Oil & Gas Bulletin
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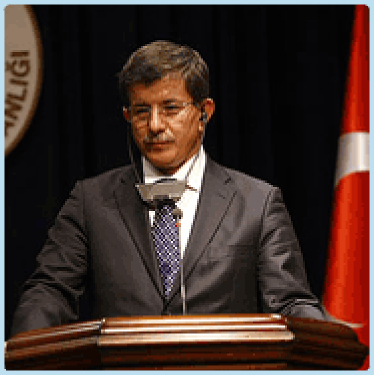
# "Energy" chapter of the 62nd Turkish Government's new program

Turkish Weekly, *20.09.2014*



**The 62nd Turkish government has recently announced its new program. The "Energy" chapter is described on pages 148-152 of the document in Turkish. Let us read and evaluate what is targeted in the "Energy" chapter of this new program.**

**Energy is one of the most strategic areas of the modern world. In recent years, past governments have dedicated resources to create greater capacity of electricity generation, diversify energy resources, emphasize renewable energy, and to privatize energy generation and distribution facilities. We had approximately 31,000 MWe of installed power in 2002, whereas we now have 67,431 MWe as of July 2014.**

Similarly, while we produced 129 billion kWh of electricity in 2002, as of 2013 this same figure has been raised to 242 billion kWh. We resolved to increase the electricity generated from renewable energy sources, and put an energy efficiency strategy into practice. We shall survey and attempt to exploit the indigenous and renewable energy resources to their highest potential in the coming period. In particular, the hydroelectric power plant projects which were commissioned in 2003 have increased their annual electricity generation rates from 26 billion kWh to 79 billion kWh today. In the last three years we have commissioned hydroelectric power plants that will produce a total of 6,450 MW. Indigenous lignite coal resources are extremely important for our thermal power plants.

We have huge lignite coal reserves in the Afsin-Elbistan, Konya Karapınar, Afyon Dinar, and Eskisehir Alpu coal fields that are ready for investment initiatives to spark greater electricity generation. In addition to the coal production from these mines that will feed into the development of thermal power plant projects, investment incentive schemes have also been implemented in order to prompt more positive growth to this end in the medium-term. We will also accelerate our work on the establishment of nuclear power plants. The privatization of public electricity distribution companies has now been completed, and in the future we shall continue to privatize local electricity generation facilities. By 2023, it is our goal to substantially increase the economic and social development of our society.

To this end we aim to meet our domestic energy demand, providing uninterrupted, safe, low-cost energy to the end consumer by diversifying our energy resources and technologies and increasing the security of our energy supply. In order to produce greater amounts of energy, we shall develop our civilian nuclear capabilities and expand thermal and renewable energy projects by utilizing local resources to their highest potential while minimizing the adverse effects on the environment. At the same time we will continue to make use of our strategic position that is strengthened by competition in the international energy system. In order to increase supply security of primary energy resources, we shall place greater emphasis on balanced resource diversification.

In Mersin Akkuyu and in Sinop, we shall commission 8 different nuclear power units capable of producing a combined total output of 9,280 MW. Thermal power plants which will be powered by local coal are nearing completion and will contribute a total of 18,500 MW to the Turkish energy sector. Almost all of our hydroelectric projects will become operational, providing 20,000 MW of additional power. The major hydroelectric projects in Ilısu, Boyabat, and Alpaslan-2 will soon be complete. In addition, our wind energy turbines will produce 20,000 MW, planned geothermal power plants will exhibit a minimum capacity of 600 MW, and solar energy will generate 3,000 MW. Therefore, in the end, the share of our energy that will be generated by renewable resources in the year 2023 will constitute 30% of the country's overall energy production.

We are entering a new era of solar energy. The world's largest solar power plant will start operating in the province of Konya in the future. This new solar power plant investment with a capacity of 3,000 MW will generate about 6 billion kWh annually. We will make the province of Konya the solar energy hub of our nation. Prior to 2003, only nine provinces had access to natural gas distribution facilities, now in 2013, however, 72 of our country's provinces benefit from this access. We shall invest further to incorporate the remaining nine provinces which require special care to overcome technical difficulties and high construction costs so that all our provinces will have access to natural gas. We give great importance to the security of our natural gas supply.

In this respect, we are committed to diversifying our supply sources and increasing the number of underground gas storage facilities. Turkey's first operational underground natural gas storage facilities can be found in the North Marmara and Degirmenkoy regions. The first phase of the Lake Tuz underground storage facility, that will boast a storage capacity of 500 million m3, is expected to be completed by 2016. In 2002, annual investments for oil exploration and production amounted to approximately $100 million. That figure was brought up to $910 million by 2012. Construction of the Baku-Tbilisi-Ceyhan crude oil pipeline is now finished and we have commenced work on the Baku-Tbilisi-Erzurum (Shah Deniz) natural gas pipeline project. Our share in the Azerbaijani Shah Deniz Stage 2 project has jumped to around 20 percent, making Turkey the project's second largest shareholder.

An intergovernmental agreement that will facilitate the transportation of Azeri gas through Turkey to Europe via the Trans-Anatolian Natural Gas Pipeline (TANAP) has now been signed. The first phase of the Turkish-Greek natural gas pipeline, dubbed the South European Gas Ring Project, has been completed and the pipeline has begun to export gas to neighboring countries. On one hand, we aim to convert the Ceyhan sea port to the second largest energy terminal in Europe. On the other hand, we are trying to ensure the security of our supply while taking the necessary measures to become an energy transit country. Turkey is the largest energy market of the Middle East, the Caucasus/Central Asia, and South Eastern Europe/Balkans regions.

Turkey shall continue to pursue international projects that link these regions with itself, acting as the local center in the energy trade nexus. In this way it seeks to become a regional energy trade powerhouse and will continue to strategically aim to strengthen its position in this regard. Our government, our industries, and our energy sector give priority to the development of our mining capabilities. In 2012, our country's mineral production generated $11.7 billion. The target for 2023 is $20 billion. In 2002, we received $600 million from our mineral exports, whereas by the end of 2013, this number increased to $5 billion. In 2002, 100 thousand meters of exploratory drilling was undertaken by those in the public and private sectors.

As of 2013, this level jumped to 1 million 500 thousand meters. In 2023, the amount of drilling for mineral exploration purposes is targeted to reach 5 million meters. Encompassing $900 million in 2013, investment in domestic oil and gas exploration has increased about 9-fold compared to 2002. Additionally, in 2002, the total combined depth of oil and gas bores was only 52 thousand meters in length, while now the total combined depth is about 305 thousand meters in 2013. In the coming period, we shall continue to explore our mining, oil, gas, and geothermal potentials. In addition, we shall put special emphasis on our marine research facilities with our own research vessel.

Turkey’s “black diamond” (local coal) will play an increasingly important role in our energy portfolio. When we (the AKP) took office, 8 billion metric tons of coal were being extracted annually. By drilling, we have now supplemented this amount with an additional 6.8 billion metric tons of coal. Over the past 11 years, we have discovered 11 new coal fields. It can easily be understood that the “Energy” targets of the new, 62nd government’s program were taken from the text of the previous government program. This is because these goals represent a continuation of the former. However, we believe that the new program should be expanded on to promote more local engineering, local design, local manufacturing, and an increase in domestic employment.

This new government will have a 10-month time period to work toward these goals until the next general elections in June 2015. There are so many lofty targets mentioned in the new program that cannot be achieved within this short 10-month timeframe. At any rate, the new government should place their own goals and priorities on the agenda to supplement those that were established earlier regardless if the new program is presumed to be a continuation of the former government’s approach, a reality that was indicated with the government’s declaration that it would pursue the same energy policies. Seeing that past figures and aims of the earlier government are repeated in the new government program, we feel that there is no need for the current government to speak for far-off future targets as this program should be meant for a transition period.

Moreover, we notice no mention of the new combined cycle power plant projects or new power plants that will operate on imported combustible fuels. Is this an indication of political reluctance to promote these investments? Likely, due to the adverse effects of natural gas and imported fuel prices in the international spot markets on the ever-growing “current account deficit”, there is no mention of price fluctuations. The Government Program has received the vote of confidence in the Turkish Parliament on the 5th of September, 2014. We wish great success to our new, 62nd Government in attaining their “Energy” targets as well as in completing all other measures that have been mentioned in the document

# TANAP to solve gas shortage problem in Turkey

Trend, *24.09.2014*

**Trans-Anatolian gas pipeline (TANAP) will contribute to the growth of the Turkish economy, the Minister of Energy and Natural Resources Taner Yildiz said in an interview with TRT Haber. The TANAP project is a very important and strategic project for Turkey, as it will help to resolve the issue of gas shortage in the country, the minister said.**

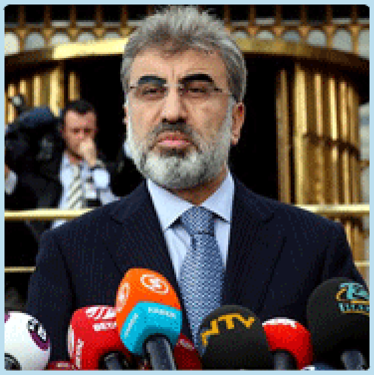
**On December 17, 2013, a final investment decision was made on the Stage Two of the Shah Deniz offshore gas and condensate field's development. The gas produced at this field will first go to the European market (10 billion cubic meters).**

The gas to be produced as part of the Stage Two of the field's development will be exported to Turkey and to the European markets by means of expanding the South Caucasus Pipeline and construction of the Trans-Anatolian Gas Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). Azerbaijan with total gas reserves in the volume of about three trillion cubic meters will be able to begin supplying fuel to Europe via the planned Trans-Adriatic Pipeline. TAP's initial capacity will be 10 billion cubic meters of gas per year with possible expansion up to 20 billion. Azerbaijani gas will be delivered throughout Turkey via the Trans-Anatolian gas pipeline up to TAP, which would start on the Turkish-Greek border. Prior to TANAP, the gas will be delivered via the current 700-kilometer South Caucasus gas pipeline. Its capacity will be expanded. Turkey has contracts with Iran to supply 10 billion cubic meters of gas per year, with Russia it is 20 billion cubic meters of gas and with Azerbaijan - 6.6 billion cubic meters of gas.

Turkey also has an agreement with Algeria and Nigeria for the supply of 4.4 billion and 1.2 billion cubic meters of liquefied natural gas respectively per year. Gas prices are not officially disclosed, but Turkey buys Iranian gas at $490 per 1,000 cubic meters, according to Turkish media. Turkey pays $335 for 1,000 cubic meters of Azerbaijani gas which is supplied via the South Caucasus Pipeline (Baku-Tbilisi-Erzurum pipeline). The country pays $425 for 1,000 cubic meters of Russian gas. Turkey imported 45.2 billion cubic meters of gas in 2013, the Turkish news agency Anadolu reported. Around 20.7 percent of the total volume of gas imported by Turkey accounted for consumers among the population, 45.85 percent - electricity generation. Around 25.11 percent of the imported gas was used in the industrial sector of the country. Around 58 percent of gas imported by Turkey accounted for Russia, 19 percent - Iran, 9 percent – Azerbaijan in 2013. The remaining 14 percent of the imported gas accounted for Algeria and Nigeria.

# Cooperation with ISIL unacceptable

Anadolu Agency, *26.09.2014*




**Turkey is not in cooperation with the Islamic State in Iraq and the Levant, or ISIL, neither by buying oil from it nor by other political means, said Turkish Energy Minister Taner Yildiz on Friday.Yildiz answered the questions during the inauguration of the Anadolu Agency's 'Energy Desk.'**

**He said allegations that Turkey was colluding with ISIL were introduced to "damage" Turkey's international standing. "Of course the hostages are important for us and the actions towards ensuring their safe return were successful but I have to say that Turkey supporting ISIL is unacceptable by us. Yildiz was referring to the 46 Turkish hostages.**

These hostages have been held captive by ISIL militants since June after the militant group took control of Iraq's second city Mosul. The hostages were released last Saturday. "ISIL oil cannot be sold through Turkey. That is not the road we are on," Yildiz said. He added that the Turkish Ministry of Customs and Trade continued efforts to curb down smugging of any kind, Yildiz said. "The allegations that smuggled ISIL oil [from Iraq] comes to Turkey [...] is untrue," he added. "It is out of the question that Turkey will supply any kind of financial support for ISIL. Neither politically nor technically is that acceptable," Yildiz said. The Turkish energy minister also touched upon Turkey's potential engagement with Mediterranean gas projects and said, "Turkey will not have a policy preventing the private sector from talks with Israel on natural gas discoveries in Mediterranean Sea."

Turkey's relations with Israel have seen a historic low since 2010 when Israeli commandos boarded a Gaza-bound aid ship from speedboats and helicopters and killed nine Turks aboard, which came to be known as the flotilla incident. "Turkey is the most advantageous route for Eastern Mediterranean gas in offshore Israel and Greek Cyprus, however, Turkey has to approach this subject without misusing the advantages. There are more important problems than that, issues related to the tragedy of Gaza," he said, referring to the Israeli onslaught last August in the Palestinian enclave which killed more than 2,200 people. The main market for the Mediterranean gas is the European market and another alternative route, Egypt, stands in a lower position when it comes to pricing mechanisms and quantity, he said.

"Israel knows that well. Turkey is very clear. Turkey said that it can work on economic feasibility if the political feasibility can be achieved, and Turkey also stated that those two aspects are inseparable. A statement like 'Let's develop energy policies alone and Palestine issue is a different one' is not acceptable." Yildiz also denied allegations by a German daily that Turkey sold jet fuel to Israel, and was seeking for technology to build an atomic bomb. "These allegations do not reflect the truth and are complete lies. Turkey does not deserve intentional accusations that aim to destroy its political dignity," said Yildiz. A Turkish newspaper had claimed in July that the fuel used by Israeli war planes was sent to Israel from the ports of Mersin and Dortyol on Turkey's Mediterranean coast.

# Tekfen wins $2-bln oil platform contract

Anadolu Agency, *22.09.2014*

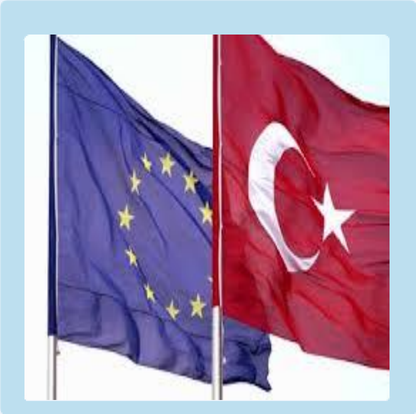
**Turkish construction company Tekfen has won a $2 billion contract to build two oil plat-forms in the Caspian Sea, Turkey's energy minister has announced.**

**"This is a $2 billion investment and we are proud of it," Taner Yildiz said during a meeting with the Chamber of Commerce of Ankara (ATO), noting the project had been awarded to Tekfen by the Azerbaijani government. He said that if a Turkish company could demonstrate that, with its technology, it can handle such a project in the Caspian, it could also construct drilling platforms and carry out oil exploration in the Black Sea and the Mediterranean.**

The announcement comes two days after Yildiz declared the South Caucasus Pipeline a "peace corridor" linking the Caucasus with the Balkans, at a groundbreaking ceremony in Baku on Sept. 20. The South Caucasus Pipeline is the first phase of the Southern Gas Corridor project which will carry gas from the Azerbaijan sector of the Caspian Sea to Turkey and will connect to the Trans Anatolia Natural Gas Pipeline (TANAP) via Georgia and reach Europe. Turkey is the second-largest shareholder after BP in the South Caucasus Pipeline project with a $5.2 billion investment. TANAP is intended to transport natural gas from the Shah Deniz II and other fields in Azerbaijan – and possibly from other neighboring countries – through Turkey to Europe. Tekfen, a Turkish conglomerate based in Istanbul, has many subsidiaries engaged in a di-verse range of construction activities including power generation, airports, petroleum and roadways.

# Forging a new ‘EU-Turkey gas initiative’ in the aftermath of the Ukraine crisis?

Hurriyet Daily News, *23.09.2014*



**The ongoing game-changers in energy and geopolitics will likely force Ankara and Brussels to consider a joint strategy over gas supply security, in view of what’s happening in the Black Sea region, the Western sanctions against Russia and the re-opening of the Pandora’s Box in the Middle East.**

**With Russia’s annexation of Crimea, there have been calls to reduce dependence on Russian gas. However, it would be difficult for the EU to quickly achieve this goal. The total consumption of the share of Russian gas used in the 28 EU countries jumped by 4 percentage points to 27 percent last year, making it the EU’s top foreign supplier.**

Likewise, Turkey is Russia’s second largest customer (after Germany) for gas exports. 56 percent of its around 47 bcm of gas comes from Russia. Most of Turkey’s gas imports are transported via pipelines, including those from Russia, Iran and Azerbaijan. Turkey also imports liquefied gas (LNG), particularly from Algeria and Qatar. Over the last two decades, energy has emerged as an increasingly important component of the overall EU-Turkey relations. In particular, the Southern Gas Corridor (SGC) and its flagship project, Nabucco, soon became the pivotal element of this relationship. With the long delays and bureaucratic/legal battles going nowhere, Turkey decided to change its approach in 2011 in favor of a robust Trans-Anatolian Pipeline project, together with Azerbaijan and investor IOCs.

If, in the aftermath of the 2014 Ukraine crisis and its continuing fallout, the EU will finally decide to seriously embark on a gas supply diversification path, the SGC could gain a new momentum, with the gas reserves of other Azerbaijani fields, the Kurdish Regional Government (KRG) of Iraq and Israel as primary short-term targets. Turkey figures prominently in all these new suppliers. However, the support of Turkey should not be taken for granted by the EU, as Ankara might prefer to secure its own energy supply on a bilateral basis with gas producing countries and deal with the EU in a way to maximize its own commercial and political gains.

Therefore, if the new “EU-Turkey Gas Initiative” will be a viable one, it should be grounded on a win-win proposition that will incentivize the Turks to be an equal partner, rather than Brussels mandarins seeing Turkey as a precious real estate through which pipelines crisscross to serve the “European energy security.” Turkey is, on its own, a major (and fast growing) center of energy consumption, upstream and midstream investor, transit and security provider along the energy routes. Their own energy security comes in the first place. A successful “EU-Turkey Gas Initiative” could be structured on two key short-term axes, in addition to the existing collaboration:

i) A joint effort of energy diplomacy aimed at unlocking the gas reserves of the KRG and at allowing gas exports from the region to Turkey by early 2018 and to the EU (via Turkey) by 2020.

ii) A similar effort aimed at allowing Israeli gas exports to Turkey (via pipeline) and the EU (via Turkey) by 2020. There will also be need to work together on gas market reforms and new energy infrastructure investments.
Two longer-term axes should also complement these two short-term axes:
i) A renewed collaboration targeting the resolution of the legal and commercial barriers (and Russian obstruction) blocking Turkmenistan’s potential gas supplies to both Turkey and the EU.
ii) A new coordinated political and commercial effort aimed at allowing Iranian gas to reach the EU via Turkey once sanctions will be fully removed and the Iranian investment regime will be made friendly for IOCs.
With such an Initiative, the SGC might be practically tripled to a supply level (30 bcm/year) already by 2020, practically to a level equal to the one currently covered by Qatar, the fourth gas supplier of the EU after Russia, Norway and Algeria. More volumes are likely to come if a strong demand in the European market is available.

Energy has always a multiplier effect in rejuvenating relations. Today, Turkey’s EU accession process is stagnating and the energy chapter seems to be far from being opened. Moreover, Turkey has declined to become a member of the Energy Community, thus excluding the only alternative of energy cooperation outside the EU accession process. A new “EU-Turkey Gas Initiative” could thus also represent a new way to rebuild the much-needed trust between the EU and Turkey, the fundamental prerequisite not only for the energy co-operation between the two players, but also for the overall EU-Turkey political, economic and social relations. This will also be in keeping with the new government’s policy declaration to renew the EU-Turkish relations at a time when domestic and external dynamics require an anchor of stability and security, and when the EU needs Turkey’s support in tackling the current challenges vis-à-vis Russia. What is needed is a phone call from Brussels to sit down for a brainstorming with Ankara.

# Turkey, Azerbaijan break ground for Trans-Anatolian Gas Pipeline

Hurriyet Daily News, *20.09.2014*

**Turkey's energy minister Taner Yildiz has declared a gas pipeline a "peace corridor" linking the Caucasus with the Balkans.**

**"We open the project as a peace corridor that is the result of 15 years hard work by Turkey and Azerbaijan. Through the South Caucasus pipeline and its backbone, the Trans-Anatolia pipeline, we connect the Caucasus with the Balkans. I wish every country could understand the true value of these projects and contribute with us," Taner Yildiz said while speaking at the groundbreaking ceremony of the South Caucasus pipeline in Baku on September 20.**

The minister said energy security "ranks as one of the main topics of global agenda" and dialogue between countries producing, transporting and consuming energy is "highly important." He added: "With this view in mind, we continue to develop projects with our friends, Azerbaijan and Georgia." The South Caucasus pipeline is the first phase of the Southern Gas Corridor, which will carry gas from the Caspian Sea to Turkey, connecting to the Trans-Anatolia natural gas pipeline via Georgia and reach southern Europe. "TANAP [The Trans-Anatolian Gas Pipeline] is not a mere investment but a project for the future.

We believe that the project is a way of establishing strong, sustainable and healthy relations both between Turkey and Azerbaijan and other European countries," Yildiz added. Azerbaijan's President Ilham Aliyev, Georgian Prime Minister Irakli Garibasvili, Bulgarian President Rosen Plevneliev, Greek Prime Minister Antonis Samaras and Montenegro's Prime Minister Milo Cukanovic also took part in the ceremony. "We will have extra income by opening our natural gas to the world market and European countries will have a new energy resource? There is no loser in this project, everybody will win," Aliyev said. The TANAP, the first phase of the $45 billion worth Southern Gas Corridor, is expected to begin operations by 2018 with a 16 billion cubic meter capacity.

# Turkey offers energy efficiency investment incentives

Anadolu Agency, *25.09.2014*

**A new communique implementing government incentives for investments in energy efficiency was published in Turkey's official newspaper, making the process legal.The communique regarding modifications for implementing government-supported incentives for energy efficiency investments allowed them to take effect.**

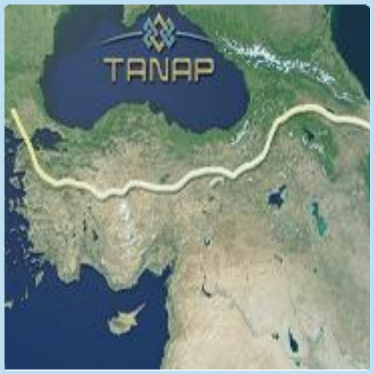
**Accordingly, rules for calculating energy efficiency percentages were determined, and they will be used during the evaluation of applications. Energy efficiency percentages will be determined according to how many types of products are manufactured by a company.**

If there is one type of product, then the energy consumption for one unit will be taken into consideration during evaluation of the incentive request. If there is more than one type of product being manufactured, the energy usage of the whole company will be factored into the calculations. The fiscal year previous to the application date will be taken as the base year and the fiscal year following the written declaration of the completion of the project implementation will be taken as the control year. The change in terms of percentage from the base year data to the control year data will be established for further consideration.

Qualifying investors will apply to the Energy and Natural Resources Ministry with the machine and equipment list necessary for investment after committing to the projected energy efficiency levels. The Energy Ministry will refer the approved machine and equipment list and a relevant report to the Economy Ministry, after assessment in terms of energy efficiency. An investment incentive document will be drawn up for the accepted projects by the Economy Ministry. Once the investment is made, the Energy and Natural Resources Ministry will carry out an analysis on site. The findings will be submitted as a report to the Economy Ministry to determine whether the investment was adequate in meeting the predetermined standards.

# Azeri energy minister confirms TANAP date slippage

Argus, *23.09.2014*




**The Trans-Anatolia Pipeline (Tanap), part of the southern corridor to Europe, will be ready to start delivering gas to Turkey in 2019, although planned start-up was late 2018, Azerbaijan's energy minister Natiq Aliyev told Argus today.**

**The final section of the corridor — the Trans-Adriatic Pipeline (Tap) — will be ready to export gas to Italy and Greece in 2020, Aliyev added, slipping from 2019 previously. Tanap is slated to deliver 6bn $m^3$/yr of gas from Azerbaijan to Turkey, while Tap is expected to deliver a total of 10bn $m^3$/yr of gas, with 8bn $m^3$/yr going to Italy and 2bn $m^3$/yr going to Greece, Aliyev said.**

He added that Bulgaria could receive 1bn $m^3$/yr from Tap. The southern corridor project is expected to cost $12bn.

# Turkmenistan, Azerbaijan discussed aspects of cooperation in energy sphere

Trend, *23.09.2014*

**The president of Turkmenistan Gurbanguly Berdimuhammadov and the head of State Oil Company of Azerbaijan (SOCAR) have discussed different aspects of cooperation in strategic energy sphere during their meeting in Ashgabad, turkmenian Altin Asir TV channel reported.**

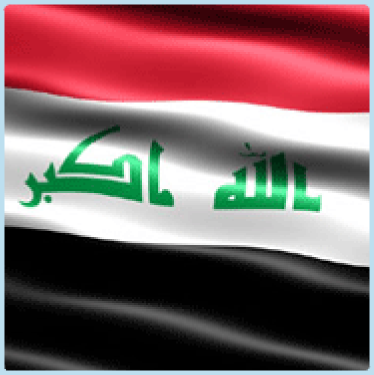
**"Both of Caspian countries, which are known for their big oil and gas fields, pay special attention to development of this sphere. As it was underlined, two countries having colossal resources and economical potential are going to continue developing of traditional cooperation at the principles of equality and mutual benefit", Turkmen channel reported.**

It was also mentioned that Turkmenistan and Azerbaijan are mutual-interested partners on international arena, making consolidate efforts in searches of optimal ways of actual problems' solutions, including the special point - providing global energy security.Talking about constructiveness of Turkmenistan strategy of creating a multivariate system of export pipeline, SOCAR head expressed "deep interest of his country in set economic ties' steady build-up, which is aimed to support stable economic development of all the Caspian region". As TV reported, there was also discussion of cooperation within the confines of the widescale projects in Turkmenistan, demanded both in the internal and external market, including oil-gas processing and fuels and lubricants production areas, held during the meeting.

It should also be noted that coterminous Turkmenistan and Azerbaijan are interested in using of alternate routs of energy output from Caspian region to Europe. Hydro carbonate resources of Turkmenistan can be connected to European direction through Caspian sea by building of a pipeline - approximately 300 kilometers across the sea to the bank of Azerbaijan, then fuel can be transported to Turkey which has mutual borders with European countries. Trans-Caspian gas pipeline could be a part of widescale projects of the South gas corridor. Official Ashgabad considers that an agreement of the countries which territories are involved into the project is enough to build a pipeline in the sea, which has no law-determined status. Previously Azerbaijan has expressed readiness to provide its territory, transit facilities and infrastructure for realizing the project, it was also stated by SOCAR representatives. Turkmenian establishment has stated about readiness of holding of ecologic expertise of the project.

# Iraq exports more oil from conflict-free southern ports

Hurriyet Daily News, *23.09.2014*



**Iraq's oil exports from its southern terminals on the Gulf, far from the fighting in its north, have increased so far this month as bad weather and logistical delays subsided, approaching a record high reached in May.**

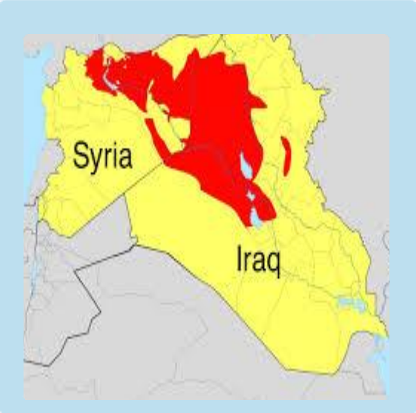
**Three months after an advance by Islamic State into northern Iraq sent oil prices soaring to $115 a barrel, the fighting has not reduced Iraq's exports from the south, the main outlet for its crude to world markets. Exports from Iraq's southern terminals have averaged 2.58 million barrels per day (bpd), according to shipping data for the first 23 days of September tracked by Reuters.**

Two industry sources who monitor the exports had similar estimates. Oil industry sources said there has been less impact on exports in September from bad weather and logistical delays, which had held up some shipments in August. "There are still delays, but they are reduced," said a source with a company that trades Iraqi crude. "The fields are far from the fighting, so that helps." Southern exports so far in September are up from the average of 2.38 million bpd during all of August and if sustained, would equal May's average of 2.58 million bpd, which was the highest since at least 2003. Iraq's oil supplies were held back by decades of wars and sanctions. It has been expanding oil production in the south since Western companies signed a series of service contracts with Baghdad in 2010, and boosted export capacity. Still, a shortage of water - used for injection into oil wells to flush crude to the surface, is hindering production at two mature southern fields - West Qurna-1 and Zubair, official and industry sources said earlier this month.

Total exports from Iraq's northern and southern ports hit a record 2.80 million bpd in February. But northern exports of Kirkuk crude have been shut since March 2 due to attacks on a pipeline to Turkey, keeping total exports below their potential. While Kirkuk exports remain halted and unlikely to return any time soon in the view of Kirkuk's governor, Iraq's Kurdish region is exporting smaller quantities of oil independently of Baghdad via Turkey's Ceyhan port. The Kurdish exports started in May and since then more than 11 million barrels have sailed from Ceyhan, according to a Reuters tally, although diplomatic and legal pressure from Baghdad has delayed some shipments. Turkish Energy Minister Taner Yildiz said the total exports of Kurdish Iraqi oil through Turkey since May has reached 10 million barrels, despite the ongoing tension with the Iraqi government over the legitimacy of the sales.

# ISIL has formed oil trading network in Syria

Anadolu Agency, *23.09.2014*



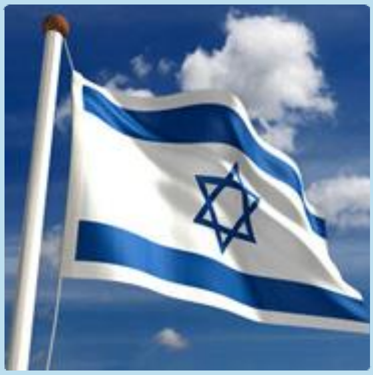

**Fighters led by ISIL have established an oil trading network within Syria which includes other opposition groups and the Assad regime. ISIL is rumored to have created a local market in which they produce oil and sell it within the country to other opposition-held areas, as well as Assad regime, either directly or indirectly.**

**Professor Eyal Zisser, a Syria expert and Dean of the Tel Aviv University Faculty of Social Sciences, said: "There are tacit arrangements between Islamic State and local state officials to ensure that basic services such as electricity, water and mobile phone services operate."**

He said it was well known that the regime, the opposition and ISIL were fighting each other but, at the same time, were pragmatic enough to reach local opportunistic deals such as in oil trading. Joshua Landis, a Syria expert and the head of the University of Oklahoma's Center for Middle East Studies, said all sides had tried to exploit oil sources and use them for their own purposes. He said: "The Assad regime, which is under an embargo by the international community, needs both oil and money to run its war machine and to pay the salaries of the roughly two million employees loyal to him." Regarding the opposition, Landis said it was desperate for money, energy and guns to defend itself, feed families and conquer additional territory. Landis said: "It is little wonder that oil has become central to all fights in the country, as it is the only resource that Syria has. "Each group, not to mention local farmers and smugglers, are trying to make a lira and win the struggle for resources." ISIL militants have taken the Raqqa, Dair az Zor and al Omar oil fields in the north of Syria since last November.

# The future of Israeli gas

Natural Gas Europe, *22.09.2014*



**Since its discovery of substantial amounts of natural gas under its seabed, Israel has been struggling to formulate a clear and defined export strategy. The country was divided for months before its cabinet issued on June 2013 the decision to export around 40% of its proven reserves then.**

**The decision was controversial, a conservative school arguing that after years of energy dependence and vulnerability, Israel should reserve a larger quota for its domestic use. Israel's Supreme Court in October 2013 ratified Netanyahu's cabinet's decision and opened the door for the sale of gas in international markets.**

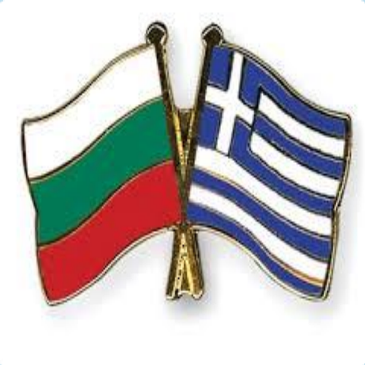
But how? That was the second important question. Israel has a lot of gas. Its Leviathan holds as much as 21 Tcf of natural gas. Tamar is the second largest field discovered by Noble in Israeli waters and it is estimated at 10 Tcf. EIn other words, the country has enough to keep Israel gas independent for decades and to bring in for the Israeli economy up to 60 billion Shekels as estimated by the Israeli government. Due to Israel's geopolitical positioning, exporting the gas is no easy task. Israel contemplated various export scenarios, but to date none has been made final. Israel's exports options included using Greek Cyprus' planned LNG facility, recruiting Woodside's expertise to build its own LNG facility, building a pipeline to Turkey and exporting to immediate neighbours via pipeline.

However, Israel did not express to date an intention to pool costs with the Cypriots for the purpose of transporting gas via Greek Cyprus' planned onshore LNG terminal at Vassilikos. And despite Tel Aviv's reconciliation with Ankara, diplomatic ties between the two states deteriorated after the 50 day war on Gaza rendering the Leviathan-Turkey pipeline scenario less likely. As to a domestic solution, a tax dispute between the Australian giant Woodside and the tax authorities jeopardized Israel's access to international markets via LNG. Recent talks between Israel and the Kingdom of Jordan on the one hand and Egypt on the other hand revealed Israel's intention to sell gas to its immediate neighbours. In fact, Jordan imports 95% of its energy needs and is undergoing a severe energy crisis due to the disruptions in the flow of Egyptian gas.

Noble Energy representing the Leviathan partners conducted talks with Jordan's National Electric Company for the purpose of supplying Jordan with 45 bcm of gas over 15 years at a price to be determined The deal is worth USD 15 billion and is a game changer for a Jordan desperately looking to find alternative sources of supply. Jordan is even looking to import gas from Greek Cyprus at a later stage, determined to no longer be dependent on a single source of supply. Noble also held talks with Britain's BG Group for the export of Israeli gas to its Egyptian liquefied natural gas export plans. Egypt would facilitate through its unused export terminals the flexible delivery of gas to export markets including Europe and lucrative Asia. The agreements with Jordan and Egypt are not binding. They are pending regulatory approvals from all interested parties.

# Interconnector Bulgaria-Greece

Natural Gas Europe, *22.09.2014*



**Mr. Anton Pavlov, Deputy Minister of Economy and Energy, Republic of Bulgaria, said that the Interconnector Greece-Bulgaria looks to be crucial element of Bulgaria's broader overall strategy, which includes the South Stream natural gas pipeline, to embrace natural gas going forward.**

**Regarding the difficult situation in Ukraine, he said Bulgaria was working hard in different directions related to security and diversification of gas supplies. He pointed out: "Currently Bulgaria has only one supply of natural gas – the Russian Federation – along one gas pipeline through Ukraine."**

Mr. Pavlov said that Bulgaria's main priority was on increasing the security of gas supplies for Bulgaria, the South-east Europe region and European Union through diversification of supplies and routes. According to him, the only real gas transportation alternative for diversification of supplies of natural gas for Bulgaria and the South-east Europe region was the Interconnector Greece-Bulgaria (IGB), which would be connected to the Trans-Adriatic Pipeline (TAP) project. In the context of Bulgaria, he said, "Following a firm and clear position by the caretaker government for accelerating construction of IGB, we expect this autumn the shareholders to take a final investment decision, as the construction of the interconnector is to start at the beginning of 2015, and to be commissioned by the end of 2016.

"As you know, after serious efforts, Bulgaria, as the only participant in the Nabucco West project, could contract with the Shah Deniz Consortium a supply of alternative volumes of gas from Shah Deniz of 1 BCM/annum as of 2019, through Greece and the IGB interconnector. Practically the only exception for supplies of the second phase of Shah Deniz outside the countries along the TAP route was done for Bulgaria on the basis of strategic partnership between the Bulgarian and Azerbaijani states." Bulgaria, he said, was negotiating with Azerbaijan for supplying earlier volumes of natural gas owned by the Azeri state company SOCAR from the beginning of 2017 through Greece and the IGB connector before the volumes of Shah Deniz arrive around 2019. Mr. Pavlov said the issue would be discussed at a forthcoming visit of the president of the Republic of Bulgaria to Baku.

Bulgaria, he reported, was also working actively for the implementation of other connectors with Romania and Serbia, but there were some geographical difficulties in crossing under the Danube River. Still, the Romania interconnector was expected by the end of 2014, or in the first half of 2015 at the latest. The pre investment preparation on the Interconnector Bulgaria-Serbia, he added, was ongoing. "At the end of 2013 the Turkish state expressed its interest for the implementation of Interconnector Turkey-Bulgaria as previously things had been slow on developing this project. A memorandum was signed between the two countries and a working group established for the project," he explained, adding that it was still in the study phase. Mr. Pavlov also addressed Bulgaria's reverse-flow of natural gas with Greece in case Russian gas supplies were interrupted through Ukraine.

“Considering the war conflict in the East of Ukraine, and the political tension between Ukraine and Russia, the dispute for the price of Russian natural gas for Ukraine and the opportunity for introducing sanctions on Russia and stopping the transit of Russian natural gas, we think that there are prerequisites for repeating the January 2009 gas crisis. “The stress tests of the European Commission clearly show that among the neighboring member states of Europe, Bulgaria could only rely on reverse-flows from Greece. In this context, Bulgaria will rely on Greece for ensuring an emergency reverse of supplies on the existing transit gas pipeline in accordance with the negotiated volumes of about 3 BCM/day in case of full interruption of the Russian gas transit through Ukraine.”

“We’ll do everything we can in order to ensure the export of the possible quantities of electricity to Greece in case of a new gas crisis.” Regarding the South Stream project, Mr. Pavlov said the Bulgarian government held that the project needed to meet the requirements of European legislation for its offshore section on the Union’s territory. “As you may well know the European participants in the offshore part of the project are the Italian ENI, French EDF and German Wintershall, and the main volumes of Russian gas are intended for the markets of Central and South Europe,” he said. “Considering the war conflict in Ukraine, the fact that the Ukrainian government is not in control of the Donetsk and Lugansk regions through which the main transit gas pipelines through Europe go, the opportunity for introducing sanctions by the Ukrainian government against Russia, stopping the transit of natural gas, we consider that these circumstances give more reasons for constructing the South Stream project.”

In that context, he said Bulgaria would like to know the position of all participating countries in South Stream, and suggested that consultations between the countries be ongoing. Mr. Pavlov explained that in Bulgaria gas was mostly used for power generation and industry, and in recent years consumption had gone down. He stated that Bulgaria’s strategic aims for the development of the gas market were increasing security of energy supply for the country through increasing the share of natural gas in the country’s energy mix, increasing the transit of natural gas to neighboring countries, intensive development of gasification and decreasing the negative impact of harmful emissions on the environment and public health via high efficiency gas technologies.

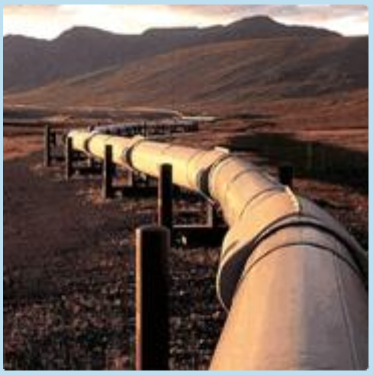
Among the pending developments in Bulgaria’s natural gas sector, he offered, were creation of a natural gas market with low pressure for heating and local power plants for direct combustion, building connections with neighbor countries like Greece, Romania, and Serbia to expand the options for the transit of Russian gas and increasing the transit capacities of existing gas pipelines, and constructing South Stream as well as active participation in projects for transit of natural gas from the Caspian region, Middle East and North Africa to the South-east Europe and the European Union, modernization and expansion of an existing underground gas storage in Bulgaria and a study of the perspectives for gas discoveries in the continental shelf in the Black Sea.

Mr. Pavlov commented, “With a view towards quick implementation and relatively less funds, it is especially important for the interconnectors with neighboring countries to be implemented. Interconnector Bulgaria-Greece should be taken into consideration in the context of the Shah Deniz Project’s selection of the Trans-Adriatic Pipeline (TAP), leaving out the Nabucco West project.” Meanwhile, he said Bulgaria was interested in newly discovered offshore natural gas finds in Israel and Greek Cyprus, as well as a planned LNG terminal project at the Greek port of Alexandroupolis.

"Bulgaria continues to seek other alternative sources and earlier opportunities for supplies of natural gas for the country and the region and is expressing interest in possible supplies from the Eastern Mediterranean and the newly found offshore sources in Israel and Greek Cyprus by Noble Energy."He added that Bulgaria was monitoring whether there would be a pipeline from Greek Cyprus to Greece or whether there would be an LNG export terminal in Greek Cyprus. Bulgaria, Mr. Pavlov concluded, thought it was necessary to increase cooperation and coordination of activities between the member states of the EU in the spirit of a partnership and European solidarity.

# Bulgaria, Greece and SOCAR team up

Natural Gas Europe, *25.09.2014*



**The governments of Greece and Bulgaria seem to be forging stronger ties with Azerbaijan and its national gas champion, SOCAR, through mid and long term capabilities for its expansion in Southeast Europe.**

**More specifically, the finalization of the privatization of Greece's national transmission network company (DESFA) seems to be heading towards its final stages - an issue that has been ongoing since late 2013. The whole process, which included SOCAR buying 66% of shares for €400 million, was obstructed by the European Commissions's DG Competition, citing the provisions of the Third Energy Package.**

Nevertheless, during the Greek Prime Minister Antonis Samaras' last visit to Baku, Azeri authorities publicly claimed that assurances of the strictest provisions had been submitted to Brussels and it is a matter of a few weeks before DESFA is formally a part of the Azeri company. It is of importance to note that the acquisition of the Greek corporation provides access to the Azeris both in interconnections with Bulgaria and IGB in particular, as well as to the domestic LNG terminal in Revythousa, coupled with the Trans-Adriatic Pipeline (TAP), which is scheduled to traverse Greece en route to Albania and Italy by late 2019. Concurrently, Bulgaria recently signed two agreements with Azerbaijan that stipulate supplies by the latter via Greece from 2018 onwards. The Memorandums of Cooperation were signed by Bulgartransgaz and SOCAR and also include the upgrade of the country's underground gas storage facility in the vicinity of Chiren.

The whole plan rests on the assurances that by 2016 the IGB pipeline will connect and be functional with reverse flow capacity Greece and Bulgaria, along with a new and similar infrastructure between Bulgaria and Turkey. In the meantime similar projects will connect Bulgaria with Romania and Serbia, thus enabling the Azeris to expand their customer base throughout most of the Balkans. Greek commercial gas company, DEPA, which is still under state control, also envisages the Aegean-Baltic interconnection route that will ship Azeri gas up to Poland by 2020 onwards. DEPA already has signed an agreement for a future imports of 1 bcm per year from SOCAR and is in the process to increase that amount, most likely for deliveries that will take place after TAP is established.

An important aspect to all the above that is closely related to the Athens-Sofia gas nexus, is the advance of the floating storage & regasification unit, currently being designed offshore Alexandroupoli by the Greek Copelouzos Group, aiming to supply with LNG the tri-border region of the aforementioned countries, plus Turkey and add to the boosting of energy security for the whole region. The budget is estimated at €350 million and it has already received the status of a Project of Common Interest by the EU, citing its strategic nature in that respect. The company formed for that purpose is named GasTrade and aims to have by 2018 a 170,000 cubic metre storage capacity of LNG that will be connected with DESFA's national system through a 17km underwater pipeline.

Presently, talks are underway with prospective investors, thus pushing along the process to attract potential clients in a consumer base stretching from Greece to Hungary. The owners of the company are also confident that the project may take a substantial amount of subsidies directly from the EU's structural funds since it is already a candidate for the allocation of EU capital to such works. Lastly, it should be noted that the owners of the company own another entity named Prometheus Gas that has for years teamed with Gazprom and supplies a substantial amount of the gas flow yearly to Greece via the already established pipeline running from Bulgaria. It receives the necessary amounts from the gas network transiting Ukraine.

# TANAP-TAP construction opens up new energy perspective for Montenegro

Reuters, *24.09.2014*

**Prime Minister of Montenegro Milo Đukanović delivered a speech at today's ceremony in Baku marking the beginning of the construction of the Southern Gas Corridor. The ceremony, opened by Azerbaijani President Ilham Aliyev, was also attended by representatives of governments of Bulgaria, Georgia, Turkey, Greece, Albania and Italy.**

**Start of construction of the Southern Gas Corridor (TANAP-TAP) opens up a whole new energy perspective for Montenegro, its neighbors and the countries of the European Union, Prime Minister Đukanović stated in his address to the attendees of the ceremony.**

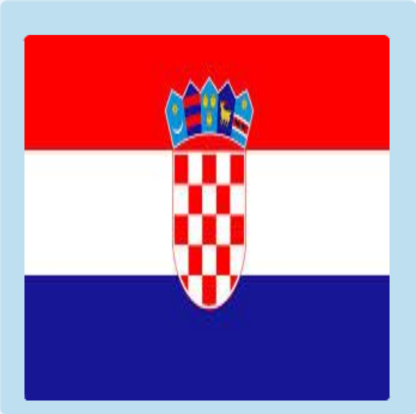
"Gasification makes a new era of development possible for Montenegro. This will mean better conditions for new investment and job creation, and we hope it will strengthen the exploration of oil and gas in the Montenegrin coast," he explained. The TANAP-TAP and its connection with the arm of the Ionic Adriatic Pipeline should supply the Western Balkan countries, including Montenegro, with natural gas and connect them with a new secure energy sources. "The issue of energy transcends national and state boundaries. Cooperation in this area is becoming increasingly important for economic security and overall development of a country," Prime Minister Đukanović underlined.

He added that Montenegro participates in the TANAP-TAP construction from the very beginning, that is, from the signing of the Memorandum of Understanding in Tirana, and the last year's conference in Baku, which came to a decision to make the investment, up to the start of work on the future pipeline, on its connection with the Ionian - Adriatic Pipeline would be connected in Albania, Montenegro, Bosnia and Herzegovina and Croatia.

Prime Minister Đukanović noted that Montenegro has complied with the energy strategy of the European Union, whose top priorities are: smooth energy supply, development of competitive energy market and sustainable energy development. Diversification of energy sources, he added, is one of the prerequisites for achieving these goals, while regional approach seems more promising sources of funding these major projects, including EU grants, he stressed. "Joint efforts being invested in constructing the TANAP-TAP and the Ionic Adriatic Pipeline are an example of successful international cooperation in meeting objectives of the European energy strategy. I am convinced that in this way we build a better common future," Montenegro's Prime Minister concluded.

# Overhaul of Croatian natural gas balancing regime stalls

ICIS, *22.09.2014*



**Significant changes to the natural gas balancing regime in Croatia have been pushed back to at least 1 January 2015, according to new network rules published by the market operator HROTE and the energy regulator HERA.**

**The market aims to adopt an interim, market-based balancing regime that would run until October 2016, when the EU-wide network code on balancing comes into force, but details are yet to be finalised. At present, a single party – state-owned electricity company and government-nominated household gas supplier HEP – is responsible for balancing the Croatian grid in co-operation with system operator Plinacro.**

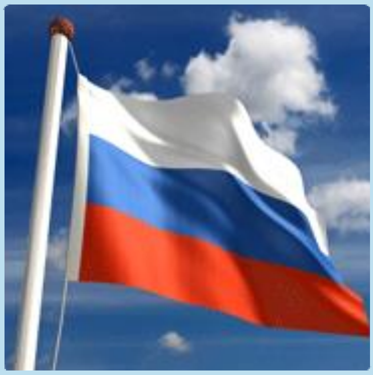
The government has awarded HEP 70% of the country's storage capacity to help it fulfil its household gas supply and system balancing roles. This regime will not change until at least 1 January, when all shippers in Croatia are expected to be able to participate in a market-based, balancing regime. According to the upcoming EU network code on balancing, grid users should be subject to a market-based, marginal sell price if they are long, or a marginal buy price if they are short, plus a small adjustment to incentivise network users to balance their gas input and off-take. This is not currently the case in Croatia where the cost incurred by HEP in supplying or taking gas from the Croatian grid is not reflected in the penalties imposed on the shippers responsible for network imbalances.

Instead, HEP enforces two types of imbalance charges. The first is a penalty on shippers whose actual gas input/offtake deviates by more than 30% from their nomination. The second penalty is charged to shippers who fail to balance their portfolio across the required time period. For large balance groups this will be a single gas day between 1 October 2014 – 1 January 2015, while for small balance groups, it is three gas days. The 58 companies licensed to supply gas in Croatia are organised into 16 balance groups, each headed by a company responsible for keeping the companies in its group balanced through forecasting and nomination procedures. Every supplier must be a member of a balance group, although suppliers are allowed to be the sole member of their own group.

The large balance groups in Croatia are defined as having more than 10% of the market share, and currently include the groups headed by HEP, Croatian oil and gas producer INA and the country's largest natural gas importer PPD. It is also expected that new rules in 2015 will require all balance groups, irrespective of size, to maintain a balanced portfolio within a single gas day. Details of the new balancing regime should be finalised in Q4 2014 ahead of its implementation on 1 January 2015.

# Hedging risks of a Russian gas supply cutoff

Hurriyet Daily News, *20.09.2014*



**With temperatures rapidly dropping and the European summer almost over, politicians in European capitals and Brussels are rightly asking themselves the question: What if Russia turns off the gas supply to Europe?**

**This is not an impossible scenario, and it is naïve to ignore contingency planning. The Russian president could turn off gas taps to Europe. First, the conflict in Ukraine is now a full-blown war, and as such utterly unpredictable. Ukrainian President Mr. Poroshenko, has made it clear that only the full liberation of eastern Ukraine, and full respect and restoration of Ukraine's territorial integrity will suffice.**

Furthermore, Mr. Vladimir Putin will not let go of the territorial gains already made on the ground. The two presidents are clearly at odds with each other as to the fundamentals for a lasting peace deal, which means this truce will break. For its part, the European Union, lacking other means by which to act, will continue applying layer upon layer of sanctions. Eventually, everyone will pass the point of no return and Mr. Putin will call on Gazprom to turn off the gas. This will probably happen sooner than anyone likes to admit. This depends partially on how well we in Europe can prepare in the next months for this dark scenario of no Russian gas and on whether our strategic gas reserves can outlast Putin's strategic oil fund. In other words, it's our gas vs. his dollars in the very short run. Whoever has a deeper reserve wins. In the short to medium term, Europe can probably increase the LNG supply through our existing LNG infrastructure.

The truth is we currently use less than 40 percent of our total LNG capacity. But can Europe still get its hands on free LNG gas in the short run? Where will we find it and what would happen to global gas prices if Europe suddenly doubles its LNG imports? Another short-term option available to the EU is a temporary increase in the use of coal, the dirtiest fossil fuel. This would mean bringing some old and decommissioned power plants back on line. This is not a great story for the environment or our immediate gas bills, but it is a short-term solution. What is even more important is crafting a strategy at the EU level. If there is a credible alternative that the Russian president knows the EU has and can used if forced to, he will think three times before turning off the gas.

Evidence from Latvia indicates that despite everything, Russia responds to real market competition with actual market solutions in the end. When Latvia's LNG terminal became a reality, Gazprom lowered the price of natural gas for the Latvian state. However, Putin is much more likely to engage in gas wars if the EU does nothing to prepare for a comprehensive Russian gas cutoff date, and if EU countries are left to fend for themselves against Russia. In the long run, solutions for weaning the EU off Russian gas are many. They should be pursued as a package solution. For one, no European strategic document can still take seriously the South Stream project.

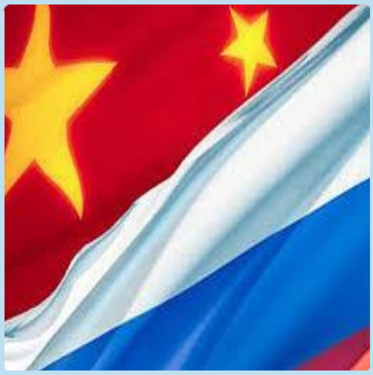
This is a dead-end project, which does nothing to increase energy security for Europe, only dragging the Balkan countries and the EU continent deeper into the Russian energy and political embrace. Rather than South Stream, the EU needs to take very seriously the Southern Gas Corridor concept. In addition to Azerbaijan's gas, the EU must also find ways to also tap into Turkmenistan's gas reserves through a trans-Caspian connection linking to the trans-Caucasus-Turkey gas infrastructure. Then there's Iraqi gas, the always-elusive Iranian gas and new shale gas discoveries in south Mediterranean Sea off of the coast of Greek Cyprus. If materialized, all these new sources will not only boost the quantity of supplies of gas into Europe, but also improve the security of our supplies.

Europe should also ensure that it maximizes its existing LNG capacity by working closely with the Obama administration to change the U.S. export laws governing shale gas, urging the American president to increase the U.S. export quota. In the middle-term, the LNG capacity of the EU should increase between 35 to 45 percent, and new LNG terminals in particular must be constructed along coastlines with the highest dependence on Russian gas, as is the case in Latvia. A new LNG capacity is necessary in the Adriatic Sea and in the Black Sea.

Finally, there is energy efficiency and alternative energy to count on and support. The EU must make good on its promise to increase energy efficiency by at least 30 percent by 2030 and ensure that clean energy makes up at least 30 percent of total energy produced. The need for a comprehensive alternative strategy to Russian gas in Europe was never more pressing, and it is ridiculous planning to assume that the Russian president will never cut off gas to Europe. He has proven time and again that he doesn't care much for what we think and that his actions are not always in line with what we think is reasonable.

# Russia says sanctions won't hurt rise in China oil exports

Reuters, *22.09.2014*

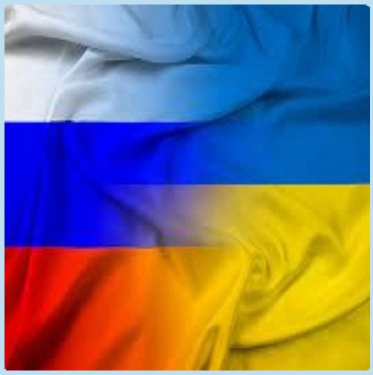


**Russia will meet a plan to boost oil flows to China despite Western sanctions over Russia's role in the Ukraine crisis aimed at barring its oil firms from foreign technologies and funds, Russian deputy energy minister said during a conference.**

**"We have recourses that we need, we are able to increase production (in Eastern Siberia), we have finances for that," Kirill Molodsov told an energy conference at Russia's Far East island of Sakhalin. "Russia does not see any risks or dangers that these projects (to increase oil flows to China) would not be put on stream as decided," he said.**

# Russia and Ukraine reach tentative gas deal

Argus, *26.09.2014*



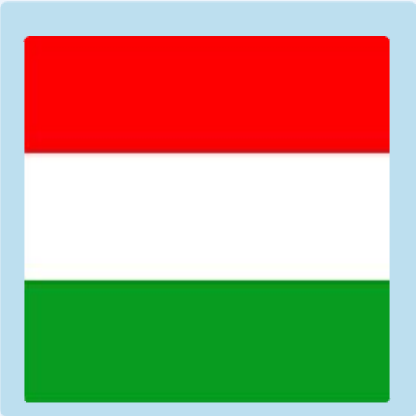
**Russia and Ukraine have reached a tentative agreement on winter gas supply in EU-brokered talks in Berlin, EU energy commissioner Gunther Oettinger said today. The Russian and Ukrainian delegations need to return home to consult with their governments,but Oettinger said there was a “high probability” that a binding protocol would be signed by the end of next week sealing the deal.**

**Under the proposals, Ukraine will pay off its outstanding gas debts at a price of $268/000m³, and it will pay the difference if an arbitration tribunal in Stockholm rules next summer that a higher price is applicable under its Russian supply contract.**

In return, Gazprom will commit to supply Ukraine with 5bn m³ — with an option to provide more if required — at a price of $385/’000m³ on a prepaid, take-or-pay basis valid up the end of March. Oettinger did not say whether the gas would be delivered on a flat basis or if there would be any delivery flexibility. Ukraine needs to transfer $2bn to Gazprom by the end of October, and a further $1.1bn by the end of this year, to secure the supply. The EU will ask the IMF to guarantee these payments, and will push Ukraine to pay the difference if the Stockholm arbitration goes against it. Oettinger expects the parties to signal whether they will agree to the winter supply package early next week, allowing a protocol to be signed by the end of the week.

# Hungarian operator cuts natural gas supplies to Ukraine

ICIS, *26.09.2014*



**Reverse natural gas transmission from Hungary to Ukraine has been halted indefinitely by the Hungarian grid operator FGSZ as of 18:00 Budapest time, 25 September, the company has said. The cessation in Hungarian flows to Ukraine, which have averaged 4 million cubic metres (mcm)/day since 1 August, follows the announcement of two storage auctions for a total working volume of 794mcm, to be held by the operator MFGT on 26 September.**

**Shippers were given one day's notice to register for the auction. MFGT is a subsidiary company of state-owned power and gas incumbent MVM.**

Responding to the cut, a spokeswoman at the energy directorate at the European Commission said on Friday: "We expect all member states to facilitate reverse flows as agreed by [the] European Council, in the interest of shared energy security." FGSZ cited a surge in forward shipper nominations into Hungary from Ukraine from 26 September, which required a technical alteration of the Beregdaroc network point to support increased gas transmission in this direction. The gird operator also stated its 17mcm/day capacity towards Ukraine had been offered on an interruptible basis since March 2013, and was therefore not guaranteed to be available. According to FGSZ data, nominations to ship gas from Ukraine into Hungary on 25 and 26 September rose above 18mcm/day, having averaged 15mcm/day between 1-23 September.

At the same time, physical flows from Austria into Hungary dropped to 12mcm on 24 September, down from an average 14mcm/day previously in September. There is a two-day lag in actual flow data published by FGSZ. Just hours after the cut was introduced, Ukrainian gas incumbent Naftogaz said no standard interconnection agreement has been signed between FGSZ and its subsidiary the Ukrainian grid operator Uktransgaz, despite the latter repeatedly requesting to do so, in accordance with Energy Community regulation. Naftogaz also highlighted the timing of the decision to stop flows into Ukraine was no coincidence and was politically motivated.

The cut follows a meeting this week between Hungarian prime minister Victor Orban and Russian Gazprom CEO Alexei Miller, and before the next trilateral meeting between Ukraine, Russia and the European Commission that is due to start on Friday in Berlin. The Hungarian government has previously said that incumbent MVM had begun early negotiations towards a new long-term Russian supply deal ( see ESGM 5 August 2014 ). The existing contract is due to lapse at the end of 2014. Interruptible storage capacity in Hungary has over the summer been offered on a first-come-first-served basis, but a large proportion of the remaining working volume will now be offered up on Friday. In one auction, MFGT will offer 8,000 units of 3.42m MJ (88,259 cubic metres) capacity bundled with 70 days interruptible withdrawal capacity and 35 days interruptible injection capacity.

In a concurrent auction, 1,000 units of 3.42m MJ capacity will be made available bundled with 70 days firm withdrawal capacity and 133 days firm injection capacity. A government decision in June extended the interruptible storage injection cycle until 1 November, however firm storage injections are only possible until 1 October 2014. This means that the auction of working storage volumes bundled with interruptible injection/withdrawal capacity rights may prove more popular. The Hungarian withdrawal cycle will run from 1 October 2014 - 31 March 2015. According to the latest data available from MFGT, the company's commercial storage sites are now at 46% of capacity, or 1.7 billion cubic metres as of 24 September. Injections in September have so far slowed to an 11mcm/day rate, from nearly 13mcm/day in August.

# Ukraine pushes for NATO membership as gas talks commence

Bloomberg, *26.09.2014*

**Ukraine began the process to strengthen ties with NATO and said it wanted to join the alliance in the "short term" after President Petro Poroshenko declared the worst of its separatist war was over.**

**While Ukraine has received no sign it will be able to join the North Atlantic Treaty Organization any time soon, its push risks exacerbating the worst standoff between Russia and its Cold War foes since the fall of the Iron Curtain. Sporadic fighting between pro-Russian rebels and government troops in the eastern Donetsk region of the former Soviet republic is threatening a shaky cease-fire reached three weeks ago.**

"The cabinet has submitted a draft law to parliament that envisages the cancellation of our non-aligned status and ensuring a European integration course to create grounds for Ukraine's integration into the Euro-Atlantic security space," the administration in Kiev said in an e-mailed statement today. "Ukraine's aim is to receive special partner status with NATO now and membership in the short term." The country of more than 40 million people is also embroiled in economic and energy tussles with its eastern neighbor and is holding talks today in Berlin to resolve a dispute over natural gas supply before the onset of winter. Russia stopped selling the fuel to Ukraine in June without pre-payment after raising the price 81 percent, which has prompted officials in Kiev to urge companies and households to cut consumption.

Russian gas exporter OAO Gazprom (GAZP) says Ukraine owes it $5.3 billion.  Russian President Vladimir Putin has criticized the U.S. and European Union countries for encroaching into former communist eastern Europe, saying they've violated agreements signed at the end of the Cold War and pose a threat to his country's national security. "In Russia's eyes, NATO is an enemy," Martin Stropnicky, defense minister in NATO member Czech Republic, told Bloomberg in an interview yesterday. "In this situation, thinking about some hypothetical possibility of Ukraine's entry to NATO would probably be the best way to prevent any agreement on stabilizing the situation there."

The U.S. and EU have imposed sanctions on Russian individuals and companies they blame for fueling a conflict that has killed more than 3,500 people in eastern Ukraine, according to United Nations estimates. Russia denies stoking the conflict, which erupted after Putin annexed Crimea in March and has responded with counter-sanctions including a ban on EU farm goods. It’s made a list of unidentified EU politicians it plans to sanction and yesterday denied entry to EU lawmaker Rebecca Harms, prompting condemnation from the 28-member bloc and Germany, where she holds a diplomatic passport. Putin wants to turn Ukraine’s easternmost regions of Luhansk and Donetsk into quasi-statelets with the right to veto national initiatives such as NATO entry, according to five current and former Russian officials and advisers.

In August, NATO Secretary General Anders Fogh Rasmussen reiterated a decision taken in 2008 that Ukraine may join the alliance if it chooses to and meets necessary criteria. No official process for Ukrainian membership has begun. In the wake of a Sept. 5 cease-fire agreement, Ukrainian President Petro Poroshenko said yesterday the worst of the war with pro-Russian separatists had passed as the country’s focus moves to elections, securing winter gas supplies and preparing a bid for EU membership. Ukraine has refused to pay the higher prices Gazprom demanded in April, raising concern about the reliability of Russian flows to Europe as the heating season begins. Gazprom supplies about 30 percent of Europe’s gas, half of which transits Ukraine.

Countries including Slovakia and the Balkan nations suffered disruptions in freezing temperatures in 2006 and 2009 when supplies were cut during previous disputes. Russia may also seek early repayment of $3 billion in debt due to a covenant breach, Svetlana Nikitina, aide to Russian Finance Minister Anton Siluanov, told Bloomberg by phone. Ukraine has opened a criminal probe into former Finance Minister Yuriy Kolobov over the loan, which Putin’s government extended last year to former pro-Russian President Viktor Yanukovych, who was ousted after months of protests in February. Poroshenko granted the separatists in Ukraine’s eastern, mostly Russian-speaking regions powers to govern the areas they control as part of a cease-fire agreed Sept. 5 in Minsk, Belarus.

While a final settlement hasn’t yet been found, a truce monitoring group including officials from the Organization for Security and Cooperation in Europe and 76 Russian servicemen began operating today, Ukraine’s Defense Ministry said on Facebook. The truce remained fragile, with rebels attacking government forces in 10 towns and the airport in Donetsk city today, the military said. Spokesman Andriy Lysenko said the military repelled attacks and inflicted rebel casualties, and the city in the coastal town of Mariupol remained tense. Newly appointed Luhansk regional Governor Hennadiy Moskal said the situation in the contested province was worsening and rebels weren’t meeting their Minsk obligations. Germany’s Foreign Ministry said the crisis was a long way from resolution. “We’ve made it a step further, but we’re a long way from our goal,” spokeswoman Sawsan Chebli told reporters in Berlin today. “We see no reason as yet to back off sanctions.”

# Total to sell more assets, cuts oil output target

Reuters, *22.09.2014*

**French oil company Total is to sell more assets and cut costs to generate more cash and is to revamp exploration plans after reducing its oil production target. Total, which has struggled with production outages in Libya, Kazakhstan and Nigeria, on Monday cut its 2017 output goal to 2.8 million barrels of oil equivalent per day from a previous 3 million.**

**France's biggest company by market value and the West's fourth biggest oil and gas group launched a "high-risk, high-reward" drilling strategy two years ago. But this has had disappointing results as high-cost investments did not lead to large discoveries.**

"We have more than 15 major projects to fuel the future growth ... Two thirds of those projects are operated by us so that gives us confidence we will achieve the targets," chief financial officer Patrick de La Chevardiere said at Total's investor day in London on Monday. Total, like other big oil companies, has been under pressure from shareholders to cut costs and raise dividends as rising costs in the oil industry and weaker oil prices squeeze profitability. It has been selling off businesses, such as its adhesives division Bostik, which French chemicals group Arkema has offered to buy for 1.74 billion euros (2.24 billion US dollar). The company now plans to sell $10 billion worth of assets in 2015-17, having achieved a target of $15-20 billion of sales in 2012-2014.

Since 2010, Total has generated a total of $30 billion from assets sales, according to De La Chevardiere. That makes it one of the most ambitious sell-off programmes in the industry alongside BP's $50 billion sell-off plan. De La Chevardiere declined to comment on what assets the company could sell, adding that under the previous asset sale plan it had sold both upstream and downstream businesses. The company's investments would fall to $25 billion in 2017 from a peak of $28 billion in 2013 while operating expenses would fall by $2 billion per year by 2017. Total CEO Christophe De Margerie last year said the company aimed for a "soft-landing" in capital investments.

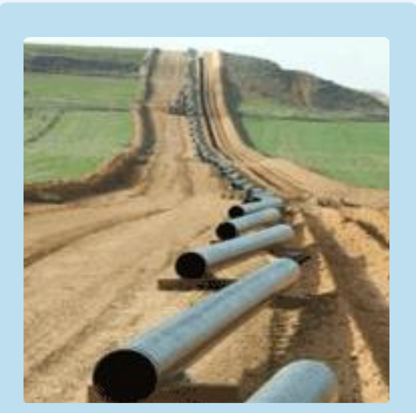
On Monday, the group stuck by an earlier target to generate cash of $15 billion in 2017 but cut the target for next year to $7 billion from a previous $10 billion. It had free cash flows of $2.6 billion in 2013. Total's share price was up 0.5 percent at 1115 GMT, after rising as much as 1.4 percent earlier. The stock was outperforming its peers BP, ENI and Royal Dutch Shell on Monday and also since the beginning of the year with gains of 13 percent. Discovery Disappointment The company also said it had hired Kevin McLachlan as senior vice president for exploration. He was formerly with U.S. energy company Murphy Oil, where he held the same position. Asked about Total's exploration track record, de La Chevardiere said: "When you follow the fact that we hire somebody from outside, you have the answer. The new head of exploration is coming from another company.

The issue we had was to make discoveries." Total is part of a consortium developing the giant Kashagan oil project in Kazakhstan, which has been held up by gas leaks in the field's pipeline network. The country has said it expects the field, one of the world's biggest oil finds of recent times, to come onstream in 2016. "We are discussing repairing the pipelines. It will be done by 2016 ... It is a last chance for us," de La Chevardiere said. Total also did not forecast any output contributions in 2015 from its Angola liquefied natural gas project, where a string of missteps has led to multiple delays. The Chevron-led venture expects the shutdown to last until mid 2015.

In Russia, Total believes its Yamal liquefied natural gas joint venture in the Arctic can go ahead on time despite international sanctions against Russia over its role in the Ukraine crisis. "The Yamal production is not included in our 2017 production goals. Even though we could start before that," De La Chevardiere said. He also said he expected Europe's refining capacity to continue to shrink because of falling demand and poor refining margins. "We will adapt our production to the market," he said adding that the firm could cut capacity or sell refineries. CEO De Margerie told a conference call with investors on Monday that he was optimistic despite production target cuts. "Total is still well positioned as one of the fastest growing global major companies between now and 2017," he said.

# "Forget gas exports"

Globes, *22.09.2014*



**British energy expert Nick Butler says Israeli gas is not competitive. "Forget about the myth that gas can be exported. The Israeli government paid too much attention to the claims of the gas developers, who said that gas could be exported. Now the government has to take matters into its own hands," says Butler, former senior energy advisor to British Prime Minister Gordon Brown and former British Petroleum Group Vice President for Strategy and Policy Development.**

**Butler is currently a visiting professor at King's College London and a consultant for various businesses and academic institutions.**

He has published many books and articles, and in the energy industry is considered someone who knows what he's talking about. "In a special "Globes" interview, Butler discusses the Israeli government's role in the natural gas discoveries, and how he thinks it should manage the industry. Two major gas reservoirs, Tamar and Leviathan, have been discovered in recent years, as well as several smaller reservoirs, such as Shimshon, Karish, Dalit, and Tanin. Many believe that the gas discoveries hold great financial potential for the country. On the other hand, there is a large measure of misunderstanding about the gas issue. "I think that the government was too hesitant. It was a complete novice with respect to gas, and believed the gas developers when they said that it could be exported," Butler says, "Reality has proven otherwise. It's time for the government to take matters into its own hands."

Israel has gas reserves totaling about 990 billion cubic meters (BCM). The gas partnerships have signed MOUs to sell 3 BCM a year to Jordan for 15 years, about 0.3 BCM a year to the Palestinians, 4.5 BCM a year to Spanish company Union Fenosa, which owns a liquified natural gas facility (LNG) in Egypt, and 7 BCM a year to British Gas, which also owns an LNG facility in Egypt. Up until several months ago, the gas developers were also considering the possibility of exporting gas to the Far East in the form of LNG. “Globes”: Do the figures for the MOUs not change your opinion about the gas partnerships being wrong in their emphasis on exports? Butler: “All these options are very complicated either economically or politically. Exporting gas as LNG is very expensive. Israeli gas isn’t competitive enough to compete with LNG from other countries. Most of LNG’s cost is in its mobility. In order for Israel to export gas to the Far East, the ship would have to go by one of two routes.

One is through the Suez Canal, which will make transportation more expensive, because you have to pay for the right to go through the canal. The other is to sail around Africa, which will be expensive because of the distance. In any case, transportation costs will be very high. Israeli gas will have to compete with gas from East Africa, Indonesia, Qatar, Turkmenistan, and Australia, and will be the most expensive of all those options.” The Leviathan partnerships had an MOU with Australian company Woodside Energy to buy 25% of the reservoir for $2.7 billion, but the Australians turned the deal down. What’s your opinion on that? “As I understand it, the deal was based on the assumption that the gas could be exported as LNG, but as I said, it’s not economically viable. From this standpoint, Woodside is right to abandon the deal. The Leviathan partnerships should be more realistic in their plans.”

What do you think about exports to neighboring countries? “Jordan doesn’t need much gas, and exporting by pipeline to Egypt and Turkey incurs many political risks, of which you are very well aware. Israeli gas can be a lever for development of the West Bank and the Gaza Strip, with all the political benefits that will result from it. If the government decides to export gas to Jordan and the Palestinians, it will be for justifiable political reasons.” Given the paucity of export prospects that you have indicated, what would you recommend the Israeli government to do? “The government has to decide that it is putting development of the local gas economy at the top of its order of priorities, and anyone who argues otherwise evidently does not understand the global gas market.”

The existing quantity of gas is enough to supply the domestic economy for about 75 years, and 55%-60% of Israel’s electricity is currently produced with gas, the highest proportion in the world. Under these circumstances would you not agree that there may be no alternative to thinking in terms of exports? “This calculation is correct only if the target is to reach 70% of electricity production using gas. In my opinion, however, the target is wrong. The government should aim at having 90% of electricity production based on gas.

In addition to electricity, the government should introduce the use of gas in transport and the petrochemicals industry. All these ventures will generate large investments and many jobs in the country.” The Manufacturers Association of Israel estimated in the past that converting 400 plants and institutions in Israel completely to gas would save NIS 1.8 billion a year. 10 factories are currently connected to the distribution network, and only six of them use gas. Is this situation appropriate for the goals you are suggesting? “I’m surprised at the Israeli’s government’s complacency. It should do everything in order that gas will flow to industry, transportation, and even homes.”

To people's homes? "Yes, certainly. It's true that at first glance, bringing natural gas to people's doorsteps requires high investment, but although it's expensive, it's undoubtedly likely to pay off. The energy efficiency of coal-fired power plants is 35%, while that of gas-fired power plants is 45%. By the time electricity reaches homes from the power station, we're left with 27% efficiency for coal and 37% for gas. If the gas is brought directly to homes, on the other hand, we're left with 75% efficiency. That is a prodigious saving. In the UK, for example, gas reaches people's homes, and they use it, among other things, for heating, air-conditioners, and cooking.

Why shouldn't Israelis benefit from gas like any European country?" The government does want people to benefit from the gas, and decided to establish a fund that will have $75 billion by 2037, with another $55 billion going to the state budget. Is setting up a fund like this right? "Might it not be better to repay debt, help the needy, and reduce taxes? To the best of my knowledge, at this moment the fund does not have a penny. I'm sorry to be the one to tell you, but there won't be a fund or any tax reduction as long as the gas stays under the ground. The Leviathan reservoir was discovered four years ago, and nothing has been done with it since. In order to develop it, you have to be realistic about what can and can't be done with the gas. If the reservoir is developed, it will be right to pay some of the money into a fund for future generations. I suggest we have another conversation when development of the reservoir is closer."

# Delayed British natural gas field online by Q1 2015, Total

ICIS, *22.09.2014*

**The delayed British Laggan-Tormore gas field in the west of Shetland region will come online in the first quarter of 2015, French oil and gas major Total's yearly outlook released. The delay to the project, which was originally due to come online in the last quarter of 2014, was alluded to by partner, Danish utility Dong in its results in August( see ESGM 27 August ).**

**Dong's results showed it was expected the field would start up at some point in 2015. While the reasons for the delay remain unclear, the onshore processing plant construction has seen a number of industrial disputes over accommodation on the remote islands.**

The fields are due to flow into Total's St Fergus terminal via the FUKA pipeline system, adding capacity of 14 million cubic metres at peak output, and containing reserves of around 35 billion cubic metres (bcm). Total has an 80% stake in the project, with Dong holding the remaining 20%. There are plans to develop two adjacent fields, adding another 10bcm to their assets in the area, which will come online in 2017. The field is one of the key developments expected to revive the fortunes of the UK Continental Shelf's gas output, along with Canadian Nexen's Golden Eagle field and Paris-based GDF SUEZ's Cygnus field.

# EU asking shippers for daily updates on Russian natural gas supply

ICIS, *25.09.2014*

**Since Monday, the European Commission has been asking some European gas shippers via national regulators to fill in a form daily to check if nominations for natural gas are being met by physical flows from Russia, ICIS has learnt.**

**Some worry exists among EU leaders of a disruption in the supply of Russian gas to Europe. There is a fear that the flow of Russian gas transiting through Ukraine could be disrupted, although there has been no sign of this so far since the flare up geopolitical tensions in Ukraine. There is also a worry Russia could disrupt supply in response to sanctions or other reasons, even if this is viewed as unlikely.**

A spokeswoman for the commission did not confirm the EU executive body has been requesting the information from shippers, but did say: “The commission, in cooperation with the member states, is closely monitoring the supply situation in the EU and in particular the gas flows through and to Ukraine, against the background of the situation in Ukraine.” The form that has been sent each day by national regulators to shippers on behalf of the commission and seen by ICIS on Wednesday includes questions such as:

- million cubic metres/day [for] Previous day, Current day
- Quantity of gas requested by the shipper from Gazprom and affiliated companies
- Quantity confirmed/supplied by Gazprom and affiliated companies
- In case of deviation - reason given by Gazprom and affiliated companies? When was it notified?
- Is the deviation within the contractual range (yes/no)
- Are there notifications of reductions in the next days?
- Has the shipper been able to cover the missing gas volumes from other sources?
- Does the shipper see a risk of not being able to supply its consumers?

Sources polled by ICIS on Wednesday and last week said, so far, Gazprom has supplied gas volumes according to contracted nominations, within a range of flexible daily allowances in the supply contracts. Earlier this month Polish incumbent PGNiG said it was receiving less gas than requested from Gazprom. But the company later confirmed there was a certain amount of elasticity to its contract with the Russian major, and that this was being used. The incumbent and system operator GAZ-SYSTEM further clarified that PGNiG had requested extra gas from Gazprom because of the expansion of three storage sites. The extra gas needed for Wierzchowice, Husow and Mogilno was supplied from the west and south of Poland, because Gazprom could not meet the extra nominations, they said. According to Gazprom’s CEO Alexei Miller, the Russian company is concentrating on meeting domestic demand to inject into storage because of the potential for a cold winter ( see ESGM 18 September 2014 ). Miller said by November Gazprom should be able to meet demand for extra nominations of gas from Europe.

# Exxon Mobil takes a direct Hit from Russia sanctions

Natural Gas Europe, *23.09.2014*

**Western sanctions aimed at Russia's oil and gas industry made a mark cutting into one supermajor's big plans for that country. In turn, the willingness of the U.S. and EU to limit their companies' involvement in helping Russia to expand its hydrocarbons sector could be pushing Moscow eastward, toward deeper cooperation with China.**

**Last week, Exxon Mobil Corp. confirmed that it was suspending an offshore drilling campaign in Russia's Arctic that was underway before the U.S. Department of the Treasury issued the latest economic actions taken against Russia over its involvement in Ukraine's civil strife.**

Bloomberg News had earlier reported that work on the well had been halted, a direct consequence of tightening restrictions on Western companies' involvement in Russia's oil industry. The Kara Sea project was originally a target of Greenpeace activists concerned about the push to drill in Arctic waters. With a widening of sanctions on how Russian energy companies can raise debt and on what energy technologies can be exported to the country, the Obama administration accomplished what the environmentalists could not. The beefed-up sanctions announced on Sept. 12 were put into effect immediately. Exxon Mobil said it had sought and received special permission from Treasury to wind down work on the well before temporarily abandoning the project, assuming the sanctions over the Ukraine conflict are temporary.

"The U.S. Treasury Department, recognizing the complexity of the University-1 well and the sensitive Kara Sea arctic environment, has granted a license to ExxonMobil and other U.S. contractors and persons involved to enable the safe and responsible winding-down of operations related to this exploration well," Exxon Mobil said in a release. Representatives there declined further comment. "All activities related to the wind-down will proceed as safely and expeditiously as possible," the company added. Exxon Mobil, Royal Dutch Shell PLC, BP PLC and Statoil ASA are among the Western firms directly affected by sanctions against Russia, which were expanded when Western governments accused Russian forces of direct involvement in pushing Ukrainian troops from areas they were on the verge of seizing from a pro-Russian rebel movement.

Major oil-field service companies are also believed to be affected. Thus far, none of the companies potentially affected by the sanctions has provided details into how its investment decisions on future Russian oil projects would be altered (EnergyWire, Aug. 1). The new round of sanctions added more Russian companies to the list, including a number of other oil and gas companies. Earlier sanctions had already been put in place targeting Russia's two largest energy companies, Gazprom and Rosneft. The latest round of sanctions also further limited how Russian energy companies could raise funds in Western financial markets, and made clear that the U.S and EU are forbidden to aid Russia's future development of its Arctic, deepwater offshore and shale oil assets.

Though it’s not an E.U. member, Norway is going along with the sanctions regime, likely putting on hold Statoil’s plans to drill in Russia’s Arctic. Markets and oil and gas investors had already been warned that the newest sanctions would be felt. “The expanded sanctions add to the already heightened risk and will make it more complicated for European service companies and [international oil companies] to provide technologies for ongoing operations in Russia,” investment bank Barclays Capital said in a notification. “Production of Russian oil and gas in the Arctic and offshore is limited to the newly launched Prirazlomnoye field, the foreign PSA operated Sakhalin I and II projects, and two Rosneft subsidiary assets in the Timan Pechora region.” Though Russian firms can rely on their own capabilities to continue with a number of projects and planned investments, Michael Bradshaw, an energy economist at Warwick Business School, said he isn’t surprised that the Kara Sea drilling has been suspended.

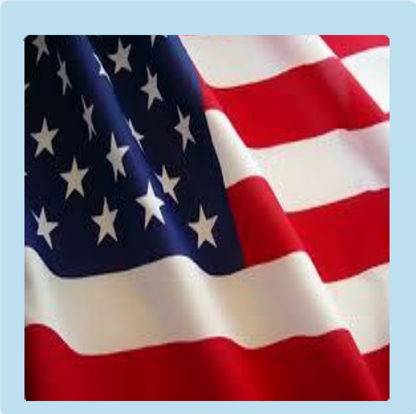
He said that with enough time and determination, Russian energy firms will be able figure out shale oil without Western help, which could then hurt future business opportunities for the West there. But Russia simply doesn’t have the capacity to explore Arctic projects alone and needs Western technology and expertise to explore in those rough and remote conditions, he said.”If they’re willing to throw the resources at it, there are a lot of smart people in Russia, and I’m sure they’ll work it out, and that might be one of the unintended consequences of sanctions, that we drive import substitution that means those opportunities are lost in the future,” Bradshaw said. “But when it comes to the Arctic offshore, we know full well that China can’t do it and Russia can’t do it, and that’s why they have all these deals with Total, with Exxon Mobil, with Statoil.”

Nevertheless, immediate plans for onshore shale oil exploration in Russia are also likely on hold until the dispute in Ukraine is resolved. Exxon Mobil had plans to found a joint research and development center committed to exploring shale opportunities in Russia. Royal Dutch Shell has also inked deals with Rosneft that would have tapped Western technology and know-how to develop Russian fields. London-based BP holds a substantial equity stake in Rosneft. The U.S. Energy Information Administration says Russia holds significant stores of shale oil but that developing these resources will be severely restricted by the sanctions put in place. “These sanctions are likely to have a noticeable impact on Russia’s longer-term development of its significant shale and Arctic resources, as well as on existing projects that need substantial investment, such as the Vankor field,” EIA said in an overview published Friday. Bradshaw says the limits on borrowing money are particularly biting to Rosneft.

Russian authorities seem to be responding by quickening the pace of tax reform, an effort to make field development more affordable. Earlier this month, the research and consulting firm GlobalData noted that the Russian Ministry of Finance had begun rolling out changes to the country’s mineral taxes and other incentives to encourage offshore development. Analysts there see the pace of tax cuts quickening next year. “There have been reports of a more substantial change from 2015, which would reduce the oil export duty to 42 percent in 2015, 36 percent in 2016 and 30 percent in 2017,” the analysts said in a report. They noted that current law would see the export duty lowered from 59 percent to 55 percent by 2016. Russia’s eagerness to strike energy deals with China seems to also be increasing as the Ukraine crisis and tension over energy trade with the West drags on. China and Russia have already finalized a deal that will send 1.3 trillion cubic feet of gas per year into China’s growing economy beginning in 2018.

# US tight oil technology could boost output by 25%

Wood Mackenzie, *23.09.2014*



**There continues to be great potential for surprises to the upside in production of U.S. tight oil according to Wood Mackenzie's latest integrated analysis.**

**"Growth in U.S. tight oil continues to impress as development technology and techniques have yet to mature beyond adolescence," said Phani Gadde, Senior North America Upstream Analyst for Wood Mackenzie. To better illustrate, Gadde said additional volumes from Enhanced Oil Recovery (EOR) will come on stream after 2020, and could add 1.5 to 3 million barrels per day (mb/d) by 2030, up to 25 percent more oil than is being forecasted today.**

There are pilot tests that are underway with operators like EOG testing it out in the Eagle Ford adds Gadde. "This is going to happen, like horizontal drilling and fracking, leading to another step-change in production technology," added Skip York Principal Analyst, Americas Downstream, Midstream & Chemicals for Wood Mackenzie. Wood Mackenzie's analysis points out that the debate over whether the U.S. crude oil export ban may be lifted does not fully take technical advances in the development of U.S. tight oil into account. "Policy makers need to get out in front of the next technological progression to not delay the full benefits," signaled York.

York said if U.S. crude prices fall compared to international benchmarks, e.g., WTI-Brent, policy makers could lift the crude oil export ban to preserve current investment levels. This would result in improving domestic tight oil wellhead margins by approximately $5 per barrel, the margin improvement would then attract additional investment, yielding another 0.35 - 0.45 million barrels per day. This environment will attract ever more capital, where every $5 billion invested could yield additional production of nearly 0.4 mb/d over 5 years.

However, if the U.S. crude oil export ban remains, excessive production could drive down domestic crude oil prices by more than $30 per barrel versus their international benchmarks. This discount has the effect of stranding barrels in the reservoirs leading to no net change in U.S. tight oil volumes and EOR in core areas might simply push out more expensive volumes from emerging plays. Ann-Louise Hittle, Head of Macro Oils for Wood Mackenzie, added a global perspective on the impact of additional tight oil output: "The fact these additional volumes are poised to have an impact after 2020 means the increased U.S. tight oil production above our current forecast is likely to be absorbed without a strong effect on Brent oil prices. This is particularly the case because of potential long-term political risk in key future sources of supply such as Iraq's."

# Announcements & Reports

### ► *Key World energy statistics*

**Source** : IEA
**Weblink** : http://www.iea.org/publications/freepublications/publication/KeyWorld2014.pdf

### ► *European gas hubs price correlation: barriers to convergence?*

**Source** : Oxford Energy Institute
**Weblink** : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/09/NG-91.pdf

### ► *Oil and gas cybersecurity penetration testing techniques*

**Source** : Ernst & Young
**Weblink** : http://www.ey.com/Publication/vwLUAssets/Oil_and_gas_cybersecurity_-_Penetration_testing_techniques/$FILE/EY-O&G_cybersecurity-penetration_testing_techniques.pdf

### ► *The Greenland Gold Rush*

**Source** : Brookings
**Weblink** : http://www.brookings.edu/~/media/research/files/reports/2014/09/24%20greenland%20energy%20mineral%20resources%20boersma%20foley/24%20greenland%20energy%20mineral%20resources%20boersma%20foley%20pdf%202.pdf

### ► *Global LNG pricing terms and revisions: an empirical analysis*

**Source** : Baker Institute
**Weblink** : http://bakerinstitute.org/media/files/files/3a17c1c4/CES-pub-GlobalLNG-092414.pdf

# Upcoming Events

### ► *2nd European Shale Gas and Oil Summit 2014*

**Date** : 29 – 30 September 2014
**Place** : London – United Kingdom
**Website** : http://www.esgos.eu/

### ► *Midwest Energy Policy Conference*

**Date** : 30 September – 01 October 2014
**Place** : St Louis – USA
**Website** : http://www.moenergy.org/mepc

## ► The 22nd Kioge 2014 Kazakhstan International Oil & Gas Exhibition

**Date** : 30 September – 03 October 2014
**Place** : Almathy – Kazakhstan
**Website** : http://kioge.kz/en/component/content/article/29-exhibition/18-ex

## ► USEA 7th Annual Energy Supply Forum

**Date** : 02 October 2014
**Place** : Washington - USA
**Website** : http://www.usea.org/

## ► Energy and Economic Competitiveness

**Date** : 06 – 07 October 2014
**Place** : London – United Kingdom
**Website** : http://www.chathamhouse.org/events?field_event_flags_tid=conference

## ► Mexico Upstream: Contracts & Deepwater Summit, Mexico DF

**Date** : 06 – 09 October 2014
**Place** : Mexico City – Mexico
**Website** : http://www.woodmac.com/public/events/content/12524985

## ► 4th St Petersburg International Gas Forum

**Date** : 07 – 10 October 2014
**Place** : St Petersburg – Russia
**Website** : http://www.igu.org/events/4th-st-petersburg-international-gas-forum

## ► Securing Energy Supply: How to Better Protect Energy Networks from Disruptions

**Date** : 10 October 2014
**Place** : Bratislava – Slovakia
**Website** : http://www.encharter.org/index.php?id=670&L=0

## ► London Oil & Gas Forum 2014

**Date** : 10 October 2014
**Place** : London – United Kingdom
**Website** : http://www.energystreamcmg.com/conferences/conferences-forums/london-oil-gas-forum-2014.aspx

### ► *SPE Russian Oil and Gas E&P Technical Conference & Exhibition*

**Date** : 14 - 16 October 2014
**Place** : Moscow – Russia
**Website** : http://www.russianoilgas.ru/en/Home/

### ► *Canada Europe Roundtable for Business – 2014 Calgary Energy Roundtable*

**Date** : 15 October 2014
**Place** : London – United Kingdom
**Website** : http://www.energyroundtable.org/london.php

### ► *SPE Russian Oil and Gas Exploration & Production Technical Conference & Exhibition*

**Date** : 14 - 16 October 2014
**Place** : Moscow – Russia
**Website** : http://www.russianoilgas.ru/en/Home/

### ► *Energy Hedging, Risk Management & Trading Seminar*

**Date** : 15 – 16 October 2014
**Place** : Houston - USA
**Website** : http://www.mercatusenergy.com/energy-hedging-trading-risk-management-events/

### ► *FT European Gas Summit: New Supplies for Europe: Feast or Famine*

**Date** : 23 October 2014
**Place** : London – United Kingdom
**Website** : http://event.ft-live.com/ehome/index.php?eventid=87259&&reference=twittertweet

### ► *Society of Petroleum Engineers Annual Technical Conference and Exhibition (ATCE)*

**Date** : 27 - 29 October 2014
**Place** : Amsterdam – The Netherlands
**Website** : http://www.spe.org/atce/2014/

### ► *European Autumn Gas Conference*

**Date** : 28 – 30 October 2014
**Place** : London – United Kingdom
**Website** : http://www.theeagc.com/

### ► *Turkey International Underground Gas Storage Conference*

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

### ► *Gas to Liquids*

**Date** : 29 – 30 October 2014
**Place** : London – United Kingdom
**Website** : http://www.smi-online.co.uk/energy/uk/conference/gas-to-liquids

### ► *Climate Change: Raising Ambition, Delivering Results*

**Date** : 03 – 04 November 2014
**Place** : London – United Kingdom
**Website** : http://www.chathamhouse.org/ClimateChange14?campaign=ngfe

### ► *Iran Oil & Gas Summit*

**Date** : 03 – 05 November 2014
**Place** : London – United Kingdom
**Website** : http://www.iranoilgas-summit.com/

### ► *Africa Oil Week*

**Date** : 03 – 07 November 2014
**Place** : Cape Town – South Africa
**Website** : http://www.woodmac.com/public/events/12318502

### ► *Global Energy Forum*

**Date** : 04 November 2014
**Place** : Houston – USA
**Website** : http://www.woodmac.com/public/events/content/12524912

### ► *The European Utility Week*

**Date** : 04 – 06 November 2014
**Place** : Amsterdam – The Netherlands
**Website** : http://www.european-utility-week.com/

## ► *The 4th China International Offshore Oil & Gas Technology Conference and Exhibition*

**Date** : 09 – 11 November 2014
**Place** : Beijing – China
**Website** : http://www.bmc-china.cn/en/OTC/Info.aspx?m=20140623175442410336&nm=20140623140856553113

## ► *International Petroleum Technology Conference*

**Date** : 10 – 12 November 2014
**Place** : Kuala Lumpur – Malaysia
**Website** : http://www.iptcnet.org/2014/kl/?utm_source=Web+Banner&utm_medium=Web-ADBNR&utm_content=14IPTC-Web-ADBNR-WebUps-13AUG14&utm_campaign=14IPTC+-+Register+Now

## ► *Asset Integrity Management Summit Asia 2014*

**Date** : 10 – 13 November 2014
**Place** : Kuala Lumpur – Malaysia
**Website** : http://www.assetintegritysummit.com/default.aspx?utm_campaign=UpStream&utm_medium=external&utm_source=external&utm_content=home&utm_term=banner&MAC=ISG_UPS_BA

## ► *Global Energy Forum 2014*

**Date** : 13 November 2014
**Place** : London – United Kingdom
**Website** : http://www.woodmac.com/public/events/content/12525033

## ► *Middle East Upstream Forum*

**Date** : 17 November 2014
**Place** : Abu Dhabi – United Arab Emirates
**Website** : http://www.woodmac.com/public/events/12524884

## ► *Turkmenistan International Oil & Gas Conference and Exhibition*

**Date** : 18 - 20 November 2014
**Place** : Ashgabat - Turkmenistan
**Website** : http://www.oilgasturkmenistan.com/

## ► *Securing Europe's Competitive Energy Future*

**Date** : 19 November 2014
**Place** : Brussels - Belgium
**Website** : https://www.entsoe.eu/news-events/events/Pages/Events/entsoe-conference-securing-europes-competitive-energy-future.aspx?EventWorkshopId=154

## ► Oil & Gas Cyber Security

**Date** : 24 – 25 November 2014
**Place** : London - United Kingdom
**Website** : http://www.smi-online.co.uk/energy/uk/conference

## ► 166th (Ordinary) OPEC Meeting

**Date** : 27 November 2014
**Place** : Vienna - Austria
**Website** : http://www.opec.org/opec_web/en/311.htm

## ► Kurdistan – Iraq Oil & Gas

**Date** : 16 – 18 2014
**Place** : London – United Kingdom
**Website** : http://cwc-news.com/S3A-2TCLY-E1BYMVHYA9/cr.aspx?v=0

## ► Middle East and North Africa Energy

**Date** : 18 – 21 Feburary 2015
**Place** : London – United Kingdom
**Website** : http://www.chathamhouse.org/node/15232

## ► 4th Erbil Oil & Gas International Exhibition

**Date** : 18 – 21 Feburary 2015
**Place** : Erbil – Iraq
**Website** : http://www.erbiloilgas.com/

## ► Ukrainian Energy Forum

**Date** : 02 – 05 March 2015
**Place** : Kyiv – Ukraine
**Website** : http://www.ukrainianenergy.com/

*Supported by PETFORM*

## ► 6th World Forum on Energy Regulation *(in Turkey)*

**Date** : 25 – 28 May 2015
**Place** : Istanbul – Turkey
**Website** : http://www.wfer2015.org/

VI.WFER
Istanbul 2015
25-28 May

## ► $6^{th}$ OPEC International Seminar

**Date** : 03 – 04 June 2015
**Place** : Vienna - Austria
**Website** : http://www.opec.org/opec_web/en/press_room/2793.htm

## ► OGA 2015

**Date** : 02 – 05 June 2015
**Place** : Kuala Lumpur - Malaysia
**Website** : http://www.oilandgas-asia.com/home/index.php