

## TANAP groundbreaking ceremony to be held on March 17

Hurriyet Daily News, 09.03.2015



The groundbreaking ceremony of the TANAP is planned to take place next week in the eastern province of Kars, with the participation of presidents from Turkey and Azerbaijan, Turkish Energy Minister Taner Yıldız said.

“The ceremony will be held on March 17 in Kars at the level of presidents, barring a last minute cancelation,” Yıldız said during a meeting with the representatives from the Steel Pipe Manufacturers’ Association (ÇEBİD). The TANAP project envisages gas transportation from Azerbaijan’s Shah Deniz II field through Turkey and up to the country’s border with Europe.

Some 1.3 million tons of steel pipes will be used for around \$1.5 billion, Yıldız said. “Only 200,000 tons of these pipes will be produced abroad, while 1.1 million tons will be produced in Turkey. This is of great importance for us. We’ll ensure several anti-dumping probes will not have an adverse effect on the TANAP,” he added. Many other potential pipelines in the region will create a huge market, of which Turkey will take a big share, Yıldız stated. “I am in favor of the participation of Turkish steel producers in big energy projects, as we have quite advanced technologies and production capacities. For the record, I should say that our steel producers export more than the total annual pipe needs of the TANAP in volume,” he added.

Turkey’s steel industry produces 2 million tons of steel pipes worth over \$1.5 billion per year, said ÇEBİD head Ahmet Kamil Erciyas, adding that the annual production capacity of the sector is around 6 million tons. He said the Turkish sector had been encouraged to provide locally produced steel for the TANAP, but this was not economical. “We needed to import the raw material from the countries which offer the cheapest prices. We can complete the whole production before the deadline comes,” Erciyas said. He also asked for the exclusion of the TANAP from the anti-dumping initiatives of the steel sector.

Anticipating the initiatives, which cover seven steel exporting countries, the Turkish sector is preparing to close its doors to steel from these countries. The initial capacity of TANAP is expected to be 16 billion cubic meters (bcm) of gas per year, gradually increasing to 31 bcm. Around 6 bcm of gas will be delivered to Turkey, and the remaining volume will be supplied to Europe. The gas will arrive in Turkey by 2018, and after the construction of the Trans Adriatic Pipeline (TAP) it will reach Europe by early 2020. Yıldız also said the government plans to reactivate eight oil exploration wells in the eastern and southeastern provinces of Turkey as the peace process proceeds. “These wells will be active again for an investment of around \$188 million, in order to resume production of around 330,000 barrels,” he added.

# EU to create energy partnership with Turkey

Anadolu Agency, 11.03.2015



The European Commission said that it intends to establish a partnership with Turkey for energy policy. “The Commission intends to strengthen EU/Turkey energy relations by establishing a strategic energy partnership,” in a statement released by the European Commission.

“A stronger and more united EU can engage more constructively with its partners, to their mutual benefit,” the statement said. The Commission announced its Energy Union Package in Brussels on Feb. 25, which calls for greater coordination between its member states to enable a free flow of energy across borders and a secure supply for EU citizens.

In addition, it aims to reduce its energy dependency on external states with specific reference to Russia -- the largest supplier of natural gas to Europe. Russia has been subject to economic sanctions by the West since it annexed the Crimea region of Ukraine, and began supporting pro-Russian separatist rebels in the eastern part of the country. “As part of a revitalised European energy and climate diplomacy, the EU will use all its foreign policy instruments to establish strategic energy partnerships with increasingly important producing and transit countries or regions such as Algeria and Turkey, Azerbaijan and Turkmenistan, the Middle East, Africa and other potential suppliers,” the statement said.

Turkey is to become a significant transit country as its Trans Anatolian Natural Gas Pipeline, TANAP, project is part of the Southern Gas Corridor. The Southern Gas Corridor is planned to carry natural gas sourced in Azerbaijan near the Caspian Sea, then passing through Turkish territory to reach Greece in the west, and then further on to Albania and Italy. Moreover, Turkey’s possible involvement in the Energy Community was proposed by its head Janez Kopac, who told The Anadolu Agency on March 5 that Turkey’s membership in the community would facilitate Turkey’s adequation of its legal framework to that of the EU for energy.

Turkey limited its Energy Community membership to observer status due to some concerns about the legal framework for environmental regulation, competition policy and external ENERGY TRADE policy in the membership treaty. The Energy Community was founded in 2005, and its current members are Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia, Kosovo and Ukraine. Armenia, Georgia, Norway, with Turkey holding observer status.

# Trans caspian pipeline: A new round “for” and “against”

Natural Gas Europe, 09.03.2015



While many supporters including European Commission are struggling to help natural gas from Turkmenistan to find a route to Europe, others seems to keep trying to block its efforts challenging with political and environmental concerns.

Gas supply from the energy rich Central Asian nation to Turkey and further to Europe was a core discussion between Recep Tayyip Erdogan and Gurbangulu Berdymuhamedov in Ankara. Following a meeting with Turkmen president Erdogan announced that Turkey, Turkmenistan and Azerbaijan will establish a trilateral mechanism on energy issues with the first leaders’ meeting planning later this year.

Speaking at a joint press conference, Erdogan said that Turkey will continue to work with Turkmenistan to promote regional stability, prosperity and security. He called Turkey-Turkmenistan relations “strategic,” particularly due to the transportation and energy cooperation between the two countries. Mentioning that Turkmenistan plays a key role in connecting Central Asian gas with international markets, Erdogan said he had exchanged views with Berdymuhamedov on transporting Turkmen gas to European markets via Turkey.

In January the first trilateral meeting of foreign ministers of Turkey, Turkmenistan and Azerbaijan for energy cooperation was held in Turkmen capital Ashgabat. According to the Turkish Foreign Ministry, the three ministers discussed how to safely deliver Azerbaijani and Turkmen gas from the Caspian sea to Europe enroute via Turkey. Now Erdogan said they decided to raise it to presidential level. “We decided to raise it to the level of leaders and hold the first meeting in Turkmenistan this year,” said Erdogan. Last November Turkey and Turkmenistan have reached a framework agreement for pumping gas from Central Asia’s fields to Trans-Anatolian Natural Gas Pipeline (TANAP).

In Ashgabat two presidents witnessed of signing of a gas supply deal between Turkmen state-owned Turkmengaz and private Turkish firm Atagas. However, the terms of inked document did not disclosed. The possible routes of Turkmen gas via Turkey to Europe may pass through Azerbaijan or through Iran. However Trans Caspian route with construction a pipeline across the sea from Turkmenistan to Azerbaijan has been considered as more reliable for political and security reasons. European Union for years is considering the Central Asian nation of 5.5 million people, which holds the world’s fourth-largest reserves of natural gas, as alternative sources for energy supply.



The EU has been trying to facilitate diplomacy between Azerbaijan and Turkmenistan on the Trans Caspian pipeline project, begun in 2011, more or less intensifying its efforts from time to time. TCP has become a subject of active discussions after presenting the European Energy Union package. Europe will try to overcome Russian resistance via gas agreements with Turkmenistan through Azerbaijan, European Commission Vice-President for Energy Union Maroš Šefčovič told the Financial Times. Ankara involvement and interest in the TCP could be very useful for all involved parties as it has close ties with Ashgabat and become number two trading partner for Turkmenistan after China. Just ahead of the Berdymuhamedov visit to Turkey, Turkmenistan's Ministry for Oil & Mineral Resources released a statement promising to supply natural gas to Europe.

Turkmenistan actively works to supply from 10 to 30 billion cubic meters of gas per year to the European market considering an option of building the Trans-Caspian pipeline from its coast to Azerbaijan, the statement said. Initially the gas resources of the Turkmen sector of the Caspian Sea estimated in 16 bcm per year may be supply source for Trans-Caspian. With commissioning of the East-West gas pipeline connecting huge gas reserves in the eastern part of the country to Caspian additional volumes will be added later with doubling export. Recent Gazprom announcement for further cutting gas supply from Turkmenistan from last year 10 bcm to 4 billion cubic meters in 2015 is one of the factor pushing the Central Asia nation to work harder on further diversification of gas export.

Otherwise Turkmenistan will soon exchange Russia to China as a major and only buyer of its energy resources. Azerbaijan is seems became more favorably towards TCP also, considering to attract more resources for further expansion of TANAP pipeline as well as future extending the Southern gas corridor to Balkans and other Eastern European markets. However no one could say that Moscow will be happy with latest developments around TCP. Russia always was against construction of Trans Caspian pipelines – both oil and gas. When Kazakhstan was discussing with Azerbaijan future oil export from giant Kashagan field using Baku Tbilisi Ceyhan pipeline, harsh Russia opposition led to idea for delivery crude across the Caspian by tankers, not a pipeline.

Kazakhstan Caspian Transportation system (KCTS) has never been set up due to several postpones and delays with Kashagan development. Gas export across Caspian met the same antagonism. Russia peremptorily opposes the idea of construction pipeline connections between any Caspian states without full consensus of all five littoral states. The resent counterargument was made by ambassador-at-large of the Russian Foreign Ministry Igor Bratchikov in Baku, where the meeting of the working group on determining the legal status of the Caspian Sea was held .

The issues of laying pipelines and cables under the Caspian Sea are still on the agenda and the discussions are going on, he said at press-conference following the two-day meeting. Speaking of a draft of Convention on the legal status of the Caspian Sea, Bratchikov said that it has a separate paragraph on the issue. "It is under discussion. There are different approaches to it" he said. Azerbaijan's Deputy Foreign Minister Khalaf Khalafov believed "that this issue will also be resolved in the future based on the goodwill of all the littoral states".

Baku and Ashgabat believe that construction of TCP is the sovereign right of the two countries, since the pipeline will run through their territorial waters. Russia and Iran insisted that this issue can be considered only after determining the legal status of the Caspian Sea. With such directly opposite positions on at least one paragraph of the future Convention for the Caspian Sea it is difficult to believe, that the accord will be finally agreed and signed in Astana in 2016, when head of five Caspian states will gather for their next summit. Will Azerbaijan and Turkmenistan with help of EC manage to make Trans-Caspian reality sometime soon? Will Turkey's involvement help? As always in gas matters, the larger question of politics dominates.

## Turkey slows down Turkish Stream, asks Moscow to be patient

Natural Gas Europe, 12.03.2015



Amid growing ties with Turkmenistan and Azerbaijan, Turkey might take some time and slow down the developments of Turkish Stream. Recent declarations of Turkish officials suggest that Ankara will probably slow down the Russia-led project to avoid a negative effect on the TANAP pipeline.

“The issue is not Turkish Stream alone. This is a whole package for Turkey's energy needs. We need to be a little bit patient,” Taner Yildiz told, adding that the project will be delayed to at least 2017. Last week, the European Commission said that a final decision for TANAP should be taken by the end of April.

Baku is scheduled to deliver 6 bcm/a of gas to Turkey in 2019 and 10 bcm/a to Europe in 2020. Recently, Turkish President Recep Tayyip Erdogan announced a trilateral cooperation with Turkmenistan and Azerbaijan to jointly develop energy projects. The heads of Turkmenistan and Turkey met in Ankara.

The European Union is equally trying to strengthen ties with Ashgabat and Baku. “We have learnt the lessons from Nabucco. This project failed because there was not enough political support. We simply believed that this project would happen just because of the business interests” he said in the interview to the British newspaper” European Commission Vice-President for Energy Union Maroš Šefčovič said last month.

## BP's next step toward TANAP

Natural Gas Europe, 05.03.2015



BP, the lead in the giant Shah Deniz development in Azerbaijan, has made a long waited next step towards becoming a partner in TANAP. The \$11 billion TANAP is part of the Southern Gas Corridor, which plans to carry natural gas from the Caspian Shah Deniz 2 field.

BP, SOCAR and BOTAS signed a Shareholder Agreement for TANAP. "Following the signature of the Shareholder Agreement today, BP is looking forward to completing all other agreements that would enable BP to become shareholders in TANAP", BP Azerbaijan spokeswoman Tamam Bayatly told.

TANAP is a critical part of the Southern Gas Corridor project which will transport Caspian gas to European markets for the first time. The Southern Gas Corridor offers Europe a new source of gas as domestic supplies fall and brings an opportunity to diversify its energy mix, she added. The final deal has to be signed yet after "resolving all technical issues", the sources in TANAP company said. With Friday's agreement, SOCAR will hold 58 percent, BOTAS keeps earlier agreed 30 percent and BP will own a 12 percent stake in TANAP after finalizing the other requirements.

Gordon Birrell, General Manager of BP's Azerbaijan unit, said that Turkey will become a major regional energy hub in the next 5-10 years. "The partnership in TANAP project is an important step for BP," he said in the ceremony. "TANAP has faced many political and economic obstacles throughout its development, however Turkey will always fully support the project," commented Turkey's Energy Minister Taner Yildiz said in his

He expressed his confidence that the decrease in oil prices that affected gas prices also will not have any impact on TANAP construction and commissioning with the first gas from Shah Deniz 2 will start to pump to Turkey in late 2018. "Turkey has full confidence over its partners for the project, BP and SOCAR", Yildiz said. The long waited BP's step forward with joining to the partnership was a relief for Azerbaijan as well as for Turkey. BP signed a framework agreement for joining TANAP in January, 2013. While the company repeatedly was confirming that it is fully committed to TANAP it took more than two years for the company to make next step yet.

Yildiz said that the project will not compete with Russia's Turkish Stream proposal, which will bring Russian gas via pipeline under the Black Sea. Socar was planning to sell 12 percent from its TANAP stake to Norway's Statoil and 5 percent to France's Total earlier but later the companies decided not to join to the project. "Total and Statoil had announced their plans to join TANAP but then changed their minds with selling their stakes in Shah Deniz development and withdrawn from it. It raised concerns of whether BP joins or not to the project", the industry sources in Baku who wished not be named told Natural Gas Europe.

Considering that TANAP is a crucial chain for the Southern Gas corridor and for delivery natural gas from Caspian to Europe losing the loss of BP as a partner could have meaningfully impacted project financing and delivery. At the same time BP as an operator and major partner for Shah Deniz needs TANAP for deliver gas produced from \$ 28 billion development scheme to the international markets. It was also important to confirm BP's commitment to the project ahead of ground breaking ceremony for TANAP next week. The ceremony is planning for March 17 in the eastern province of Kars with attendance of the heads of two states – Azerbaijan and Turkey. Earlier Socar president Rovnaq Abdullayev said that the actual construction of the pipeline will start in April.

## Why Turkey is crucial to solving Europe's gas conundrum

EU Observer, 13.03.2015



Europeans are said to lack geopolitical nous. They think too narrowly, and are loath to use coercive tools.

The EU's recent proposal to create an Energy Union was an opportunity for Europe to prove this sentiment wrong, and show that Brussels has ideas on how to link continental energy policy to geopolitical ends, and come up with a long-term solution to our problems caused by the heavy dependence on Russian gas. In thinking geopolitically, Europeans could do worse than taking a cue from Cold War détente diplomacy, when Nixon and Kissinger brought a third partner into the bilateral standoff with the Soviet Union.

Today, Europe could achieve the same with Russia by bringing Turkey into the equation, and pursue a veritable policy of energy diversification. Europe's woes with energy security are most clearly on display in the current conflict in Ukraine: various key pipelines that cross the country add to its strategic importance for both East and West, and have led to anxiety about stable supplies in both Brussels and Moscow. To allay this uncertainty, Gazprom, Russia's gas behemoth, is seeking to find alternatives to using Ukraine as a transit country and to diversify its portfolio of gas recipients by turning to China and Turkey. Following the cancellation of the South Stream pipeline, Russia proposed to build a pipeline to Turkey, from whence gas would be supplied to the Turkish-Greek border. The EU should welcome this initiative for multiple reasons.

One, routing Russian gas through Turkey solves some big issues for both Russia and Europe. For Russia, it means tapping into a growth market, reducing uncertainty about future exports. For Europe, it means gas supplies would transit through a country that is much less susceptible to strong-arming by Moscow, and more reliable overall, witness Turkey's track record with the pipelines crossing the Caucasus.



For Turkey, the advantages would be that it becomes the indispensable Eurasian energy bridge, giving it more clout vis-à-vis Europe, and that it could negotiate a bigger discount from Gazprom than it already enjoys. And in spite of the much-touted similarities between the Turkish and Russian presidents, Erdogan and Putin, it is unlikely they will collude to exert the kind of pressure on Europe as Russia did in 2006, 2009, and 2014. Their historical enmity and diverging geopolitical interests – think of Syria and Cyprus- are likely to prevent this from happening.

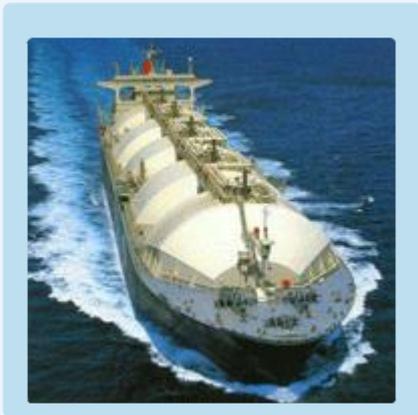
Secondly, Europe could further improve its energy security if the new Trans-Anatolian Pipeline crossing Turkey that is to carry gas from Azerbaijan would also supply gas from Iran. While the proposed Energy Union is silent on Iran's, gas reserves -second only to those of Russia- they could make a significant difference in helping to reduce Europe's dependence on gas from Russia. Bringing Iran into the fold brings several other opportunities: it provides a bargaining chip in the negotiations on Tehran's nuclear programme; it opens the prospect for future gas supplies from Central Asia obviating the need for a politically fraught Trans-Caspian pipeline; and Iran could help to ensure that Turkey will not turn off the tap on a whim. In 2012, Turkey imported 18 percent of its gas from Iran; a figure that's set to increase. Furthermore, existing pipelines connecting the two countries can be upgraded and expanded, meaning that Iran could be linked up to Europe's pipeline infrastructure with relative ease.

Thirdly, the EU would draw evident geopolitical advantages from an energy diversification plan underpinned by a Russia-Turkey pipeline. For one, a greater choice of suppliers leads to a reduced ability for any one of these to coerce Europe, while the chances of a motley crew including Russia, Iran and possibly Azerbaijan conniving against Europe seems remote. In fact, these countries would also benefit from such a strategic course. For Iran, it is an opportunity to wrest itself out of its international isolation and strengthen its ties with both Turkey and countries in Central Asia. The fact that EU Energy Commissioner Maros Sefcovic indicated that he considers engaging with Iran is an encouraging sign. For Russia itself, a linkup with Turkey advances its own diversification strategy, while bringing supplies to the EU border makes that Russia will enjoy a second export route to Europe after all.

And let's not forget Ukraine: if relieved from its status as energy transit hub between East and West, its prospects for a peaceful future will markedly increase, while a thorough energy sector reform, in combination with 'reverse flows' from Europe, could help keep Ukraine's houses warm. Setting an energy strategy in motion that takes a broad view as outlined here shows that Europeans have a knack for geopolitics after all.

## LNG more profitable than Russian gas for Turkish firms

Anadolu Agency, 12.03.2015



The recent hike in Russian gas prices since January has caused a continuation of negotiations between Turkish private natural gas importers and Gazprom as the cost of Russian gas is now more expensive than LNG in global markets. In January, Gazprom increased the gas prices on Turkish private natural gas imports by \$68 dollars.

Gazprom has decreased gas prices for private companies by 10 percent in Jan. 2014. However, the discount period finished at the end of 2014, and the company withdrew its 10 percent discount which now leaves the price of Russian gas at \$340 per thousand cubic meters.

Moreover, Gazprom added another 10 percent increase to the prices in January. Now Turkish private natural gas importers are importing Russian gas for \$374 per thousand cubic meters. With this increase, private companies in Turkey are paying an extra \$60 million to Gazprom for January's gas imports. Meanwhile, spot LNG prices in the global markets are around \$320 to \$340. This means buying LNG instead of Russian gas at current price levels is more profitable for Turkish private gas importers.

## Greek Cyprus, Total near agreement to extend offshore gas search

Reuters, 09.03.2015



Total is close to extending an offshore natural gas exploration program in Cyprus island after coming up empty in prior surveys, the island's energy minister said. Greek Cyprus has become particularly keen to develop offshore gas reserves as a potential source of revenue since it was compelled to seek an international financial bailout.

"The renewed agreement that we hope we will be signing next week will be talking about doing geological surveys in a different area but no drilling," Yiorgos Lakkotrypis said. "They can drill if they identify a drillable prospect, which unfortunately they have not done so far."

Total confirmed in January that it had completed surveys over two Greek Cypriot offshore blocks for which it had licenses, without finding potential drilling targets. Italy's ENI failed to find gas in a drill last year and is now searching elsewhere off Cyprus island. U.S. energy company Noble found gas reserves in 2011. Greek Cyprus's neighbour Turkey has challenged the island's right to drill for gas, maintaining the island's estranged Turkish Cypriots have an equal claim. The island was split in a Turkish invasion in 1974 following a brief Greece-inspired coup. Total is among a raft of international oil exploration and production companies, including BP and ConocoPhillips, that have slashed 2015 budgets in light of lower oil prices. Drilling in the east Mediterranean is costly, because of its considerable depth.

## Iran, Turkmenistan strengthen energy cooperation, sign 17 cooperation deals

Natural Gas Europe, 12.03.2015



Iran and Turkmenistan could soon increase cooperation in the energy sector, possibly paving the way to Turkmen gas exports to third countries via Iran. 'President expressed Iran's readiness to forge closer cooperation with its northern neighbor in energy transit, adding the Islamic Republic is willing to keep natural gas imports from Turkmenistan' reads a press release published.

The Presidents of the two countries met to sign 17 cooperation agreement in various fields. 'The documents are aimed at facilitating the expansion of all-out cooperation between Tehran and Ashgabat' reads a second note released.

In the meeting, Rouhani and his Turkmen counterpart Gurbanguly Berdimuhamedow also addressed cooperation in other sectors such as electricity and technical services. 'President Gurbanguly Berdimuhamedow, for his part, ... thanked Iran's backing for his country on the international scene.' Last week, the European Commission said that, as a consequence of the Turkish Stream, Russia will depend on another transit country, giving Turkey a strategic advantage. This could then translate in strategic concessions, which could then cause the Trans-Caspian pipeline to go ahead. Last month, Azizollah Ramezani, director of international affairs at National Iranian Gas Company (NIGC), said that Iran could transit Turkmenistan and Azeri gas to Europe.

## Kuwait to explore oil and gas in Pakistan

Anadolu Agency, 13.03.2015



KUFPEC signed an exploration license and petroleum concession agreement with Pakistan, the company announced.

According to information received from Kuwait's state-agency Kuna, KUFPEC will conduct oil and gas explorations in the Paharpur Block in the north of Pakistan. KUFPEC's CEO Naway Saud Al-Nasser Al Sabah and Pakistan's Secretary for Petroleum and Natural Resources Arshad Mirza signed the agreement, Kuna reported. Pakistan's Minister of Petroleum and Natural Resources Shahid Abbasi was also present at the signing ceremony.

Since 1987, the Kuwait company has made business investments worth more than \$1 billion in Pakistan. The Paharpur Block will be the company's second operational asset in Pakistan, after its first in Khyber Pakhtunkhwa in the northwest of Pakistan. KUFPEC has a producing interest in the Qadirpur, Kadanwari, Zamzama, Bhit, Badhra, Zarghun and Badhra Blocks and it is the third largest producing foreign company in Pakistan.

## Aliyev: Azerbaijan concerned by Commission's DESFA investigation

Euractiv, 11.03.2015



Azerbaijan, which has acquired DESFA, is wondering why the European Commission is taking so long to decide if the deal is compatible with EU law, Minister of Energy of Azerbaijan Natig Aliyev told EurActiv.

In December 2013, Azerbaijan's state-owned oil and gas producer SOCAR won the tender, and both a 66% stake in Greece's gas transmission operator DESFA, for €400 million. The Greek state controls the remaining 34% stake in DESFA. The deal boosted the chances that TAP will win its bid for Azeri gas, against its competitor Nabucco, and indeed, soon after, TAP won over Nabucco.



Now the EU hails the project to bring Azeri gas to Europe by 2019-2020 via the Southern Gas Corridor (SGC), of which TAP is part, as the first real step towards the diversification of gas sources, and decreasing energy dependence from Russian gas, especially for Southeastern Europe. But in November 2014, the Commission opened an in-depth investigation to determine whether the acquisition of DESFA SOCAR is in line with the EU Merger Regulation. Aliyev, who met yesterday in Brussels with Commission Vice-President Maroš Šefčovič, told EurActiv that he conveyed his country's worries about the procedure.

The minister explained that from Azerbaijan's perspective, there was no conflict of interest in acquiring the majority stake in SOCAR, because the owner of the gas to be pumped through SGC was not Azerbaijan, but the consortium of the Shah Deniz II gas field, from where it originates. The Shah Deniz field is operated by BP, which has a share of 28.8%. Other partners include Turkey's TPAO (19%), SOCAR (16.6%), Brazil's Petronas (15.5%), Russia's LukOil (10%) and Iran's NIOC (10%). "As you know, in Shah Deniz, Azerbaijan has now has a participation of only 16.6%. That's why we don't think one should look at Azerbaijan both as the owner, the transporter and the distributor of gas. I hope that the European Commission will take this into account," Aliyev said.

The minister also commented on the recent visit of Azerbaijani President Ilham Aliyev to Bulgaria, where his host, Prime Minister Boyko Borissov, tried to revive the Nabucco project. Aliyev said that Azerbaijan wasn't competing with Russia, which plans to export 63 billion cubic metres of gas per year (bcm/y) to Southeastern Europe, via South Stream, or the Turkish Stream project. The current plan is that Azerbaijan will supply 10 bcm/y to EU countries from 2019-2020, which is a smaller quantity, he stressed. But the minister also referred to his country's considerable gas reserves, which he estimated to be approximately 2.65 trillion cubic metres. Aliyev said that future projects to bring additional gas were likely to be quite different from the Nabucco pipeline, consisting of a series of intergovernmental agreements to set up interconnectors with reverse flows.

As a model for the future project, Aliyev mentioned the South East Europe Pipeline (SEEP), a proposal by BP dating from 2011, which is largely based on the use of existing pipelines. The minister also said that if his country is offered a stake in the Greece-Bulgaria interconnector (also known as Stara Zagora Komotini), Azerbaijan could supply Bulgaria with more gas than the 1 bcm/y previously agreed. Bulgaria needs 3-4 bcm/y. "But this is not the only issue we discussed in Bulgaria. We also discussed that Azerbaijan could take an active part in increasing Bulgaria's gas storage capacities, that it could participate (in the) further gasification and the the modernisation of the chemical plants in Bulgaria," Aliyev stated.

# Bolstering the Black Sea, saving South-East Europe

Natural Gas Europe, 09.03.2015



The European Energy Security Strategy, adopted by the European Community last year, is needed for because, “We import half of our consumption in gas and are very dependent on external supplies,” said Federico Tarantini, in a speech outlining European energy policy in South-east Europe and the Black Sea region.

Of that dependence, he continued, “This, by itself, is not a big problem if you have a very diversified array of suppliers, it could be okay, but we are dependent on one single supplier, Russia, when it comes to gas and oil in particular: 40% of gas and one-third of oil supplies.”

The Strategy, he explained, focuses on gas because of recent history, specifically prices and recent geopolitical developments. “Six member states are completely dependent 100% on Russian gas for their imports, and three of these six rely on gas quite heavily for their primary energy needs.” He reported that in March the European Council had performed a study of the energy security situation in the EU towards coming up with a plan to reduce dependence. The Community adopted two documents in May, the European Energy Strategy communique and the Staff Working document, an in-depth study of the energy security situation in Europe. The main elements, he said, include short term to try and increase the capacity to overcome disruption during the current winter and to strengthen energy mechanisms between member states and beyond as well as protecting specific infrastructure. “In the long term, moderating energy demand has always been a priority for the Commission and the EU,” he explained. “You likely know our targets for 2020/2030. It’s very important to reduce gas dependency and special emphasis should be placed on the heating sector.” The objective in the Balkans and South-east Europe, he said, is to create in the long-term a pan-European, single marketplace that goes beyond EU borders. This requires, according to him, a common energy framework/energy policy, trading legislation and also needs institutions that are strong and competitive.

The first, the Energy Community, he said, is an international treaty signed in 2005 between the EU and non EU members who are contracting parties from South-east Europe, “whose objective is creating a stable regulated market environment in order to attract investment, but it’s also about improving the security of supply of all parties and the environment situation.” This he said, entails creating a regulated market first, then a pan European market for competition to exploit economies of scale. Bulgaria and Romania, he recalled, had been contracting partners, but became EU member states; new countries have joined, like Ukraine and Moldova; Georgia is in negotiations; meanwhile Turkey, Armenia and Norway are observer countries to the Community. “The center of gravity of this treaty has moved East and now it’s very relevant to the vast majority of Black Sea countries which are involved in this framework.”



Regarding the content of the Treaty, he said it means committing to a big chunk of EU energy legislation, including the 2nd and 3rd Energy Packages as well as environmental rules and competition provisions. He explained, “The main directives are concerning sustainable energy, some energy efficiency legislation and also some security of supply – like oil stocks and energy statistics legislation.” It also aims at attracting investment, he said, adding that the Energy Community Projects of Common Interest had been drafted, providing a list of the top priority projects for the region which have cross-border dimensions, among them electric and gas infrastructure. While the Treaty, he said, had been meant to last until 2016, in 2013 it was extended to 2026. “There is vast consensus on the fact that we needed to find ways of adding better implementation of the regulatory commitments and attract more investments,” he explained, adding that the elements were highly interrelated.

According to Mr. Tarantini, leading a well functioning, full integrated internal market is also key; efficiency on delivering security of supply is also crucial. “Here, we need both dimensions to ensure the implementation of the internal market legislation, but also to improve, upgrade existing infrastructure, we have the Projects of Common Interest, which comprise 250 projects that are backed by EUR 6 billion for financing a part of these projects,” he said. Increasing energy production in the EU with a focus on renewables is also a priority. “There is still unexplored potential for hydrocarbons production that can at least compensate in part for declining production in mature fields,” he stated, adding that some member states have the possibility to engage in unconventional exploration.

Mr. Tarantini said energy technology is very important in the long run, that it is part of European industrial policy. “It’s also about having growth and jobs in the EU.” The diversification of external supplies and infrastructure of gas is possible via the huge resources from a variety of countries. “The Southern Gas Corridor is the main tool to get these resources to the EU, but there is still unexploited potential there beyond the Shah Deniz field,” he explained, mentioning gas sources from places like Turkmenistan, Iran or Iraq. The second way of diversifying external supplies of gas, he said, is by looking at Eastern Mediterranean/North Africa sources. He said the Commission is developing quite a lot of activities there following a conference. “And, finally, speaking with one voice when it comes to external energy policy.”

The main short-term initiative, he said, is the stress test, launched in 2014, involving EU member states, Energy Community countries and candidates. He explained, “The idea is to run hypothetical scenarios on gas restrictions from Russia in the current winter.” There are four scenarios, he said. Each member state and contracting parties of the Community had to see how they would cope with the situation and drafted a report submitted to the Commission in October, he recalled. In an “umbrella report” a recommendation for how to improve the situation was included as well as regional focus groups like one for the Balkans and South East Europe. “They are the most vulnerable region in terms of security of supply, so we have the regional report with regional recommendations and countries receive recommendations,” explained Mr. Tarantini.

When it comes to the Black Sea region, there are two relevant focus groups: the European Commission Group and the South-east Europe Focus Group. Under the worst case scenario, there would be a disruption of 9 BCM for the region, which comprises all the EU and Energy Community members but Ukraine, which is in a unique situation. Among the conclusions of the stress test, Mr. Tarantini said, “First of all, a preparative approach would have greatly helped in reducing any disruption. In most cases we’re seeing just a negative effect in terms of cost; in others more serious disruption, but a comparative approach which is not something the South-east Europe has taken into consideration, would help to alleviate the problem.”

The second recommendation, he said, is allowing the market to work, before any intervention. Fuel switching is also included. In the long-term dimension, Mr. Tarantini spoke of the European Energy Security Strategy, which includes key infrastructure projects to be completed by 2020, amongst them the Southern Gas Corridor. “We need to have the necessary infrastructure with flexible energy systems. We should look at how to improve and upgrade the existing grid if we have to make it more flexible,” he opined, adding that this could be in the form of interconnection of existing pipelines and reverse flow.

As the Black Sea region is dependent on external supplies, such efforts are all relevant to the area, according to him. He reported, “The Commission has also worked to facilitate the agreement on reverse gas flows and to mediate and reach an agreement with Ukraine-Russia in order to avoid this difficult scenario I’ve been speaking about.” Energy efficiency, he added, has a “lot of potential,” as does supply-side action. “The Black Sea region is endowed with hydrocarbons and in sustainable energy resources,” he observed. Still, in terms of infrastructure development, Mr. Tarantini said that significant upgrades are needed for a more secure energy system in the region.

## MOUs on Eastring gas pipeline construction could be signed “in near future”

Turkish Weekly, 09.03.2015



Eustream has said it expects to sign memoranda of understanding (MOUs) on the construction of the Eastring gas pipeline with Hungary, Romania and Bulgaria in the near future. Slovak news agency TASR quoted Eustream spokesman Vahram Chuguryan as saying on Saturday the four countries have already set up working groups comprising officials of their respective gas transportation systems.

The memoranda should contain basic parameters of the future participation of the countries in the project, Chuguryan said.

Slovakia has proposed Eastring as an option for diversifying gas supply infrastructure in Europe. Under the proposal, Eastring is to carry gas from the Slovak-Ukrainian border to the Bulgarian-Turkish border, opening opportunities for gas supplies to Bulgaria from Northern and Western Europe. Eastring could also be connected to a potential gas hub in Turkey, enabling reverse-flow supplies from the Caspian basin, Iraq, Iran, and the Eastern Mediterranean.

According to Eustream Director General Rastislav Nukovic Eastring construction could be funded from three main sources - a consortium of companies from Bulgaria, Hungary, Romania and Slovakia; the European Union; and the European Investment Bank or commercial banks. The length of the proposed pipeline could be between 744 and 1,015 kilometres depending on the selected route. The Eastring pipeline should be able to carry 20 billion cubic metres of gas a year in the first phase and up to double that amount in the final phase. The expected cost of building the first phase is between EUR 1.1 B and EUR 1.5 B. The pipeline should start commercial operation by the end of 2018.

## **SOCAR seeks company to check feasibility of Albania gas project**

Reuters, 09.03.2015



**SOCAR plans to announce a tender to find a company to conduct a feasibility study on Albania's gas infrastructure plan as part of European efforts to reduce dependence on gas from Russia.**

**Albania and Azerbaijan signed a preliminary agreement in December to cooperate in development of an Albanian gas grid as the Balkan country leads construction of the European section of the project to bring Azeri gas to Europe from the Shah Deniz II field in the Caspian Sea. The so-called southern corridor will bring gas to Turkey and Greece, as well to Italy via Albania and the Adriatic Sea.**

“SOCAR will announce this tender in the next three months,” Murad Heydarov, adviser to SOCAR's president, told Reuters. “We should draft the feasibility study before the end of 2015, and if this project is considered effective, we will start Albania's gasification project in March next year.” Heydarov estimated the project's cost at “several hundred million dollars”. Azeri gas could reach southern Europe by the end of this decade through the proposed Trans Adriatic Pipeline and the Trans Anatolian Pipeline. These pipelines would carry billions of cubic metres of gas a year from Shah Deniz II, one of the world's largest gas fields, which is being developed by a BP-led consortium.

## Is Nabucco-West revivable?

Natural Gas Europe, 10.03.2015



In late June 2013, the consortium operating Azerbaijan's Shah Deniz gas field selected the TAP as the preferred gas transportation route to the European markets.

Hence TAP became the critical link in the overall Southern Gas Corridor project, moving Azeri gas from the Turkish border from the TANAP, into European markets. The Shah Deniz consortium is committed to supply 10 billion cubic meters of gas per annum to the EU by 2020 and to increase this volume to 20 bcm/a in ten years. The projected amount of gas production from Shah Deniz Stage 2 (SD2) could not meet both Nabucco-West and TAP's demanded gas.

Nabucco-West thus seemed relegated to history books as another visionary project that never left the drawing board. Hopes for a renewed Nabucco-West appear to have been resurrected by the Prime Minister of Bulgaria. In a meeting with Azeri President Ilham Aliyev in Sofia on March 4th, Boyko Borisov said that "we want the Nabucco pipeline project to be unfrozen and more precisely – its part through Bulgaria." Responding to Borisov's statement, Aliyev said that Bulgaria could build an interconnector with Greece (Interconnector Greece Bulgaria IGB pipeline) to draw gas from the TAP route, which could then be sent on to Romania and Hungary.

At present, Azerbaijan has plans to produce 54 bcm/a and export 25 bcm/a of gas by 2020. Currently the Caspian nation exports 8.5 bcm/a of gas generated from the first stage of the Shah Deniz project (SD1), inaugurated in 2006. Baku is scheduled to deliver 6 bcm/a of gas to Turkey in 2019 and 10 bcm/a to Europe in 2020 via the second stage of the Shah Deniz (SD2), however, Azerbaijan has other gas fields which is expected to become operational in coming years. Azerbaijan's gas reserves stand at 2.6 trillion cubic meters, which of Shah Deniz accounts for approximately 38.5 percent of the total, Azerbaijan also plans to commence the Shah Deniz Stage 3 after 2020.

In total, as announced by the State Oil Company of Azerbaijan (SOCAR), Azerbaijan has plan to increased the gas export volume to 40 bcm/a by 2025. While the focus is on Shah Deniz, Azerbaijan possess additional significant gas fields like Absheron, Umid, Babek and Nakhchivan, of which Absheron field is projected to be commenced in 2021, while some 1 bcm/a of gas is produced from Umid currently. President Aliyev said on March 4 that It's expected that gas production from Umid and Absheron would reach at least 6 bcm/a by 2021.

A revival of Nabucco-West is not only focused on increasing Azerbaijan's gas export capacity but the potential of Turkmen and even Russian gas being added to the flow of Azeri natural gas to Europe. Brendan Devlin, advisor in the European Commission's Directorate-General for Energy said on March 6th that Russia can use TAP from a regulatory and political perspective, for shipping its gas to the EU countries. Russia's cancelled South Stream project is to be replaced by Turkish Stream (Turk Stream), aimed to deliver a similar 60+ bcm/a of gas to Turkey through under-water Black Sea pipeline.

On the other hand, the Turkish President Recep Tayyip Erdogan said at a joint press conference in Ankara held with Turkmenistan's President Gurbanguly Berdimuhamedov on March 3th that Turkey and Turkmenistan discussed the transportation of Turkmen gas through the Caspian Sea to Europe. The Ministry of Petroleum and Mineral Resources of Turkmenistan has said that it is quite capable of providing the European market with necessary volumes of gas given abundant natural gas reserves and the opportunities of developing the export pipeline infrastructure. "Turkmenistan actively works to supply from 10 to 30 billion cubic meters of gas per year to the European market."

Bulgaria currently has a deal with Azerbaijan to take 1 bcm/a of gas, while Croatia, Montenegro, Bosnia and Herzegovina also have memorandum of understandings with Azerbaijan's in gas import sphere. The Ionian Adriatic Pipeline (IAP), aimed to transit the natural gas in Southeast Europe also currently under negotiation. While reviving the "classic" Nabucco-West may be challenging, new defined projects may play a role in delivering natural gas to Europe in the future. As always, nothing is quite straight-forwards in European gas matters.

## Balkan States seek gas partnership that may cut Russian reliance

Bloomberg, 10.03.2015



Balkan nations on the Adriatic sea plan to build a new gas pipeline and connect their networks in a move that may help reduce Europe's dependence on energy imports from Russia.

Croatia and Montenegro plan construction of a 700 million-euro gas supply route along the coast and link it to the future Trans Adriatic pipeline by 2020, Croatian Economy Minister Ivan Vrdoljak and his Montenegrin counterpart, Vladimir Kavacic, said. "All the countries in the region want to get a link to Trans Adriatic pipeline," Kavacic said. "This is also an opportunity for Montenegro to profit from gas from our future findings."

The project to ship Azeri natural gas to Europe, known as TAP, remains the only planned gas supply link to the region after it won in 2013 over the rival Nabucco plan supported by Bulgaria, Romania and Hungary. In December, Russia halted work on the South Stream pipeline, designed to bring gas directly to Europe under the Black Sea. BP Plc is leading a group developing the second phase of Azerbaijan's Shah Deniz, a \$28 billion investment intended to bring 16 billion cubic meters of gas a year to Turkey and Europe. The group's partners also include Statoil ASA, Total SA and State Oil Company of Azerbaijan, or Socar.

Montenegro and Croatia are running tenders for off-shore oil and gas exploration. The government in Zagreb in January awarded licenses to INA Industrija Nafta d.d. as well as to consortia of Marathon Oil and OMV, and Eni SpA and Medoigas to explore 10 blocks for five years. Albania exploits oil on-shore with Canadian partners Bankers Petroleum Ltd. and Petromanas Energy Inc. TAP's 800-kilometer (500-mile) route would go through Turkey, Greece, and Albania to Italy. "There's a political will, we need to gather investors, and our regulators are discussing gas transit costs," Vrdoljak said. "We also would like to include Bosnia-Herzegovina into the project, with a connector at Ploce," a harbor in Croatia, he said.

An interconnector would lead from the Albanian town of Fier toward Montenegro and further on to Croatia, joining the existing pipeline at Split and ending in the northern Adriatic island of Krk. Croatia plans to build a liquefied natural-gas terminal in Krk and connect it with Poland's LNG plant by 2020. The Balkans states are one of "the most strategically important" regions for European energy security, Amos Hochstein, the U.S. deputy assistant secretary for energy diplomacy, said in an e-mailed response to Bloomberg questions. "Development of new offshore potential, an LNG terminal, and ensuring interconnected pipelines between countries and into Hungary and Serbia will create real diversity and competition," Hochstein said. "That is the cornerstone of security. The U.S. will continue to work with all countries in the region to make this goal a reality."

## Poroshenko: Ukraine to buy Russian gas from Europe for \$245

Sputnik, 10.03.2015



Ukraine will buy Russian gas that it gets through reverse flows from a number of European countries for \$245 per 1,000 cubic meters, Ukrainian President Petro Poroshenko has announced in an interview with the Pershyi Natsionalnyi (First National) state-run TV channel.

"We have lived through the winter, we bought only 2 billion [cubic meters of gas]...the last purchase was at a price of less than \$300 [per cubic meter]. As a result, it all came down to the Russian Federation having had to apply for a pumping volume increase of 68%...And today we will buy gas for \$245 under reverse deliveries," Poroshenko said.

Russia halted gas supplies to Ukraine last year in June over the country's debt that exceeded \$5 billion. Until December, Ukraine received gas in reverse flows from a number of neighboring European countries. On December 9, Russia resumed gas sales to Kiev under the so-called winter package, which required Ukraine to repay \$3.1 billion of its debt and pay for future supplies in advance. At the end of January, the European Commission announced that Ukraine could start importing up to 40 million cubic meters of gas daily from the European Union.

Ukraine currently receives reverse flow Russian gas from Slovakia, Hungary and Poland. Transport capacities from Slovakia are generally at full. Poland can deliver up to 4 million cubic meters a day. Gas supplies from Hungary were resumed on January 10 after an almost three-month stop and currently stand at some 3 million cubic meters a day.

## Ukraine's tax hike will strangle the domestic oil and gas sector

Natural Gas Europe, 10.03.2015



Ukraine is facing existential challenges, and energy security is one of them. The country is dependent on Russia supplying most of its natural gas as well as uranium fuel for its nuclear reactors. Under these very difficult circumstances, a government with a holistic view of its strategic security and energy goals would logically develop a policy aimed at encouraging increased domestic oil and gas production.

Despite the massive Western support it is receiving, Kyiv is promulgating ill-conceived anti-market policies and hare-brained schemes that are set to make matters worse – much worse.

My recent trip to Kyiv to speak at the Adam Smith 6th annual energy conference on energy diversification conference left me disappointed and worried. In recent years, the Western majors, including Shell, BP, Chevron and VITOL, have made commitments to exploration and production in Ukraine. Many have left due to the war with Russia. The more risk-tolerant and the scrappiest among the smaller companies have remained, including JKC, Arawak, and Cub Energy.

Due to the need to fill the state coffers to pay back the forthcoming International Monetary Fund's \$17 billion loan, the Government of Ukraine is about to commit hydrocarbon hara-kiri. It has imposed exorbitant taxes on local oil and gas producers and is forcing them to sell their output to the government-owned monopoly. This is exactly the opposite of what one would expect from a reformist government densely populated with pro-market technocrats from the US, Lithuania and Georgia.



Kyiv's new tax rates are mindboggling. First, there is a royalty, which taxes output sales, not just profits. Second, the rates are 70% for state-owned production companies; 55% on wells under 5,000 meters depth, and 35% on wells over 5,000 meters. This is self-defeating: the local production of oil and gas will be increasingly depressed, billions of dollars a year will continue flowing into Russian coffers, and Ukraine will have to keep borrowing from the IMF to pay Mr. Putin. This punitive and confiscatory taxation has been imposed when the other major source of Ukrainian power generation – anthracite coal – is no longer accessible, as most of the mines are in the country's east, in the ageing Donetsk basin (Donbass). Not only is the Donbass area a war zone, Donbass coal is so expensive, it is uneconomical.

To make matters worse, half of Ukraine's energy is produced at its ageing Soviet-built power stations. The uranium fuel for these is supplied by ROSATOM, the Russian energy monopoly. This further deepens Ukraine's strategic dependence on Russia and opens it to energy blackmail.

Prof. Alan Riley of City University of London has compared the new tax measures to suffocate gas production to Soviet dictator Joseph Stalin's early efforts to strangle the partially-market based New Economic Policy (NEP). Before arresting people en masse and forcibly collectivizing agriculture, Stalin imposed very high taxes on privately owned business in the USSR. As the result, the private sector withered and collapsed. Then the NKVD secret police just finished off the peasants and the entrepreneurs, sending them off to GULAG camps. As Stalin used to say: "no person – no problem".

One does not expect Ukrainian oil and gas executives to be arrested in the dead of night and summarily shot, or sent to Siberia to cut trees in the taiga. However, these punitive taxes may well force them to shutter their businesses and leave the country. "We would be happy to explore and produce in Ukraine," says Alastair McBain, CEO of Arawak, the VITOL subsidiary. However, in yet another example of how the Ukrainian government is failing to create the conditions for companies to do so: Russia allows 104,000 square kilometers of territory per year to be explored with 3D seismic, whereas in Ukraine only 300 km per year can be explored. "We don't know one thing: what to expect from the government", says Philip Vorobyev, Director of Business Development with JKC. "The Government views upstream as a cash cow.

This lack of strategic overview and leadership is explained by some business executives as a move by Kyiv to punish hostile oligarchs who are partners in some of the E&P companies. Which raises the question, so who benefits? The punitive taxation is likely to force them to sell out to oligarchs who are friendly to the Cabinet, local business analysts say. Over the years, top both Ukrainian oligarchs and politicians have benefited from subsidized gas prices which kept their gas-guzzling, energy inefficient industries running. The politicians continued to be elected by a population addicted to cheap natural gas, while both the oligarchs and the politicians made billions of dollars importing and distributing gas from GAZPROM. Russian oligarchs close to Putin were their business partners, Kyiv insiders say. These businessmen would be happy to continue their symbiosis with Moscow. But the game is over. Ukraine cannot continue its dependence on Russian gas for geopolitical reasons. It can only thrive by increasing local production. Sending Western investors packing would be suicidal.

The Poroshenko-Yatsenyuk administration needs to revise their punitive tax rates. Royalty fees need to be replaced by a reasonable corporate income tax, and Western advisors should be engaged to help restructure the industry to favor local production. The Ukgazdobycha, Transgas and Naftogaz Ukrainy state-owned companies should be privatized, and not into the hands of Russia and its allies.

## Ukraine due to hold gas talks with Russia, EU on Mar.20

Anadolu Agency, 11.03.2015



Ukraine hopes to hold negotiations with European countries and Russia on March 20, to reach a deal on the supply of Russian natural gas for the summer, the country's PM said.

Arseniy Yatsenyuk stressed that this summer Ukraine should pump up the maximum amount of gas for storage during his speech at a government meeting. The PM underlined that another top priority for Ukraine is to transfer natural gas purchases over to European Union member states. "It is cheaper and more steadfast. Russia will remain among the suppliers, but the diversification of gas supply sources is a core objective," he said.

## The power to influence Europe? Russia's grand gas strategy

Natural Gas Europe, 12.03.2015



As most of Russia's energy exports go to the European Union, both players are strongly interdependent. For Russia, energy resources, especially gas, are viewed as a tool to project power beyond its borders.

However, Russia's room for "gas manoeuvre" is constrained by its own capacities, the gas strategies of other players, and the EU's ability to project its regulatory power. As Russia's relations with Europe go beyond purely economic practices, and inevitably have geopolitical overtones, Europe should, in the short-term, try to limit the damage caused by the current application of Russian grand strategy.

In both economic and political terms, energy resources form the strongest link between Russia and the outside world. As most of Russia's energy exports go to the European Union, the relationship between these two players is often referred to as a situation of strong energy interdependence. Russia, providing more than 30% of gas and oil imported to the EU, is its most important supplier. In 2013 Russia exported 153.9 million tonnes of oil (66% of its total export), 139 billion cubic metres (bcm) of natural gas (70%) and 60.5 million tonnes of coal (50%) to the EU, and therefore has the structural power to influence energy policies of the union and its Member States.

Although it is the oil sector that is the main source of revenue for the Russian state (40% of budget revenues compared with less than 10% coming from gas), the main focus of this study is on the Russian gas sector. There are several reasons for this. Firstly, the regional gas market in Europe is dominated by piped gas, and Russian gas going to Europe cannot yet be redirected to other markets due to the lack of necessary infrastructure. Secondly, and as a consequence, it is gas and not oil dependence on Russia that is viewed as the main energy security challenge that has to be addressed at both Member State and EU levels. Thirdly, what makes the situation in the gas sector in 2015 even more challenging is the fact that a relatively high share of gas supplies going from Russia to Europe still has to pass through Ukraine, which is in the state of de facto war with Russia.

As a consequence, reducing transit dependence on Ukraine, and Russia's dependence on the European gas market, are two obvious key elements of Russia's long-term gas strategy. Nevertheless, Russian strategy goes beyond the simple realisation of these two goals. This study aims to provide an understanding of the true main objectives of Russian energy policy in general, and its gas policy in particular. While some drivers of these policies are commercially legitimate, others fail to prove their economic viability.<sup>1</sup> In order to understand what determines Russian gas strategy, it is important to understand the gas sector's role in Russian grand strategy. Although Russia's strength lies in the fact it supplies approximately 30% of gas imported by the EU, its room for "gas manoeuvre" is constrained by its own capacities, the gas strategies of other players, and the EU's ability to project its regulatory power.<sup>2</sup>

According to Meghan L. O'Sullivan, national energy strategies should be interpreted in the grand strategic context because energy is the basis of economic growth, which can in turn be translated into political power.<sup>3</sup> She provides a definition of grand strategy as an all-encompassing concept guiding a country in its efforts to combine its instruments of national power, in order to shape the international environment and advance specific national security goals.<sup>4</sup> It is evident that, in the case of Russia, a self-reliant energy power having grand strategic designs and re-emerging as a classical style great power, energy resources are viewed as both a tool and a means to achieve not only economic but also security and political goals.

The first aspect, economic and sectorial gas strategy, is thoroughly discussed in a number of documents. These include three versions of official Russian energy strategy, published in 2003,<sup>5</sup> 2009<sup>6</sup> and 2014,<sup>7</sup> and a document addressing specific gas issues that was signed by the Russian president in 2011.<sup>8</sup> We will therefore explore exclusively the grand strategic aspects of Russian gas policy towards Europe.

Russian energy resources, widely viewed as a vital strategic asset, give Russia the possibility to influence the policies (and not only energy policies) of other players who are dependent on its energy supplies. In this context, the question of resource management is a central element of any reasonable energy strategy, and allows the real intentions of an energy supplier to be determined. There are at least two sides to this question. One relates to the management of energy resources available on the territory of the country in question, and the other is about the management of revenues generated by exploitation, sales and exports of energy resources. Elements of energy strategy going beyond economic practices inevitably have geopolitical overtones.

Russian gas producers have long experience with gas exploration and supply, and nowadays try to cultivate an image of being predictable and stable gas suppliers, both on the world markets and internally. Russia holds one of the largest reserves, containing almost 50 trillion cubic metres of natural gas, which accounts for one-quarter of the world's reserves.<sup>9</sup> The Russian government has control of developments in energy sector through commanding stakes in key energy companies (for example, it holds 50.02% of Gazprom shares) and determination of the regulatory framework. It is also worth noting that the Russian gas industry did not collapse after the demise of the Soviet Union and, contrary to the oil sector, did not record a sharp decrease of production in the 1990s. Despite many difficulties at that time, Russian gas production remained at the level of 580–620 bcm per year, which placed Russia in the top global spot for both production and export. This situation changed in 2008 and 2009, when the United States, due to the shale gas revolution, became the biggest global producer of natural gas. At that time, because of the economic crisis in Europe, Russia decreased its gas production by more than 10%, but it quickly returned to the level of 600 bcm the year after the economic crisis.

According to official statements, the Russian authorities plan to increase gas extraction significantly, by developing new fields, among other measures, in order to recapture its leading position from the United States. Although 2014's short and long-term forecasts in Russian energy strategy are much more modest than those made in 2009, Russian gas production is planned to increase to the level of 739–770 bcm per year within five years, to 785–842 bcm by 2025, and to 860–936 bcm after 2034. Furthermore, the International Energy Agency (IEA) expected an increase in gas production, from more than 660 bcm per year by 2020 to more than 800 bcm after 2035.

Nonetheless, these plans are difficult to realise. A key challenge in maintaining a high level of production and significant growth in forthcoming years is to replace depleted gas fields, explored since the Soviet era, with new ones. Annual production in the Nadym Pur Tazov district in Western Siberia is diminishing every year, and is expected to drop from the current 500 bcm to 333 bcm in 2035.<sup>11</sup> The three largest gas fields located there, Urengoy, Yamburg and Medvezhye, are already more than three-quarters depleted, and their annual decline is estimated at 25–30 bcm.

The most promising gas project is the development of new fields on the Yamal peninsula, which currently provides only a few bcm of gas, but from 2020 is projected to produce more than 100 bcm per year, and after 2035 more than 200 bcm. The second most promising fronts for gas extraction are the Eastern Siberian and Far Eastern regions, where the annual increase is estimated to rise from the current 7 bcm and 30 bcm, to 89 bcm and 94 bcm, respectively, by 2035. The third region crucial to maintaining a high level of production is the Shtokman field in the High North.

However, plans to develop these deposits have been postponed. For geographical and infrastructural reasons, Yamal is to provide gas mostly to the European market, while gas from Eastern Siberia is to be exported to Asian markets. There are also some additional early-stage plans, such as the construction of an LNG plant on Yamal, and the Altai pipeline that will help Russia redirect some of the gas from Western Siberia to Asia. These plans require huge investments, which Russian companies, despite their duty, will probably not be able to make, since according to the Russian Ministry of Energy and the IEA, they should amount to an average of \$30 billion per year. In last few years Gazprom, which covers more than 70% of national extraction, rarely fulfilled this obligation. During the 2008 economic crisis, Gazprom spent only \$12–13 billion to this end, although between 2012 and 2014, the company invested around \$35 billion annually in gas production, thanks to higher revenues caused by the high price of oil and gas at that time.<sup>12</sup> But this situation may change, as crude oil and natural gas prices have decreased sharply since the third quarter of 2014.

The fluctuation of oil and gas prices on the global market, combined with chronic structural problems, have also caused a severe decline in the value of such firms. Gazprom's capitalisation has dropped sharply since 2008, and has not recovered so far. According to the Financial Times ranking in June 2008, Gazprom was ranked the third biggest company in the world, with a market value of almost \$345 billion. Nowadays, Gazprom's market value is the worst in its history; at the end of 2014 it was ranked 184th (\$51 billion),<sup>13</sup> due to excessive debts, the falling value of the rouble, and poorly calculated projects such as the Nord Stream pipeline and gasification of the Sochi region for the Winter Olympics. To hide its problems, Gazprom's management decided not to publish quarterly financial reports on its website.

Russia's gas sector has the potential to generate huge revenues, allowing the current regime to embark on various ambitious programmes. Although Russia, following Norway's example, has established its own sovereign wealth fund, the combined value of which reached the level of \$181.3 billion in 2014, the country's gas business culture and revenue management leave much to be desired. There are several reasons for this, but four of them seem to be crucial in the broader economic and strategic context.

Firstly, the lack of sufficient drive towards marketisation of the Russian energy market, especially the gas market.<sup>14</sup> Many branches of the Russian economy can only survive thanks to gas and oil rent reallocation by the Russian political class, which uses this practice to buy the support of various groups in Russian society. This political use of resource rent, draining resources from the sector and corrupting the whole economic system and parts of Russian society, makes it difficult to reform both the Russian economy at large and its energy sector more specifically.<sup>15</sup>

Secondly, mismanagement of contracts with external partners.<sup>16</sup> Although Gazprom sells only one-third of its gas abroad, this generates more than half of its income. Hence, gas exports, especially on the EU market, remain crucial for the development of the whole Russian gas sector. Yet, despite the process of price liberalisation on the European gas market, the Russian giant was determined to keep an oil-indexed price formula in its long-term gas contracts.



Thanks to the high oil price on the global market between 2011 and 2014, Gazprom was able to sell relatively expensive gas to its European customers, notwithstanding the oversupply of gas on the spot markets. But this situation changed in autumn 2014, when crude oil prices dropped like a stone. From that time forward, across the board cheap oil has influenced gas prices negatively in Gazprom's oil-indexed contracts, and there is little chance to increase its income in the upcoming months

Third is the politicisation of Russian energy and the use of preferential energy prices as a form of payment to those players who do accommodate Russian strategic interests. Many post-Soviet states still receive cheap Russian gas. In 2014, Gazprom delivered gas to Belarus at an average price of \$164 per thousand cubic metres, while its European partner, Germany, paid \$323, and Poland was charged \$379.17 Moreover, Russia grants its closest political allies massive discounts on gas prices, which covers almost one-third of gas volumes delivered abroad, significantly diminishing Gazprom's profit potential. Amidst extremely tense relations with Ukraine, the Russian company extended the Ukrainian gas company Naftohaz a price discount at the beginning of 2015 (\$379 to \$329 per thousand cubic metres).<sup>18</sup> Similar price adjustments will probably take place in the nearest future with other clients.

Fourth is the partly rational, partly irrational political drive towards diversification of routes and markets, symbolised by costly infrastructure projects, such as the Nord Stream or the now abandoned South Stream pipelines, or by the recent gas deal with China, in which Russia accepted a "lower than could be achieved" price partly due to the conflict with the West over Ukraine. It is also worth noticing that Russia is aiming to diversify its markets through development of its LNG trade, and to reduce pipeline network supplies. Politicising the country's energy resources and reinforcement of the strategic link between the country's energy sector and its grand strategy, have made many wonder whether having energy relations with Russia is safe in hard security terms. Russia, widely believed to pursue a zero sum game, is often suspected of using its energy resources to the detriment of its energy partners, and this has made many of them seek other, less risky energy solutions. In the current market situation, with new renewable and non-conventional sources of energy becoming more available, Russia may see its position on the most important and profitable European market challenged and weakened.

Ever since the beginning of Soviet gas trade with Europe in the early 1980s, concerns have been voiced that the USSR and then Russia could try to exploit European dependence on Russian gas for political goals, using commercial style tools of dubious nature. This is because both entities are vulnerable to interruptions of their energy trade, as gas is the basis for Europe's energy security, while Europe's demand guarantees Russian revenues. Even if the sentence of "Russia using gas as a weapon" is overused in the current geopolitical context, several arguments show that Russia is able to use its own strengths and at the same time takes advantage of European weaknesses. Such an alteration to the purely commercial logic that should be the basis of gas cooperation can suggest that Russia's energy policy indeed plays an important part in grand strategic designs.

The strong asymmetry and lack of parallelism in structures, which also function as leadership of energy sectors, characterise the EU–Russia relationship. These differences, reinforced by diverging approaches to international relations, prevent closer energy cooperation and construction of mutual trust. While discussing the Russian energy approach, it has to be underlined that there is no abstract decision making at the Kremlin. Hence it is necessary to make reference to Vladimir Putin and his entourage, eager to realise their strategic vision of Russian energy hegemony. Irrefutable vertical power, together with strong links between politics and energy through a national monopolistic gas exporter (Gazprom), give Russia a considerable advantage over the EU, composed of common institutions and 28 national governments, all subject to short electoral cycles.

As a consequence, the EU has a tendency to lead multipartite consultations aimed at preparing numerous scenarios predicting matters in the distant future, such as determination of gas strategy regarding Ukraine. Russia, in turn, is able to achieve its intended purposes under precise conditions in short periods of time, beginning for instance with gas supplies to Ukrainian territory under separatist control within three hours of Dmitry Medvedev's decision to do so. While the transparency of the EU's decision making is undoubtedly a virtue, Russia knows how to change this into a drawback. Transparency comes at a cost, and the outcome of lengthy, multi-stage negotiations between 28 Member States is widely known long before the final declaration is issued. It is therefore very convenient for Russia to take advantage of differing positions of individual Member States, and prevent implementation of a coordinated European energy policy.

In addition to this, there are national and private European energy companies in front of Gazprom, who all but act together, especially while dealing with Russia. While this approach seems legitimate in terms of open market competition, it is counterproductive for the gas relationship between the EU and Russia. Hence, a conflict of values arises, in which the liberal, consumer-oriented EU energy sector clashes with the Russian monopoly concentrated on political control of its business partners rather than win-win transactions. The impact of this asymmetrical economic relationship is clearly reflected in the persisting fragmentation of the European energy market, as well as the interpenetration of politics and business spheres. The clearest example of this EU vulnerability to Russian influence was the realisation of the Nord Stream pipeline, an undertaking that agitated EU internal politics.

Russia, belonging to the category of global and regional energy powers, seeks security of demand by all means. Russia currently exports gas to Europe through Ukraine and through Belarus, as well as directly via Nord Stream and via Blue Stream to Turkey. The scale of the volumes exported, the complexity of transport (gas has to cross numerous borders before reaching the final destination), and the nature of long-term contracts, mean that Russia looks for new market opportunities for its gas and seeks to eliminate potential competitors. This is how the idea of South Stream emerged, and made the Nabucco pipeline disappear from the EU agenda, to be replaced finally by the Turkish Stream project. This is also how Russia decided to enter the global LNG market, for the U.S. shale gas boom and merely the possibility of the US exporting gas to Europe made Russia fear the loss of its influence.

The third energy package, intended to bring major internal improvements on the EU's electricity and gas markets, also caused significant problems for Gazprom. The provisions of the directive, even though they sought to ameliorate the internal market, brought into question several pre-existing Russian practices, including long-term contracts (some of them binding until the 2030s), property rights for gas transmission pipelines and their exclusive operation, numerous re-nomination rights per day, buying separate entry/exit capacity at cross border points, and others.<sup>20</sup> European industrial consumers, contrarily to previous practices of bilateral long-term agreements, currently insist on gas trading through European hubs. Furthermore, the legal framework for relations with external partners is under constant evolution, which, combined with the prospects of an Energy Union, brings significant uncertainty to Russian security of demand.

It is not surprising, then, that Russia attempts to reduce the influence of European legislation on its own business. The problem is how in reality Russia does it. Russia uses suggestion, manipulation, indirect threats, and legal abuses, all in order to put pressure on the EU and its Member States. This hybrid approach consists of cultural, business, political and economic actions undertaken by Gazprom and the Russian authorities, through formal and informal channels. As a producer of gas and owner of transport pipelines, Russia has various tools to influence resource availability and its price, both positively and negatively. Its actions can range from cutting of supplies, (for example, during the 2009 Ukraine crisis), through manipulating hub prices (flooding or withholding gas), to subsidising gas prices for its best partner countries (such as the difference in gas prices between Germany and Poland). A wide range of soft tools such as media propaganda, sponsoring social movements, hiring the best lawyers, and undermining rivals' credibility is used by Russia in order to secure its position on the European market and, paradoxically, its image as a reliable, stable supplier.

Even if both partners are looking for alternatives, one for its security of supply and the other for security of demand, Europe and Russia are condemned to be tied to each other for a number of years. The problem is that, despite convergence of their economic interests, geopolitical discord frustrates efforts to find a common middle ground, changing this relationship into a strategic energy charade. So far, Russian energy domination has been felt acutely in Europe, but current external factors such as shale gas development or a low oil price can turn the tide. Hence, the short-term question for Europe should not be how to break energy bonds with Russia, but how to limit the damage caused by the current application of Russian grand strategy. In the mid and long-term, Europe should however find out how to influence Russian grand strategy and turn it to its own advantage. While establishing itself as a fully-fledged, united, counterpart for Russia, the EU, for the sake of its energy security, should invest more effort in finding alternative sources of energy to make itself less dependent in energy terms on its apparently less predictable Eastern neighbour, whose actions have recently undermined the existing international security order gravely.

# Gazprom says it can compete with U.S. LNG in Europe

Forbes, 11.03.2015



Gazprom told Barclays Capital recently that it can compete on price with the U.S. liquefied natural gas market in Europe, whenever it gets there. The U.S. hopes to eventually make strides into Russia's natural gas market in Europe, taking away market share from a politically volatile neighbor.

Lithuania signed a non-binding agreement to purchase LNG from the United States this year. No delivery dates are set. Poland is also looking to the U.S. for future natural gas supply in order to reduce their dependence on Russia. Lithuania opened a floating import terminal last year and Poland plans to open one later this year.

But Gazprom told Barclays during an analyst visit last week that their piped in gas was still cheaper than U.S. imports. Many people in Russia believe that one of the reasons the U.S. is sanctioning Russian oil and gas companies is because Washington wants to make way for natural gas exports to Europe in the future. Russian energy companies became the victim of Russian politics in Ukraine last July and again in September when the U.S. and E.U. punished them with sanctions. Gazprom said its market share in Europe was relatively flat last year at 31%, up slightly from 30% in 2013. It expects that export prices to Europe will average \$260-270/kcm in 2015, around \$100 less than they were in the first half of last year. Gazprom execs told BarCap they expect European demand to pick up by the summer.

The company confirmed its reduction in capital expenditures this year, hitting a planned \$24 billion as the company doesn't want to toy around with cash flow. It believes cash flow generation will be positive and will be enough to cover its dividend payout to investors. Their current dividend is 4.93%...in rubles. Gazprom said it will reduce net debt in 2015. It is one of the few borrowers that still has access to international capital markets.

# Ukraine dispute cuts EU supply by over 20bn m<sup>3</sup>

Argus, 11.03.2015



Lower Russian gas exports this winter with state controlled Gazprom not meeting some customers' nominations and brisk reverse flows to Ukraine curbed European supply this winter by over 20bn m<sup>3</sup> year on year.

Aggregate Russian flows to western Europe through Nord Stream, at Mallnow, and the Ukraine-Slovakia border dropped to 193mn m<sup>3</sup>/d on 1 October-5 March from 306mn m<sup>3</sup>/d a year earlier. This resulted in cumulative receipts of 30.2bn m<sup>3</sup> over the period, down from 47.7bn m<sup>3</sup> a year earlier. The decrease in Russian deliveries was largely driven by flows below nominations.

Russian exports dropped sharply in the fourth quarter despite oil-indexed prices being lower in the second half of 2014 than earlier in the year encouraging buyers to load their Russian take to July-December. Germany's Russian receipts were strong in the fourth quarter of 2014, as buyers drew heavily on supply through Nord Stream. But importers receiving gas through other routes had limited flexibility to increase their call on Russian supply because of flows below nominations. Yamal-Europe was at close to full capacity, while flows at the Ukraine-Slovakia border were in a tight range at 48.1mn m<sup>3</sup>/d, leaving little scope to boost imports.

Gazprom registered a strong decrease in sales to Europe and Turkey — excluding the Baltics — which fell to 32.3bn m<sup>3</sup> in the fourth quarter from 43bn m<sup>3</sup> a year earlier. Sales to western Europe dropped to 26.4bn m<sup>3</sup> from 33.8bn m<sup>3</sup>, while the firm's sales in central Europe dropped to 5.91bn m<sup>3</sup> from 9.26bn m<sup>3</sup>. The October-December receipts of most countries — including France, Italy, Austria, the Czech Republic and Poland — were the lowest for any quarter since the start of 2013.

European imports dropped further in the first quarter as Nord Stream flows fell. This was partly driven by some buyers minimising their Russian receipts in January-March, when crude-linked prices are expected to be considerably higher than later in the year. But the sharp increase in Nord Stream flows on 6 March, when Gazprom started meeting nominations, also suggested that deliveries through the pipeline had been restricted to below customers' orders. If aggregate Russian deliveries to western Europe throughout the first quarter had been in line with volumes on 6-10 March — when nominations were met — they would have been just 20mn m<sup>3</sup>/d lower than a year earlier instead of down by 125mn m<sup>3</sup>/d.

Italian supply appeared to be curbed the most by Russian flows below nominations, with much of the gas typically transiting Ukraine. Italian receipts through Tag — consisting mostly of Russian gas — slipped to 9.52bn m<sup>3</sup> on 1 October-5 March compared with initial nominations of 13.7bn m<sup>3</sup>. And when day-ahead Tag capacity bookings to import spot gas from Austria are excluded the shortfall was almost 4.2bn m<sup>3</sup>. Other buyers — including those in Slovakia, the Czech Republic, Poland, Austria — also said that their receipts were below nominations. While no individual country data are available yet for this year, Gazprom's aggregate sales had fallen to about 10.5bn m<sup>3</sup>/month in January-February from about 14.2bn m<sup>3</sup>/month in the first quarter of 2014.

Most countries Russian receipts appear to have remained low until 6 March, although deliveries to individual countries downstream of Nord Stream, Mallnow and the Ukraine-Slovakia border are complicated by flows of spot gas. Dutch receipts from the Gascade system at Oude Statenzijl slipped to 5.49mn m<sup>3</sup>/d on 1 October-5 March from 14mn m<sup>3</sup>/d a year earlier. And French imports at Obergailbach decreased to 15.5mn m<sup>3</sup>/d from 26.2mn m<sup>3</sup>/d. And while German gross receipts appeared to remain strong, at least until mid-January, when Nord Stream volumes dropped, net imports slowed sharply because of strong exports. German exports in December reached the highest level since at least 1998. German deliveries east stayed quick in January-February to help supplement reverse flows on to Ukraine and offset lower Czech, Austria, Slovak and Italian receipts from Russia.

German imports from Russia — excluding gas delivered on to Austria at Oberkappel, from Gascade into the Netherlands, to France at Oberkappel and the Czech Republic through Opal and at Olbernhau — slipped to 51.5mn m<sup>3</sup>/d on 1 October-5 March from 91.5mn m<sup>3</sup>/d a year earlier. This resulted in a 6.24bn m<sup>3</sup> drop in German supply, while France's Obergailbach receipts were 1.66bn m<sup>3</sup> lower and the Netherlands' Gascade imports dropped by 1.32bn m<sup>3</sup>.

## Russia, China to sign deal on western Siberia by year-end, wang yi confirms

Natural Gas Europe, 09.03.2015



Moscow and Beijing will sign an agreement on the pipeline shipping gas from Western Siberia to China by the end of the year, Foreign Minister Wang Yi said, adding that his government will intensify trade ties with Russia in the coming months.

“The China-Russia relationship is not dictated by international vicissitudes and does not target any third party... And the friendship between our two peoples provides a strong foundation for strengthening strategic cooperation between the two sides” Wang Yi commented as reported on the website of the Ministry of Foreign Affairs of China's.

The Minister said that the bilateral trade should reach US\$100 billion by the end of the year, with a strong focus on financial, oil and gas, and nuclear-power sectors. “We will start full construction of the eastern route of the natural gas pipeline and sign an agreement on the western route of the pipeline. We will accelerate the joint development and research of long-distance, wide-body passenger jets. We will start strategic cooperation on the development of Russia’s Far Eastern region” the Minister added.

According to the preliminary deal signed in November, Gazprom would ship 30 bcm (1 tcf) of gas per year to China National Petroleum Corporation through the Altai gas pipeline. Price remains the main hurdle. Meanwhile, over the last days, Ukraine’s stored gas decreased below the 8,000 mcm threshold. Data published by GIE on Sunday indicate that Ukrainian facilities are 24.88% full.

## Russia’s bid for Turkish Stream pipeline may open the gates to the competition it most fears

The National, 08.03.2015



Energy exports are a useful weapon, but one that can only be wielded only once. If Russia persists with its latest move in the long drawn-out battle over Europe’s gas supply, it will open the gates to the competition it has feared for the past decade and more.

Europe gets 30 per cent of its gas from Russia – still mostly transported through Ukraine, despite the opening of a new pipeline under the Baltic directly to Germany. Previous cut-offs of gas through Ukraine, most seriously in 2009, and the continuing conflict there, have made Russia look for alternative routes.

But in December, it gave up on plans for South Stream – a line under the Black Sea to Bulgaria, after legal objections from the EU. The Europeans were in no mood to make life easy for Russia’s monopoly Gazprom while imposing sanctions on the country over its support for forces fighting Kiev in eastern Ukraine. Instead, Gazprom announced plans for an alternative route – Turkish Stream – under the Black Sea to Turkey. From there, if Russian gas is to find its way to the main markets in central Europe, then pipelines through the Balkans must appear from nowhere by 2019. The Gazprom chief executive Alexei Miller said: “Now it is up to [our European partners] to put in place the necessary infrastructure starting from the Turkish-Greek border.”



The EU has sought increasingly since 2009 to diversify its supplies, but has faced obstacles. Environmental groups – funded by Russia, according to the Nato secretary general Anders Fogh Rasmussen – have campaigned against shale gas, leading to moratoria in Romania (now lifted), and in Bulgaria, which gets 87 per cent of its gas from Russia. Meanwhile, Russia has been happy for the nuclear negotiations and sanctions on Iran to be endlessly drawn out, preventing the country, according to BP the state with the world's largest gas reserves, from competing with it.

The Nabucco pipeline was meant to bring gas from the Middle East and Central Asia to Europe, the so-called Fourth Corridor (the first three are the routes from Norway, North Africa and Russia). But Nabucco lacked enough heavyweight backing from gas companies and EU institutions, and never managed to secure enough gas supply. Of its target countries, Iran was hit by sanctions and anyway struggled to produce enough gas to meet domestic demand, while Iraq and its Kurdish region are still at an early stage of developing gas for domestic use. Enigmatic Turkmenistan would have to build a pipeline across the disputed Caspian Sea, through the territory of its competitor Azerbaijan, in the face of Russian disapproval.

But Turkish Stream opens the way to a revival of the Fourth Corridor. If the EU is compelled to build expensive new gas pipelines from Turkey through south-east Europe, it can carry gas from anyone. The bloc's proposed Energy Union would create a more coherent energy policy, not hostage to the vagaries of individual members. The small Balkan markets, currently dependent almost entirely on Russian supplies, would be integrated into a pan-European network. Turkey does not want to be overdependent on Russian gas either – it has devoted much effort to diversifying its imports, with Azerbaijan and the Kurdish region of Iraq the best bets. In the longer term, a post-sanctions Iran could become the Fourth Corridor's largest supplier and a real competitor to Russia in Europe. Europe can find alternative suppliers. It is, in large part, the inertia of expensive infrastructure that has slowed its quest so far. In contrast, Russia has no other customers that can replace Europe for reliability and value.

## Poland's PGNiG says now receiving full gas supplies from Gazprom

Reuters, 08.03.2015



PGNiG said that Gazprom resumed full gas supplies to Poland this weekend after it limited the deliveries in September last year. "Gas supplies for the last day slightly differed from the order, but today it is in accordance with the plan," PGNiG said in a statement published.

In September last year PGNiG said it started to report deliveries from Gazprom at levels as much as 45 percent lower than its daily orders. This resulted in gas price discounts from Gazprom. The group said in 2014 its imports from the east fell by 0.6 billion cubic metres to 8.1 billion cubic metres due to lower supplies from Gazprom.

# Yamal and Fluxys contract for LNG transshipment at Zeebrugge terminal

Natural Gas Europe, 08.03.2015



Russian Yamal LNG and Belgian Fluxys LNG have signed a 20-year contract for transshipment of up to 8 million tons of LNG per year at the LNG-terminal in the Belgian port of Zeebrugge, to support year-round LNG deliveries from the Yamal Peninsula in the Arctic part of Russia to markets in Asia and the Pacific Ocean.

“A transshipment platform in Northwest Europe is a key element to our transportation and logistics arrangement,” says Evgeniy Kot, Yamal LNG’s general director, underlining the Yamal LNG project is progressing well, following the schedule.

With the new transshipment volume of 8 million tons per year, Zeebrugge will see a significant increase in ship movements. “Thanks to a long-term agreement with such an ambitious LNG supplier we will embark on a new considerable investment for the terminal development,” says Pascal De Buck, CEO at Fluxys Belgium. During the Arctic summer, Yamal LNG will deliver its LNG to Asian-Pacific markets via the northern sea route, using ice class ARC7 LNG tankers. In winter periods, the Arctic LNG tankers will transit via the Zeebrugge LNG terminal. There Fluxys LNG will provide services to tranship LNG onto conventional vessels, used for final delivery to Asian-Pacific markets via the Suez Canal.

According to Fluxys this contract reinforces the Belgian gas system as a crossroad for international flows and the position of Zeebrugge as an all-round LNG hub in Northwest Europe. With transshipment services added to its offering the terminal will provide a complete range of services for large LNG volumes as well as for small-scale use for vessel bunkering and trailer loading. The transshipment services require the construction of the already planned fifth storage tank and additional process facilities. Together, the four existing storage tanks can hold 380.000 m<sup>3</sup> of gas. The design for a fifth tank has been upgraded from 160.000 towards 180.000 m<sup>3</sup>. The first production of LNG in Yamal, using gas from the South Tambeyskoye field, is expected in 2017.

Yamal LNG’ shareholders are the Novatek (60%), the Chinese National Petroleum Company (CNPC, 20%) and the French group Total (20%). Several Belgian authorities together own, by very complex intermediate holding structures, a large majority of the Fluxys shares. Fluxys is both owner and operator of the Belgian infrastructures for the transport and storage of natural gas and for LNG terminals.

# German gas industry urges decision on fracking rules

Reuters, 09.03.2015



Urged the government to ensure that new gas fracking rules will support future domestic production and technological development.

The environment ministry is preparing a legal framework to govern drilling and has promised strict environmental audits, which include a ban on drilling in water conservation areas. However, suggested the government plans to stop short of an outright ban on fracking for gas. The law is due to be debated by the German cabinet. Gernot Kalkoffen, president of WEG oil and gas association, said the industry was skating “on ice” and the rules must create a reliable framework.

“It’s high time for a decision,” said Kalkoffen on Monday. “It’s not just the value creation of an industry with 20,000 jobs on the line, but it’s also a lot more about the question of how Germany will cover its energy needs in the future - with or without its own sources,” he said. The Ukraine crisis has stoked a debate about dependence on gas imports from Russia, which accounted for 37 percent of Germany’s supply in 2014. Only 12 percent of its needs last year were covered by its own gas reserves, compared to almost a fifth a decade earlier. But opposition to fracking remains strong due to fears of environmental damage and German authorities and policymakers have become reluctant to offer new exploration permits, even for conventional technologies.

The WEG said the proposals in the draft law would push up costs and exclude potential reserves in extensive prohibited zones. Plans to allow fracking only below a depth of 3,000 meters (3,300 yards) would exclude some conventional gas deposits, Kalkoffen added. Moreover, restricting fracking may threaten German expertise in hard-to-exploit oil and gas, said Martin Bachmann, who is in charge of exploration and production at Wintershall, a unit of BASF. “For German oil and gas companies, technology is a competitive advantage,” he said. “You can’t be credible in the world, though, with a technology if you can’t show you are using it at home.”



## Germany's Wintershall to "soon" announce first results for Shuwaihat Field

Natural Gas Europe, 09.03.2015



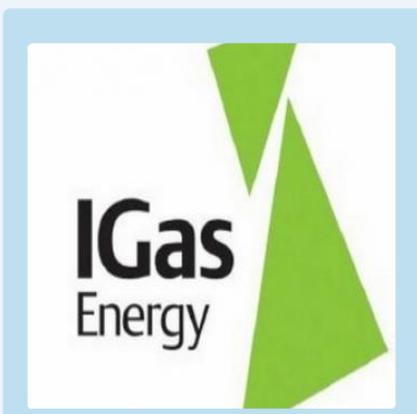
Wintershall is intentioned to step up cooperation opportunities with United Arab Emirates, betting on the natural gas and condensate field Shuwaihat. Also through its partnership with state-run oil company of the emirate ADNOC, the German firm is trying to increase its presence in the Gulf region.

"The United Arab Emirates are an important partner for Germany. It is not just the responsibility of political representatives to breathe life into this partnership. The business community must do its part. We need more cooperation among companies" Sigmar Gabriel said.

Wintershall and Austria's OMV are in charge of the exploration and evaluation of the field containing sour gas. 'The first exploration well for the Shuwaihat field began operations in 2014 and the first results are expected soon' the company said during the meeting between Gabriel, Wintershall CEO Rainer Seele, and officials of the United Arab Emirates. Last week, Wintershall completed the takeover of the oil and gas Vega field on the Norwegian Continental Shelf from Statoil.

## IGas signs £30m shale gas deal with Ineos to expand

BBC, 10.03.2015



The deal will give Ineos access to sites beyond the ones it currently operates in Scotland. Ineos has also pledged an additional £138m to help IGas expand its shale gas operations in the North West and East Midlands regions in England.

Shares in IGas surged by more than 20% on news of the agreement. Investors had worried about the strength of the firm, as the price of oil fell by more than half over the past year. The deal also gives IGas another major partner. The UK onshore oil producer is already working with Total of France and GDF Suez.



“Alongside the commitment from our existing partners, Ineos’s commitment of upfront cash and considerable capital investment will help fund us through the next steps of our shale appraisal and production programme,” said Andrew Austin, chief executive of IGas, in a statement.

## Quake-hit towns in Netherlands upend European gas market

Bloomberg, 11.03.2015



**Dutch communities rattled by earthquakes are upending Europe’s energy market.**

Towns in the northern province of Groningen sit atop the continent’s biggest gas field, where the Dutch government says exploration by Royal Dutch Shell Plc and Exxon Mobil Corp. has triggered 196 earthquakes since 2013, damaging buildings and making home sales difficult. Lawmakers, seeking support in provincial elections March 18, have responded to residents’ complaints with a proposed cut in gas production, the second since December, in the hope that less output means fewer tremors.

The reductions would put the European Union in a predicament. Countries may have to turn to Russia to replace Dutch gas at a time when they’re trying to isolate President Vladimir Putin for his involvement in Ukraine. For the Netherlands, the bloc’s biggest gas producer, less gas could reduce national income by almost 2 billion euros (\$2.1 billion), according to the Ministry of Economic Affairs. “The coalition parties are overall under pressure,” said Frank van Doorn, head of gas trading at Vattenfall Energy Trading Netherlands NV, the country’s largest retail supplier. “They have to do something to make voters happy and at the same time balance the impact on the Dutch government budget.”

The country counts on its energy industry for about 11 percent of gross domestic product. Export customers include Germany, Belgium and the U.K. The Netherlands produced 70 billion cubic meters of gas on- and offshore last year, according to data from network operator Gasunie Transport Services. That’s more than Italy’s total 2014 demand. The Groningen field accounted for 61 percent of that and generated an estimated 10.7 billion euros in revenue, according to data from Nederlandse Aardolie Maatschappij, or NAM, the joint Shell-Exxon venture that owns 60 percent of the field, and the Ministry of Economic Affairs. Dutch lawmakers have progressively cut the 2015 output target for Groningen gas. In December, they announced a 7.3 percent reduction. An additional cut, proposed Feb. 9, sent prices up 11 percent that week -- more than in the period following Russia’s Crimea incursion. Now lawmakers are proposing an 11 percent cutback for the full year.



Earthquakes have been reported in places such as the U.S. state of Oklahoma, where exploration companies drill horizontally and blast chemicals, sand and water into rock to extract fuel, a process known as fracking. Only conventional, vertical wells have been drilled in Groningen, making the tremors there unique, said Heleen Haverkort, a spokeswoman at the Ministry of Economic Affairs. In the Groningen village of 't Zandt, artist Wout van Mullem, 57, said he decided to make his house earthquake-proof after almost five years of unsuccessfully trying to sell it. The structure is one of many in the area that suffered from cracking walls or shifting foundations. "You have to face the reality that Dutch society needs the gas from Groningen," Van Mullem said. "We have to find a way to extract gas from the field in an acceptable manner for everybody." Down the road, Jan Boer, 75, is waiting for the community center in the village of Leermens to be reinforced. Angled wooden beams support the external walls and the interior of two rooms. And near NAM's office in Loppersum, where 3,000 of the area's 10,000 inhabitants live, paintings in the Petrus and Paulus Church dating from the 1500s have needed restoration.

Tremors in the province started in the 1980s and intensified in the 2000s, according to NAM, the Shell-Exxon venture. The biggest quake, with its epicenter in Loppersum, measured 3.6 on the Richter scale in 2012, resulting in about 12,000 damage claims, according to the Paris-based International Energy Agency. While the scale might seem small, tremors are felt more because their epicenter is at the gas field, only 3,000 meters (10,000 feet) deep, said Harry van der Meijden, inspector general at the State Supervision of Mines. While NAM said it has plans to strengthen 3,000 buildings in Groningen province this year and has set aside 1.2 billion euros for projects including repairs and the strengthening of homes, Loppersum Mayor Albert Rodenboog said initial calculations show that 30,000 buildings will need reinforcement, costing as much as 6 billion euros. The government ignored the security of citizens in Groningen for years, according to a February report from the Dutch Safety Board. Trust was already low, Rodenboog said, because in 2013, after the State Supervision of Mines said gas production needed to be cut to keep residents safe, output in Groningen province rose to the highest in 32 years.

Cutting production will likely reduce the frequency and intensity of the earthquakes, according to Van der Meijden. NAM takes a different position. Earthquakes aren't only caused by the volume of gas, said Sander van Rootselaar, a NAM spokesman. When production in Groningen climbed to a record in the 1970s, there were no tremors, suggesting other factors may also have an influence, he said. While lower gas output can help reduce the number of tremors, it doesn't mean lower intensity, he said. The Netherlands will decide July 1 whether to reduce 2015 extraction to a maximum 35 billion cubic meters with 2 billion of that to be produced only if needed, Henk Kamp, the minister of economic affairs, said Feb. 12. Gas production can drop to between 27 billion and 33 billion cubic meters, depending on weather and other factors, and still meet domestic demand and honor export contracts, said Anton Buijs, a spokesman for GasTerra BV, the only marketer of Groningen gas. As for consumption, the Netherlands depends on Russia for about 4 percent of its gas, but that could increase depending on how much the government decides to cut back, Haverkort said.

While European gas prices jumped on the Dutch plans, they have since erased gains as Russia started boosting supplies and more cargoes of the liquefied fuel arrived as Asian prices collapsed to near European levels. The U.K., Netherlands and Belgium received 24 LNG cargoes in the first two months of the year, more than double a year earlier, according to port authority and ship-tracking data compiled by Bloomberg. “The fact that Asian LNG prices are falling is certainly helping,” said Van Doorn of Vattenfall.

## Norway February gas production above expectations

Natural Gas Europe, 12.03.2015



Preliminary figures for February 2015 indicate that Norwegian gas production was above expectations, remaining on the levels registered in January. The country produced in February 2015 around 10% more gas than in February 2014.

‘The total petroleum production for the first two months in 2015 is about 38.5 million Sm<sup>3</sup> oil equivalents. (MSm<sup>3</sup> o.e.), broken down as follows: about 14.5 MSm<sup>3</sup> o.e. of oil, about 3.6 MSm<sup>3</sup> o.e. of NGL and condensate and about 20.4 MSm<sup>3</sup> o.e. of gas for sale. The total volume is 1.1 MSm<sup>3</sup> o.e. higher than for the same period in 2014’ reads the note released by the Norwegian Petroleum Directorate.

## BP announces second gas discovery in Egypt’s Nile Delta

Natural Gas Europe, 09.03.2015



BP made a second gas discovery in Egypt, saying that prospects for the region are getting better. The company estimates the potential of its concession in the East Nile Delta at over 5 tcf.

‘The estimated potential in the concession exceeds 5 tcf and we now have a positive starting point for the next possible major project in Egypt after BP’s West Nile Delta project’ Bob Dudley, BP Group Chief Executive, commented. The UK-based company said that the Atoll-1 deepwater exploration well has reached 6,400 metres depth. It reported 50 metres of gas pay in high quality Oligocene sandstones.

“We are proud of our commitment to unlock Egypt’s exploration potential that requires large investments to utilise using the latest drilling and seismic technologies” Hesham Mekawi, BP North Africa Regional President, added. BP, which has 100% equity in the discovery 80 km north of Damietta city, said that the well will drill for another kilometre. Last week, BP announced that it has signed the final agreements of the West Nile Delta project (WND) to develop 5 trillion cubic feet (tcf) of gas resources and 55 million barrels (mmbbls) of condensates.

Egypt made the headline on Monday also for another discovery, and for a declaration coming from the African country’s oil ministry. London-based Aminex announced that the South Malak-2 well on the West Esh el Mellaha-2 concession has been declared a discovery well. ‘Tests showed production flow rates of approximately 430 barrels per day of 40 API crude. Based on the success of SM2 a full field development programme will be presented by the Operator to the Egyptian Authorities and the joint venture partners prior to commercial development’ reads a separate press statement.

Aminex has a 12.5% stake in APEL, which holds a 80% interest in the West Esh el Mellaha-2 concession. Meanwhile, the North African country, which turned from a net energy exporter into a net energy importer over the last years, reportedly set the price of shale gas from a concession to foreign companies at \$5.45 per mmBtu.

## Changing market dynamics in central Asia: Declining Russian interests and an emerging Chinese presence

Natural Gas Europe, 10.03.2015



Control over the transportation of energy resources from Central Asia to Europe is a crucial determinant in Russia’s energy and pipeline policies. Russia’s pipeline policies have long been designed to ensure energy power via control of regional transportation infrastructure.

This strategy blocks strategic pipeline projects seeking to bypass Russia in the east-west direction from the Caspian Basin, and focuses on re-exporting natural gas from Central Asian and maintaining strategic grip over the natural gas deliveries to the European markets. From the early 1990s took control over the Central Asia-Center’s gas system.

It bought and resold huge volumes of natural gas from Turkmenistan and Uzbekistan to the Europe, enjoying a monopoly in the European energy market and monopsony in Central Asian. However, starting from 2009 Gazprom drastically reduced natural gas supplies from Turkmenistan and Uzbekistan.



In 2008 the company bought approximately 40 bcm of natural gas from Turkmenistan, and almost 15 bcm from Uzbekistan; by 2014 the total volumes of exported gas from these countries had decreased to 10 bcm and 4.5 bcm respectively. Despite the significance of the region for Russia's energy security, Gazprom has continued cutting back on purchases. During the Investor Day held by Gazprom in Hong Kong in February 2015, the company Deputy Chairman Alexander Medvedev announced that Gazprom plans to reduce the volume of gas purchases from Uzbekistan and Turkmenistan down to 10 billion cubic meters in 2015. The company plans to reduce Turkmen gas purchases from 10 bcm to 4 bcm, and Uzbek gas purchases from 4.5 bcm to 1 bcm. This decision did not come as a surprise, as in October 2014, Gazprom's Marketing and Trading Director Pavel Oderov announced company's plan to continue reducing volumes of imported gas, as part of the company's revenue maximization policy through optimization of domestic production.

So the key questions at this point are: why is Gazprom continuing to cut back on purchases from Central Asia? Which factors have affected this decision? What are the implications of the decision for regional producers? The key argument presented by Gazprom officials is based on increasing domestic production. But this reasoning is somewhat problematic, since it fails to address the evident impact of other, more important factors, including the escalation of the Ukrainian crisis and shifting market dynamics. Energy decisions are frequently determined by political and economic dynamics. In the case of Russia and Central Asia, the historical trajectory of the decision reveals multiple influences. Based on different factors and conditional variables, the decision to reduce purchases is best analyzed in two phases: from 2009 till 2014 and from 2014 until the present. However, this categorization does not entail that the second phase emerged as a continuation of the first phase.

The first decision on reducing natural gas purchases from Turkmenistan dates back to the pipeline explosion in 2009, which resulted in the decline of imports and damaged energy relations between Turkmenistan and Russia. Moreover, the beginning of Russia's energy relationship with China and the construction of the Central Asia – China Gas pipeline system have opened up a new market; with its huge demand for Turkmen gas, this market has been accorded higher priority by Ashgabat. In the case of Uzbekistan, the situation is a bit different. Uzbekistan is the third largest natural gas producer in Eurasia. However, the growing national consumption and aging energy infrastructure have slowed production and hindered the export of natural gas to Russia. The decline of production has weakened Uzbekistan's position as reliable and stable supplier for Russia.

On the other hand, because of the rise of natural gas prices in Central Asia, reselling Turkmen and Uzbek gas became less profitable for Russia. Gazprom could optimize revenues by exploiting its own fields, instead of being a porter of gas for Central Asian suppliers. In sum, it is possible to argue that during the first phase, the decline in supply was driven by the internal interests of Russia, Uzbekistan and Turkmenistan. The more recent decision to reduce purchases should be reviewed from a different perspective, whereby external factors, especially the current Russian-Ukrainian crisis, play a more decisive role. For Russia, cutting off the natural gas supply to Ukraine and the EU sanctions affecting energy sector have negatively impacted the demand side. Gazprom's statistics show that demand for Russian gas in the European markets has declined almost to 9%. A comparison of the data from 2013 and 2014 demonstrates that the volumes of exported natural gas from Russia to European markets have been decreased by 15 bcm. In 2013 Gazprom exported 162 bcm of natural gas to Europe, compared to 147.2 bcm in 2014.

Of course, the fall in European demand for Russian gas is not exclusively the result of the crisis in Ukraine. The warm winter of 2014 and the availability of alternative gas supplies in the form of LNG also have influenced the situation. Without a doubt, the ongoing Ukrainian-Russian conflict, political decisions aimed at weakening Russia's political and economic power, and the intensification of the EU's energy diversification policy have challenged Russia's market position by increasing uncertainty around European demand for Russian gas in the near future. It can be concluded that the latest decision to reduce purchases from Turkmenistan and Uzbekistan has been caused by the decline of the actual demand for Russian gas. By cutting back on purchases Russia can balance the difference between high production and low demand. This analysis demonstrates that these two phases do not follow on from one another in terms of causality, since the determinant factors are of different origins.

Consequently, the next question is: "where will the 10 bcm Central Asian gas surplus go?" Gazprom's decision opens new market opportunities for Turkmenistan and Uzbekistan in the light of growing energy production in the region, and signals changes in the energy policy priorities of Central Asian producers. Russia is not the only player in the region engaged in energy projects with the regional producers. As part of their energy security strategies, regional producers are developing multi-vector gas export policies and are showing interest in cooperation with China, EU, Iran and Turkey. Following the Gazprom decision, the State News Agency of Turkmenistan reported that Ashgabat would increase exports of natural gas to China through the Central Asia – China Gas Pipeline transmission system. Moreover, according to Ria Novosti, Uzbekistan plans to export an additional 10 bcm of natural gas to China in 2015. The decision to raise exported volumes to China was reached during the fall of 2014.

China's increasing role in both the global energy market and the Central Asian region has caused a shift in market dynamics. Starting from the middle of the last decade, China has actively pursued a targeted pipeline strategy, transforming itself into the main consumer of the region's natural gas resources. By comparing volumes of natural gas exported to Russia and China, we can see that the drop in natural gas exports to Russia has coincided with increased natural gas imports by China via the Central Asia-China Gas Pipeline system. The pipeline system has three operational lines in parallel, each running for 1,830 kilometers through Turkmenistan, Uzbekistan and Kazakhstan, with an overall delivery capacity of 55 bcm. Moreover, in 2013, Uzbekistan and China began construction of the fourth line, with an annual transmission capacity of 30 bcm.

Further, EU member states have several times stressed their interest in energy cooperation with Central Asian suppliers, especially Turkmenistan. The EU is trying to get Turkmenistan involved in the Southern Gas Corridor, in order to diversify its supply sources. However, political, commercial and legal barriers have impeded involvement of Central Asian suppliers in SGC. Now, in the light of increasing Turkmen natural gas production, Gazprom's decision can be considered as a window of opportunity for the EU. Indeed, the success in this regard depends on how effectiveness and intensity of the political actions undertaken by the EU and partner states involved in SGC. At the moment, Central Asian suppliers are more interested in gaining access to the Asian market. Energy cooperation with China is more attractive for Central Asian producers, because political issues are not interlinked with commercial interests.

Political and economic factors affected the decision to reduce purchases of natural gas from Turkmenistan and Uzbekistan during the different time frames. However, it is difficult to link the causality of these decisions. The February 2015 decision flows from the decline of European demand for Russian gas as a result of the Russian-Ukrainian crisis, followed by Russia's decision to cut off gas supplies to Ukraine. Russia needed Central Asian gas to meet the growing energy demand in the EU. Now, in the light of the demand decline and uncertainty of future demand, it makes more sense to reduce the surplus, in this case, natural gas imports from Turkmenistan and Uzbekistan.

In contrast, Central Asian suppliers needed Russia, because the Central Asia-Center gas pipeline system was only the means for natural gas transportation. The construction of the Central Asia – China Gas pipeline system has minimized Russia's strategic importance for Turkmenistan and Uzbekistan in terms of energy politics, and continues to open new market opportunities for these countries. The weakening of Russia's economic presence in Central Asia opens up space for interactions between other regional actors. Indeed, the Asian market holds more appeal than the European market for Uzbekistan and Turkmenistan.

Moreover, growing energy demand in China and the increase in market shares of Central Asian suppliers within the Asian market provides certain level of sustainability, due to the absence of political concerns. The entrance of Central Asian producers into the European energy market introduces some complications. As long as political factors continue to impede cooperation between the EU and Central Asian countries, Turkmenistan's participation in the Southern Gas corridor is unlikely. The success of the EU in this regard depends on the political strategies of member states. Additionally, the Russian factor should not be forgotten. As long as Gazprom's revenues are mostly dependent on the European market, Russia will continue to block the construction of the new pipeline system in the western direction.

## **ExxonMobil restarts drilling at Point Thomson for 2016**

Anadolu Agency, 04.03.2015



ExxonMobil has resumed drilling at Point Thomson on Alaska's North Slope as construction continues toward bringing the initial production system online in 2016, the company announced in a press release.

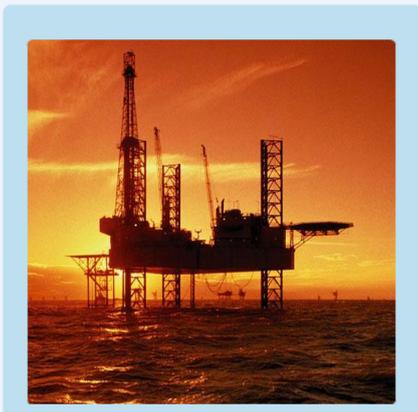
ExxonMobil said the initial production system is designed to produce up to 10 thousand bpd of natural gas condensate. Two injection wells will work in tandem with a production well, cycling up to 200 million cubic feet of natural gas per day through an onsite central processing facility, the company proclaimed. The company is planning to transport the condensate through a 22-mile-long pipeline.



According to ExxonMobil's press release, the Point Thomson reservoir holds an estimated 8 trillion cubic feet (226 million cubic meters) of natural gas and associated condensate; a high quality hydrocarbon similar to kerosene or diesel. "As of year-end 2014, ExxonMobil and working interest owners have invested more than \$2.6 billion in the development of Point Thomson. About 70 percent of that amount has been spent in Alaska. More than 70 Alaska companies have contributed to the success of the project, with more than 800 people working on-site and with an additional several hundred around the state," the press release read. ExxonMobil, the largest publicly traded international oil and gas company, is the largest refiner and marketer of petroleum products, and its chemical company is one of the world's largest.

## Brazil claws back millions of Petrobras graft money

Anadolu Agency, 12.03.2015



**Brazil has successfully repatriated nearly \$55 million in funds misappropriated by state-run oil company Petrobras to Swiss bank accounts, the country's public prosecutor said.**

The ministry said it had clawed back \$54.8 million (182 million reais) sent to accounts in Switzerland by former Petrobras executive Pedro Barusco. Barusco is one of dozens of executives, money changers and senior politicians currently under investigation for a vast alleged corruption scheme at the oil giant. He pledged to return \$97 million in misappropriated cash to public coffers as part of a plea bargain to ensure a lesser sentence.

He also told a congressional inquiry Tuesday that President Dilma Rousseff's ruling Workers' Party had received kickbacks totaling as much as \$200 million between 2003 and 2014, partly funding Rousseff's successful 2010 election campaign. The party denies the claims and says all its donations are legal and duly declared. Petrobras has not released official figures for losses because of the corruption scheme, in which prosecutors allege Petrobras contracts with third-party construction and civil engineering companies were bloated and a percentage skimmed off and funneled to politicians and their parties.

One leaked estimate, however, put losses at almost \$30 billion. The repercussions of the revelations have wiped approximately \$100 billion from the company's value since September, and weighed heavily on Brazil's already-flagging economy. Barusco told Tuesday's inquiry that bribes had been a part of company life since 1997, but were "institutionalized" in 2003 and 2004, the first years of former president Luiz Inácio Lula da Silva's first term in office. The Supreme Court last week decided to open investigations into 49 individuals, including 47 politicians -- among them dozens of acting senators and deputies, Brazil's two congressional leaders, Rousseff's former Chief of Staff Gleisi Hoffmann and former president and senator Fernando Collor.

All but one of the politicians to be investigated are linked to the Workers' Party and its allies, particularly the Progressive Party. The embroiling of Petrobras, once a jewel in Brazil's crown of vast commodity companies, in the country's largest-ever corruption scandal has taken its toll on the popularity of Rousseff, who chaired the company's board when much of the graft is alleged to have taken place. She has repeatedly denied knowledge of the scheme and pledged full support for the ongoing investigation. Protests in several cities are scheduled for this weekend to demand Rousseff's impeachment for her handling of the economy and the company scandal. The biggest demonstration is planned for São Paulo, Brazil's financial center, where 137,000 users on a Facebook event page have so far signaled their intention to take part in the demonstration.

## One of Canada's largest oil reservoir starts production

Anadolu Agency, 12.03.2015



Husky Energy, announced that it has begun oil production from one of the biggest oil reserves in Canada. The Sunrise Energy Project is estimated to have reserves of 3.7 billion barrels of bitumen. Bitumen is a type of unconventional petroleum deposit and is also referred to as oil sands.

The \$2.5 billion project is expected to produce 60,000 barrels of oil per day by the end of 2016, while it has the potential to climb up to 200,000 barrels per day if it decides to expand, according to Husky Energy's website. Husky with a 50 percent working interest in the project, is the operator of Sunrise, while BP is the other partner in the project.

"We are expecting more than 40 years of production from this reservoir with very low ongoing capital costs," said Huskey's CEO Asim Ghosh in a statement on the company website. According to the U.S.' Energy Information Administration, Canadian oil sands rank third in the world for oil reserves after Saudi Arabia and Venezuela. The oil sands contribute to most of Canada's proved oil reserves with 169 billion barrels. Oil resource-rich Alberta, a western province of Canada, was responsible for 78 percent of the country's oil production in 2013, while about 80 percent of Alberta's production came from the oil sands, the U.S. administration says.

However, the International Energy Agency warned on Feb. 11 on its medium-term oil market report that future projects with oil sands require higher initial financing and take longer to reap returns on investment, indicating they are likely to be delayed. In addition, the research and consulting company Wood Mackenzie stated on Feb. 24 that it expects cash flow to Canada's oil sands region to fall by a total of \$23 billion, and capital expenditure to decrease by \$1.5 billion over 2015 and 2016.

# US impedes oil balance with high stocks and low imports

Anadolu Agency, 12.03.2015



**U.S.** The U.S.' rise in crude oil inventories adding to the oil supply glut, has a diluted effect on the total global oil demand as the world's biggest oil importer lowers its oil imports. The U.S. crude oil stocks keeps rising week-on-week, while the country has also lowered its crude oil imports, the U.S.' EIA, weekly data revealed.

The U.S. crude oil imports fell by 575,000 barrels per day in a single week to reach 6.8 million barrels per day for the week ending. While this is 1.2 percent less than the same four-week period last year, it is also below the last four week's average of 7.1 million barrels per day.

Low global oil demand is considered as one of the major factors behind the oil price slump since June 2014. Major oil importing countries in Asia and Europe continue struggling with slow growth rate in their economies, thus curtailing overall demand. Meanwhile, the glut of oil supply in the market has also increased with rising production levels, which climbed to some 94 million barrels a day, especially with rising output from Saudi Arabia, Iraq, and mostly the U.S. U.S. crude oil production increased to over 9 million barrels per day in the final quarter of 2014, from the average of 7.45 million barrels a day in 2013.

In addition, the EIA expects crude oil production to climb to 9.3 million barrels a day in 2015 and to 9.5 million barrels a day in 2016, from an average of 8.7 million barrels per day in 2014. The administration projects crude oil production in the U.S. to reach 9.4 million barrels a day in the second quarter of 2015, then decline by 170,000 barrels per day in the third quarter of the year due to low economic returns from some wells that are affected from low oil prices. Moreover, the country continues to add supply to the glut of oil in the market. Crude oil inventories in the U.S. rose for a ninth consecutive week. The crude oil stocks increased by 4.5 million barrels in the week ending March 6. This has brought the total U.S. crude oil inventories to 448.9 million barrels as of last week -- the highest annual level since 1982, and highest seasonal level in 80 years. The crude build is also 78.9 million barrels higher than a year ago, EIA data shows.

# Announcements & Reports

## ► *Prospects for Iran's Oil and Gas Sector*

**Source** : Chatham House

**Weblink** : [http://www.chathamhouse.org/sites/files/chathamhouse/field/field\\_document/20150305IranOilGasStevens.pdf](http://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150305IranOilGasStevens.pdf)

## ► *Issue, 99*

**Source** : Oxford Energy Institute

**Weblink** : <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/03/OEF-99.pdf>

## ► *Short-Term Energy Outlook*

**Source** : EIA

**Weblink** : <http://www.eia.gov/forecasts/steo/>

## ► *Drilling Productivity Report*

**Source** : EIA

**Weblink** : <http://www.eia.gov/petroleum/drilling/>

# Upcoming Events

## ► *Oil and Gas Industry Supply Chain 2015*

**Date** : 17 March 2015

**Place** : Moscow - Russia

**Website** : <http://www.n-g-k.biz/?page=meropr47>

*Supported by PETFORM*

## ► *TUROGE 2015*

**Date** : 18 – 19 March 2015

**Place** : Ankara – Turkey

**Website** : <http://www.turoge.com/Home.aspx>





► *The 8th Annual European Gas Transport & Storage Summit (GTS)*

**Date** : 23 - 24 March 2015  
**Place** : München - Germany  
**Website** : <http://www.gtsevent.com/>

► *Rio Gas & Power Forum*

**Date** : 25 March 2015  
**Place** : Rio - Brazil  
**Website** : <http://www.woodmac.com/public/events/12526327>

► *Gasification 2015*

**Date** : 25 March 2015  
**Place** : Prague – Czech Republic  
**Website** : <http://www.wplgroup.com/aci/conferences/eu-ecg4.asp>

► *14<sup>th</sup> Georgian International Oil, Gas, Infrastructure & Energy Conference*

**Date** : 25 – 26 March 2015  
**Place** : Tbilisi – Georgia  
**Website** : [http://www.worldoils.com/showevents.php?id=3945&event\\_name=14th%20Georgian%20International%20Oil,%20Gas,%20Infrastructure%20&%20Energy%20Conference%20\(GIOGIE\)](http://www.worldoils.com/showevents.php?id=3945&event_name=14th%20Georgian%20International%20Oil,%20Gas,%20Infrastructure%20&%20Energy%20Conference%20(GIOGIE))

► *LNG Congress Russia 2015*

**Date** : 31 March – 02 April 2015  
**Place** : Moscow - Russia  
**Website** : <http://www.lngrussiacongress.com/>

► *Flame 2015*

**Date** : 13 – 16 April 2015  
**Place** : Amsterdam - Netherlands  
**Website** : <http://www.icbi-flame.com/?xtssot=0>

► *9<sup>th</sup> Atyrau Regional Petroleum Technology Conference*

**Date** : 14 – 15 April 2015  
**Place** : Atyrau – Kazakhstan  
**Website** : <http://www.oitech-atyrau.com/About.aspx>



► *14<sup>th</sup> North Caspian Regional Atyrau Oil & Gas Exhibition*

**Date** : 14 – 16 April 2015  
**Place** : Atyrau – Kazakhstan  
**Website** : <http://oil-gas.kz/en/>

► *International SAP Conference for Oil&Gas*

**Date** : 14 – 16 April 2015  
**Place** : Berlin - Germany  
**Website** : <http://uk.tacook.com/sapoilandgas>

► *ERTC Energy Efficiency Conference*

**Date** : 16 April 2015  
**Place** : Brussels - Belgium  
**Website** : <http://events.gtforum.com/energy-efficiency>

► *Madrid Forum*

**Date** : 20 – 21 April 2015  
**Place** : Madrid - Spain  
**Website** : <http://ec.europa.eu/energy/en/events/madrid-forum>

► *9th Edition Global Procurement and Supply Chain Management for the Oil and Gas Industry*

**Date** : 22 - 24 April 2015  
**Place** : Amsterdam - Netherlands  
**Website** : [http://www.gulfoilandgas.com/WEBPRO1/Events/event\\_details.asp?id=2023](http://www.gulfoilandgas.com/WEBPRO1/Events/event_details.asp?id=2023)

► *FT Energy Strategies Summit*

**Date** : 14 May 2015  
**Place** : New York - USA  
**Website** : <https://live.ft.com/Events/2015/FT-Energy-Strategies-Summit>

► *Wood Mackenzie 11th Annual Exploration Summit*

**Date** : 26 – 29 May 2015  
**Place** : Johannesburg - South Africa  
**Website** : <http://www.woodmac.com/public/events/12526247>



Supported by PETFORM

► *6<sup>th</sup> World Forum on Energy Regulation (in Turkey)*

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



► *Offshore Production Technology Summit*

**Date** : 01 - 02 June 2015  
**Place** : London – United Kingdom  
**Website** : <http://offshore-summit.com/>

► *OGA 2015*

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

► *22<sup>nd</sup> International Caspian Oil & Gas Exhibition and Conference*

**Date** : 02 – 05 June 2015  
**Place** : Baku – Azerbaijan  
**Website** : <http://www.caspianoilgas.az/2015/>

► *World Gas Conference*

**Date** : 01 – 05 June 2015  
**Place** : Paris - France  
**Website** : <http://www.wgc2015.org/>

► *6<sup>th</sup> OPEC International Seminar*

**Date** : 03 – 04 June 2015  
**Place** : Vienna - Austria  
**Website** : [http://www.opec.org/opec\\_web/en/press\\_room/2793.htm](http://www.opec.org/opec_web/en/press_room/2793.htm)

► *FLNG*

**Date** : 11 - 12 June 2015  
**Place** : London – United Kingdom  
**Website** : <http://www.mioge.com/RPGC-Congress/About-the-Conference.aspx>



### ► *12<sup>th</sup> Russian Petroleum & Gas Congress*

**Date** : 23 – 25 June 2015  
**Place** : Moscow – Russia  
**Website** : <http://www.mioge.com/RPGC-Congress/About-the-Conference.aspx>

### ► *13<sup>th</sup> Moscow International Oil & Gas Exhibition*

**Date** : 23 – 26 June 2015  
**Place** : Moscow – Russia  
**Website** : <http://www.mioge.com/mioge-exhibition/about-the-exhibition.aspx>

### ► *7<sup>th</sup> South Russia International Oil & Gas Exhibition*

**Date** : 02 – 04 September 2015  
**Place** : Krasnodar – Russia  
**Website** : <http://www.oilgas-expo.ru/en-GB>

### ► *22<sup>nd</sup> Annual India Oil & Gas Review Summit and International Exhibition*

**Date** : 09 – 10 September 2015  
**Place** : Mumbai – India  
**Website** : <http://www.oilgas-events.com/india-oil-gas>

### ► *The Energy Event 15*

**Date** : 15 – 16 September 2015  
**Place** : Birmingham – United Kingdom  
**Website** : <http://www.theenergyevent.com/Content/MAIN-SF-W2L-enquiry-form>

### ► *3<sup>rd</sup> East Mediterranean Gas Conference*

**Date** : 22 – 23 September 2015  
**Place** : Paphos – Greek Cyprus  
**Website** : <http://www.oilgas-events.com/East-Med-Oil-Gas>

### ► *23<sup>rd</sup> Kazakhstan International Oil & Gas Exhibition and Conference*

**Date** : 06 – 09 October 2015  
**Place** : Almaty – Kazakhstan  
**Website** : <http://www.kioge.kz/en/conference/about-conference>