, its largest customer. Meanwhile, China did not want to buy gas at a higher price than it paid Turkmenistan, its largest supplier of natural gas. Although the Russians and the Chinese have come to a meeting of the minds on price, they are treating it as a commercial secret. Consequently, there has been much speculation by outside analysts about the price implied by the $400 billion contract and what it says about which country got the better deal.

A back-of-the-envelope calculation yields an implied price of $350 per thousand cubic meters, which is close to what the Chinese are understood to have paid for gas from Turkmenistan last year. This estimate fits with the consensus among many outside observers in the lead up to the summit that Chinese had the upper hand due to Russia's strained relations with the U.S. and Europe and the number of natural gas producers eager to supply the Chinese market. That said, we do not know the pricing formula, the base number to be plugged into that formula or how a variety of other issues on the negotiating table – such as the apparent lack of upstream access in Russia for the Chinese, a rumored prepayment from the Chinese to the Russians, a Russian proposal to exempt gas sent to China from a mineral extraction tax, a Chinese proposal to exempt Russian supplies from an LNG import tax, and expectations about the pace of natural gas price reform in China – influenced both countries decisions about price.

It is also important to note that this is not a marriage among equals. The natural gas supply agreement is the third time in the past decade that the Russians have brokered a multi-billion dollar energy deal with the Chinese in a time of need. In 2005, the China Development Bank and the Export-Import Bank of China were lenders of last resort to Rosneft, providing the Russian national oil company with a $6 billion oil-backed loan to help fund the purchase of the main production asset of a private Russian oil company, Yukos. Four years later, the China Development Bank extended oil-backed loans worth $25 billion to Rosneft and Transneft, the state-owned pipeline operator, when oil prices collapsed and credit crunch during the global financial crisis left both Russian companies in a world of hurt.

These deals have not only deepened bilateral energy relations, but also underscored a shift in power in the relationship away from Russia and toward China. Regardless of which country may have conceded more, both countries can present themselves as winners to domestic and international audiences. The gas deal signifies that the China-Russia energy relationship is starting to live up to its full potential. Russia, which was China's fourth largest crude oil supplier in 2013, is poised to become a major source of natural gas imports for its southern neighbor. This arrangement should provide Russia with greater security of demand and China with greater security of supply in the long-term. In the short-term, the main benefits of the gas agreement are political. Russia can claim a powerful friend in China, and China can point to another indicator of its growing economic and political clout on the world stage.

Robust demand to keep LNG prices high

The Hindu Business Line, *23.06.2014*

The demand is growing both as a result of strong Asian economic growth and the switch to cleaner energy, particularly in China, according to the QNB Group report. This trend is likely to continue, notwithstanding the so-called US shale gas revolution and the coming into operation of the $400-billion Russia-China gas pipeline signed on May 21, 2014, it said.

Overall, the future of the LNG market remains bright and is likely to result in high LNG prices for years to come, the report said, adding this will continue to support Qatar's large current account surpluses.

The LNG market continued to tighten in 2013. Global LNG deliveries were an estimated 240 million tonnes – broadly flat compared with 2012. Qatar continued to be the largest LNG exporter, with about one-third of global supply. At the same time, demand from Asia and Latin America rose, with China, South Korea and Mexico registering the largest increase in LNG demand, the report said. In particular, China brought three new re-gasification terminals online as its switch from coal to LNG as a cleaner fuel for electricity production continued. This tightening of the market resulted in an average $1 increase in LNG prices per million British thermal units (mBtu), despite Brent crude oil prices falling $4.5 per barrel and lower LNG demand from Europe.

The outlook for the LNG market is likely to continue along similar trends in 2014. On the supply side, three new LNG trains in Algeria, Australia and Papua New Guinea are expected to come on-stream in 2014. This is likely to add about 10m tonnes to global LNG production – a 4.2 per cent increase. On the demand side, continued growth in Asian demand and the need for Europe to diversify away from Russian pipeline gas may outpace the increased supply, leading to a small increase in LNG prices of about $0.5 per mBtu despite the expected decline in Brent crude oil prices, it said. The ongoing violence in Iraq and Syria could, however, result in higher-than-expected LNG and crude oil prices in the second half of 2014, the report added. Over the medium-term, global LNG exports are unlikely to meet the growing global demand, leading to higher LNG prices.

Announcements & Reports

► *Medium-Term Oil Market Report 2014*

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

► *Medium-Term Gas Market Report 2014*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=464

► *Russia - 2014*

Source : International Energy Agency
Weblink : http://www.iea.org/W/bookshop/add.aspx?id=474

► *Austria - 2014*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=462

► *The Netherlands - 2014*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=470

► *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

►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/