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# Energy to become among top issues in Turkey by 2020

Anadolu Agency, *30.03.2015*

**Those who aim to govern Turkey after the 2020's will need to bring new energy projects to the table, Head of TP, said.**

**"Turkey will mostly finish its substructure projects by the 2020's, therefore the people who aim to govern Turkey after 2020's will have to plan different developments, mainly in technological, economic and energy issues," Besim Sisman, said during the Eastern Mediterranean and Middle East Oil and Gas Congress and Exhibition in Antalya. Noting that Turkey's general elections will take place on June 7, Sisman said energy projects and investments will "hopefully" be put in the spotlight for discussion from now on.**

Sisman also spoke on TP's plans stressing that in order for the company to become internationally-recognized, it will require the removal of its bureaucratic burdens and be put up for public offering. Additionally, Deputy General Manager of Turkey's Petroleum Pipeline Corporation, BOTAS, Mehmet Konuk spoke on Turkey's increasing significance for energy projects in the region during the conference. He underlined that Turkey is the sole route, without any alternative, for transferring Middle Eastern and Caspian energy resources to Europe. "Turkey is determined to take the necessary steps to provide energy supply security for the European region," Konuk said.

# Russia pushes Turkey closer to Greece

Natural Gas Europe, *31.03.2015*

**Turkey and Greece are back under the spotlight as Gazprom restated the importance of Turkish Stream for Greece's energy security, while the Turkish Cypriot and Greek Cypriot leaders openly referred to the opportunity of resuming negotiations about the future of the Mediterranean island.**

**Gazprom's Alexey Miller met with Panagiotis Lafazanis, Minister of Environment and Energy. 'The parties addressed Russian gas supplies to Greece and other issues of cooperation in the energy sector. It was emphasized that diversification of export routes was essential for enhancing the reliability of supplies' reads a note released.**

Meanwhile, Greek Cypriot and Turkish Cypriot leaders sent conciliatory messages. 'Encouraged by the window of opportunity resulting from these developments, we expect the Greek Cypriot side to return to the negotiation table without further delay, with a view to achieving progress in the settlement talks in line with the principles and objectives established in the 11 February 2014 Joint Statement' the Turkish Cypriot Ministry of Foreign Affairs wrote on Monday, referring to Saipem 10000 drillship and Barbaros Hayreddin Paşa withdrawal from the Cypriot waters.

The Cypriot government said that the United Nations Secretary-General's Special Adviser on Cyprus is optimistic about a possible resumption of the negotiations. "The Secretary-General's Special Adviser on Cyprus island, Espen Barth Eide, will return to the country on 6 April to follow up on the encouraging indications received during his last trip to the island regarding a possible resumption of the negotiations. Mr Eide will meet bilaterally with the Greek Cypriot and Turkish Cypriot leaders to continue discussions on prospects for the resumption of talks in the spring" Nicosia wrote in a press release, reporting Deputy Spokesman for the Secretary-General Farhan Haq's statement during the press briefing at the UN headquarters in New York.

# Putin has no plans to visit Turkey soon for talks on Turkish Stream gas pipeline

Azer News, *01.04.2015*

**Vladimir Putin has no plans to visit Turkey shortly to discuss the Turkish Stream gas pipeline project, presidential spokesman Dmitry Peskov said.**

**"We don't have such plans in the foreseeable future," Peskov said. Russia and Turkey are holding a dialog on the gas issue at various levels, including the level of corporations, he said. "Gazprom's representatives are in constant contact with partners to hold discussions and start implementing the Turkish Stream," Peskov said. Gazprom and BOTAS signed a memorandum of understanding envisaging the construction of a gas pipeline across the Black Sea to Turkey.**

The Turkish Stream gas pipeline will have a capacity of 63 billion cubic meters, of which 50 billion cubic meters will be supplied to a new gas hub on the Turkish-Greek border. Russian President Putin announced on December 1 the project to build the South Stream gas pipeline was closed due to the European Union's unconstructive approach to cooperation in that sphere, including Bulgaria's decision to stop the construction of the pipeline's stretch on its territory. Instead, Russia will build a gas pipeline to Turkey where a gas hub on the border with Europe will be created, Putin said.

South Stream was Gazprom's global infrastructure project designed to build a gas pipeline with a capacity of 63 billion cubic meters across the Black Sea to Southern and Central Europe in order to diversify natural gas export routes and eliminate transit risks. The Turkish Stream gas pipeline will run 660 km (410 miles) along the old corridor of the South Stream project abandoned by Russia and 250 km (155 miles) in the new corridor towards Turkey's European part.

# Turkey's first seismic vessel launched

Anadolu Agency, *28.03.2015*

**The first Turkish-made seismic vessel, Turkuaz, was launched with ceremony in Istanbul. "Turkuaz will explore mines, not only in Turkish seas but also with other nations having developed relations," Turkish Energy Minister, Taner Yildiz, said during the launching ceremony of the vessel.**

**The vessel, that cost 300 million liras, is aimed to find out gas, oil and other mines potential in the region, while carrying out climate change and ecologic researches under the state owned-company Mineral Research and Exploration General Directorate. It will also perform comprehensive underwater search activities with remote controlled system.**

"Turkey has increased its exploration investment budget by 10 times and the number of drills by six times," the minister said, in the last 12 years, under the current government's rule. Turkuaz, with 86 meters length and 23 meters width, will serve for at least 30 years with 50 staffs. It has a capacity to endure its activities uninterruptedly for 35 days away from the land.

# Oil prices not to stay low

Anadolu Agency, *31.03.2015*

**The oil prices should not go under a certain level, as the low prices that knock companies out of the market should hit back as extreme prices, an industry expert cautioned.**

**Cenk Pala, a senior manager at Turkey's Enerjisa, said the prices can go up to $150, if a blockage occurs on the supply side due to companies knocked out companies following low prices. "If you today diminish benefits of oil companies by keeping prices low, you might pay the price under a blockage of any supply supply sources," Pala said at an energy conference in Antalya, EMOGE, stressing the importance of diversified supply sources.**

Ibrahim Palaz, a senior director at SOCAR, also said that low-cost oil producing countries aimed at forcing out high-cost oil producers through maintaining low-prices. Oil prices have almost halved since last June, shaking the oil market as the Brent crude oil prices hit below $50 per barrel. “These circumstances left countries like Russia, Venezuela and Iran under tough conditions,” said Palaz, as OPEC countries remained reluctant to cut their production to raise the prices. “There is a new paradigm in the oil market in which the oil prices will continue to remain volatile and to stay low,” Palaz added. Cenk Pala, a manager at EnerjiSa, added that the plunging oil prices could be seen as “planned coincidences” to hit Russia’s economy, which is already struggling under Western sanctions.

# Baghdad scores a goal in its oil dispute with KRG

Rudaw, *02.04.2015*


**Last September, the federal government in Baghdad filed a $300 million lawsuit against the KRG most important oil tanker shipping partner, Greece’s Marine Management Services (MMS).**

**MMS’ oil tankers may be familiar to readers who followed the news about the KRG’s efforts to pursue independent Kurdish exports: the United Carrier, the United Emblem, the United Dynamic the United Leadership and the United Kalavryta. The lawsuit claimed that MMS was illegally participating in the sale of Iraqi oil when it shipped the KRG’s exports to market without Baghdad’s consent.**

It is not clear how the lawsuit would have turned out, as a number of provisions of the 2005 Iraqi Constitution support the Kurdish view that they have a right to export Iraqi Kurdistan’s oil (provided they share the proceeds with all of Iraq). No one doubted, however, that a long legal battle would have proven very costly to MMS and might well have included injunctions and asset freezes until it was settled. Often the simple act of pursuing someone legally is enough to change their behavior, no matter the likelihood or length of time until a legal judgement can be reached.

This is how Baghdad won a victory of sorts against the KRG this week. MMS agreed to settle with Baghdad rather than be dragged through international courts for the next several years. In the settlement, MMS apparently agreed that as soon as its current contracts with the KRG expire towards the end of this year, they will stay away from any Kurdish oil not approved by Baghdad. This furthers Baghdad’s efforts to deny the KRG a route to financial independence from the central government, and comes along with the ongoing denials of large portions of the KRG’s share of the Iraqi budget.

In all likelihood, the Kurds will be pushed to find new carriers for their oil – just as Baghdad's refusal to pay Kurdistan-based oil companies for their oil started the whole Kurdish bid for independent exports in earnest. Israeli flagged oil tankers, for instance, might enjoy the same advantage that Israel enjoys when it buys oil from the KRG: since Iraq does not recognize the Israeli state, it can hardly sue it or its companies in a court of law. Given that an export capacity of 500,000 barrels per day and counting is unlikely to remain stranded for long, other mechanisms may be found to get Iraqi Kurdish oil to international markets.

The truly galling part of all this involves the underlying logic, however. As recently as in its December 2014 agreement with Baghdad, the KRG showed itself willing to share its oil proceeds with the rest of Iraq. In that agreement, Kurdistan delivers some 550,000 bpd to Baghdad in return for its share of the national budget – which was illegally cut off by the previous Maliki government. So far, the Kurds have been delivering most of that oil – although the daily tally sometimes dipped below 550,000 bpd, KRG Natural Resources Minister Ashti Hawrami insists that the average daily oil deliveries will come out on target.

Yet Baghdad has yet to deliver the KRG's share of the 2014 budget. For 2015, sums far short of Kurdistan's 17% of the Iraqi budget made it to Erbil. While public servants' salaries in Kurdistan remain months in arrears, Baghdad keeps paying civil servants in ISIS-controlled territories like Mosul. Politicians in Baghdad have claimed that this is because the Kurds are still selling oil independently, beyond the 550,000 bpd they turn over to Baghdad's State Organization for the Marketing of Oil (SOMO). Yet Baghdad implicitly endorsed this practice in the December 2014 agreement when it refused to take on the task of paying oil companies in Kurdistan their productions costs (Kurdistan's 17% share of the budget, in contrast, is calculated after oil operation expenses) and it asked the KRG not to sell additional oil more cheaply than SOMO.

With the price of oil so low and the war against the Islamic State still raging, neither Iraq nor Kurdistan can afford these sorts of shenanigans. The simple compromise would be for Baghdad to accept the KRG's right to sign its own contracts with oil companies and manage its own oil resources, while the KRG agrees to let SOMO market its oil along with that of the rest of Iraq. SOMO would collect revenue with an automatic gross 17% going straight into a KRG-controlled bank account, from which the KRG could pay its oil companies.

# ENI/KOGAS face another dry hole in Greek Cyprus' EEZ

Natural Gas Europe, *30.03.2015*

**The ENI/KOGAS failed to find exploitable amounts of natural gas in Block 9 of Greek Cyprus. The disappointment is the second one of its kind since the Italian and North Korean partners began gas explorations in Greek Cyprus.**

**The minister of energy of Greek Cyprus Yiorgos Lakkotrypis said Greek Cyprus will pursue exploratory searches off the island and assured that the disappointing results were not indicative of the island's potential. Since Noble Energy's discovery of Aphrodite in 2011, a field estimated at 4.54 Tcf, the island hasn't encountered any additional amount of the hydrocarbon in its waters.**

The field has not been exploited to date. The project for an onshore LNG terminal on the Vassilikos coast has been replaced by a regional pipeline strategy given the modest quantities of natural gas. Greek Cyprus is considering the sale of gas from the Aphrodite field to Egypt and potentially using Egypt's unused export terminals to reach export markets. Greek Cyprus is relying on gas revenues to lift an economy severely hit by the financial crisis. Neighbouring Israel has made significant discoveries off its coast. The Leviathan and Tamar fields, estimated at 21 and 10 Tcf, will ensure the country's natural gas independence for decades and its entry into the export market. Domestic debates and a dispute between the partners in Israel's largest offshore fields and Israel's competition regulator, have delayed the completion of regional deals between Israel and its immediate neighbours.

Greek Cyprus remains hopeful that future search activities may prove successful. Meanwhile, interrupted peace talks to reunify the ethnically split island are set to resume. The break in offshore activities could allow for some progress towards achieving a sustainable settlement for the island. Gas explorations had triggered renewed tensions between the Greek Cypriot government and Turkey that led to the disruption of the talks in October last year. Turkey's argument that gas finds will not benefit Turkish Cypriots was refuted by Greek Cypriot officials who maintained any gas discoveries will benefit all of Cyprus island, both communities included. The year ahead will be decisive for Cyprus island as it will reveal the island's natural gas potential as more exploration activities unfold.

# Jordan expects to buy Palestinian gas soon

Anadolu Agency, *02.04.2015*

**Jordan plans to sign a letter of intent soon with the BG Group to import Palestinian natural gas from the Gaza Strip, Jordan's energy official said. "The natural gas production in Gaza offshore fields is expected to start very soon because the BG Group is already working on the field," said Ibrahim Saif, minister of energy and mineral resources of Jordan.**

**Jordan halted negotiations with Israel over the gas deal between the two countries. The cutoff in talks were due to the Israeli authorities' decision to prevent the monopoly of partner companies operating on Leviathan field. This created uncertanities about the future of production from the field.**

"National Electricity Company of Jordan has signed a memorandum of understanding with Noble energy. The agreement between the two companies has yet to be developed," said Saif who replied to questioning on the current status of the agreement. "Jordan is a country heavily-dependent on imported oil. Now we are focusing on other sources of energy, in order to be sustainable and to reduce Jordan's level of dependency on other countries. That's part of how we diversify energy sources and what we plan for the sector," he said. "We are focusing on wind energy as much as we are focusing on other sources. We are investing heavily in the sector. It will be more promising next year with more construction going on," he added.  He also said Turkish companies are contributing towards Jordan's renewable sector by participating in tenders.

# Saudi Arabia faces competition in Asian crude market

Anadolu Agency, *30.03.2015*

**Saudi Arabia's dominance in Asian crude market has been shaken as competing countries offer new supply options for the region, Wood Mackenzie said.**

**Saudi Arabia's exports 65 percent of its crude oil and Asia remains its largest market, the report said. Asian oil demand is expected to increase by 135 million tons by 2020. However, by then, Saudi Arabia's 23 percent current market share in Asia could drop to 21 percent if it does not increase its current export volumes. Therefore, the country is forced to take action by providing price discounts in order to remain competitive and to retain its market share in Asia.**

"Iraq has emerged as the largest competitor, with exports rising mostly by 30 million tons from 2010 to 2014," the report said. Iraq is followed by Russia and the United Arab Emirates, which increased their export volume by 21 million tons and 20 million tons respectively. Saudi Arabia, however, only increased its export volume to Asia by 12 million tons in the same period. Latin America countries are also directing their crude exports to Asia as the U.S. has increased its heavy crude imports from Canada while backing off from crude imports from Latin America. "Other suppliers looking to position themselves in Asia will have to pay close attention to the Saudi's pricing strategy for Asia," said Wood Mackenzie. The official selling price of Arab light crude for Asia reached its largest discount of $2.30 per barrel in March 2015, which means the price to Asia is at its lowest level in more than a decade, the report said.

# No shale gas, after all - implications of Chevron's exit from Romania

Natural Gas Europe, *30.03.2015*

**Chevron announced its decision to renounce shale gas exploration in Romania, in what was deemed by company representatives "a business decision" that follows evaluations of the Romanian project.**

**Chevron finalized exploratory drilling in 2014 as well as a 2-D geophysics study on two of its three Dobrogea region concessions, and had been analyzing the data since. In 2013, EIA had estimated Romania's shale gas potential at 51 tcf of technically recoverable shale gas and 0.3 BBL of shale oil and condensate, with the figures raising high hopes both among investors and local officials and experts.**

However, the figures resulted from a theoretical model, based on structural comparison between North American and European shale geology and were, thus, just a rough estimation. The news of Chevron's exit did not come entirely as a surprise, and was somewhat expected after a statement last year by Prime Minister Victor Ponta during his presidential campaign, explicitly saying that there was no shale gas in Romania and all the fighting about it had been for nothing. Though at the time the statement could easily be interpreted as just a political message meant to take the contentious issue of shale gas off the campaign agenda, Ponta's words now ring true – for all their disregard of Chevron's own communication strategy.

Indeed, the story of shale gas in Romania has somewhat been that of a fight. Chevron has had to deal with public opposition and outright protests, including clashes with police; mis- and dis-information, and a lack of understanding about the fracking procedure and its risks; overwhelming bureaucracy and a highly volatile and confusing legal procedure when it comes to unconventional gas drilling in the country, even though no moratorium was ever officially instated, like in neighboring Bulgaria. Romanian legislation does not differentiate between conventional and unconventional gas in terms of authorization procedures to be undertaken prior to operations.

Instead, it grants the National Agency for Mineral Resources (ANRM) decision power over the schedule, technology and methods to be used in each drilling operation, on a case-by-case basis. In lack of comprehensive legislation which would take into account more than the few scenarios that the ANRM has grown accustomed to, the micro-management procedure at hand stalled the process and left it vulnerable to ad hoc interpretations. Operations were further delayed by the bad reputation that shale gas and fracking quickly gained in Romania. This was favored by several factors. For one thing, shale gas was used as a political tool during the general elections of 2012, when some Social-Democrat candidates for Parliament promised to ban fracking should they be elected. However, it was precisely the Social-Democrat government of Victor Ponta that gave the green light for fracking just the next year, causing a lot of resentment and disappointment, even urging requests for his resignation.

Another factor to play a role was a stalled extractive project by a Canadian Company, Gabriel Resources, which had been faced with environmental protests for years on account of its intention to use cyanides in a gold-extraction project at Roşia Montană, in Romania's Apuseni Mountains. The project was highly mediatized lately, although it has been dragging on for over a decade. No proper information campaign to reassure the population on safety procedures was ever undertaken by either the company or the government, and when the company finally started communicating with the public, it did so though an advertising campaign, talking about the benefits of gold extraction for the local community, instead of addressing safety concerns. The advertising campaign, in effect, was perceived as misleading and ended up causing more harm than good to the project's image. No public national information campaign was undertaken in regard to shale gas or fracking either – and it was not legally mandatory, either –, though a local one was eventually implemented by Chevron; however, only after protests had already begun, and only at a regional scale. The government chose to stay away from the issue, while think-tanks trying to inform the public had only limited reach, and definitely not in the rural areas where Chevron was operating.

There was much speculation about the origin of the protests and of the overall anti-shale gas campaign, whether they were local, or directed from the outside. Chevron encountered similar opposition in each of the Central and Eastern European (CEE) countries it operated in, which could lean the balance towards the explanation that protests were organized from the outside and were not just a product of domestic environmental activism (which, anyway, is hardly in its incipient stages in Romania overall). However, with little proof publically available on either side, the more useful focus is on the fact that neither the government, nor the investor were sufficiently prepared to handle the public's reaction, a weakness that both actors would do well to address. Though it has not been this opposition that was the driver of the company's decision to pull out of either Romania, Poland (January 2015) or Lithuania (2014), it must have played a role in the company's cost/benefit calculations, especially in the current bearish market environment caused by the oil price slump. Though Chevron's exit is not necessarily a verdict on the long-term potential of shale gas in the region, Romania included, it does prove right European shale gas sceptics, though not for the arguments they adamantly professed: population density, water supply, land ownership etc. The decision, instead, refers mainly to a lack of commercial volumes available for extraction with current Chevron technology, under the company's current financial situation.

Chevron has had to cope globally with an increase in its failure rate in 2014, representing 30% of all drills last year, as opposed to just 18% in 2013, with profits also falling 30% y-on-y in Q4 of 2014 to $3.47bn, the lowest level of the past five years, because of the low oil prices. Overall 2014 net profits dipped 10.3% y-on-y to $19.2bn, with investments to be reduced 13% y-on-y in 2015, after a mere 3.7% cut in 2014 from 2013 levels. With the decision having been based on Chevron's specific financial calculations and on the geology of the CEE countries where drilling was undertaken, there is still hope for European shale gas development, albeit not in this region, at least not on the short term, and certainly not at the US level. The United Kingdom is now the flag bearer in this sense, with Germany also considering legislation to allow commercial shale gas fracking at depths of over 3,000 meters.

As for Romania, Chevron will release the results of proceedings to the ANRM, which are to remain confidential, in accordance with Romanian legislation. The details of the company's exit remain to be worked out, including the fate of the licenses that Chevron was granted. It remains to be seen whether other companies will be interested in investing, with no such outlook as of yet. Shale gas hopefuls have continued drilling, for instance, In Poland, even after Chevron's exist, however, with disappointing results (in February, Polish oil refiner and petrol retailer PKN Orlen and state-controlled oil and gas company PGNiG gave up one and four concessions, respectively, in their home country, citing technological and geological difficulties). Romania's Vaslui County, where Chevron was drilling, and, for that matter, the country's entire Eastern parts, are very poor, with little chance of economic growth in the foreseeable future. Chevron's operations, therefore, would have been a real blessing, with the company already employing several locals at what was perceived as highly competitive salaries for the region. Chevron also temporarily revived local businesses by outsourcing many of its activities; moreover, it employed domestic drilling companies, which not only made a profit, but also benefited from the Chevron's know-how. Chevron's exit is also a loss for the country in general, since shale gas hopes had even managed to seriously put the idea of Romania becoming a regional gas hub on the political agenda.

However, the move might be a very welcomed wakeup call for the Romanian government and politicians in general in regards to the conditions that international investments require (transparency, speedy resolution of problems, political stability etc.). Moreover, it will hopefully focus their attention and efforts on the Black Sea offshore projects, where significant reserves are already proven, but where significant action is still necessary in order for them to become commercially viable: building the pipeline infrastructure to transport the gas into the national gas network and from there onwards to exporting points; deciding upon a reliable, profitable, yet commercially-attractive royalties system for oil and gas companies. Therefore, if losing Chevron will cause decision-makers to focus more on what they can do to help the investments in the Black Sea, surely the entire Chevron experience will not have been in vain.

# Hydrocarbon exploration: The story of Greece and Croatia

Natural Gas Europe, *31.03.2015*

**It is no secret that the recent decline in oil price levels has led most international oil companies into a process of rationalisation of their exploration and production projects. Anyone even remotely active in the industry is experiencing, in one way or another, the impacts of corporate restructuring, cancelation of projects and cuts in capital expenditure.**

**Various analysts and commentators have highlighted the impact that this environment has had on the financial performance of most, if not all oil companies, as well as that of countries, which are either direct producers, or consumers of oil and gas.**

To be more specific, while the national budgets of most countries have been affected, either positively or negatively, by the dramatic fall in oil prices; a number of countries have also suffered from the freezing or cancelation of investments in upstream projects, which have become uneconomic in the current oil price environment. Global oil and gas companies have announced capital expenditure cuts totaling some $349.2 billion, while it is believed that over $164 billion of investment plans in exploration and production are currently at risk.

In this context, the recent results of the 2nd onshore licensing round in Western Greece do not come as a surprise. Although the participation of Total, Shell and Repsol was rumored, it never materialized. Nor did that of Enel, whose interest incentivised the former Greek government into launching this tender. Instead, the only bids submitted were those from two Greek companies, Hellenic Petroleum and Energean. It is clear that the recent plunge in crude oil prices has led many oil and gas companies to cut back on high-risk investments, prioritizing projects in their portfolios strictly based on returns, protecting shareholder value. Even though this is an unavoidable reality for the industry, the low oil price environment has not been the sole driver behind the failure of the recent Greek bidding round in attracting international players. Looking at the recent licensing round in Croatia – an EU country with comparable geological risks, as well as licensing systems – which received 10 bids for 15 exploration areas from 6 companies including ENI, Marathon Oil, OMV and INA (co-owned by Croatian government owned and Hungary's MOL) in 2014, the oil price environment did not act as a prohibiting factor.

Thus, the following question is raised: what lessons can Greece extract from this turn of events, in order to ensure the success of the re-launching of the 2nd Offshore Licensing Round in the Ionian Sea and the South of Crete? Any answer to such question, requires us to look at a number of issues. Examining the factors which drove the success of the Croatian international exploration round, on the most obvious level: their newly established legal and fiscal regime was an outcome of adopting best practices from other EU countries – as claimed by the Croatian ministry – where transparency with regards to policy and the regulatory framework was a central theme (this was achieved through the publication of block maps, fiscal terms and a model contract). That being said, the recent messages from the Prime Minister of Croatia regarding the possible referendum on hydrocarbons exploration in the country illustrate the difficulties of launching hydrocarbon exploration and production activities in a country ‘new’ to the industry.

Secondly, one has to consider the strong social and cultural ties that Croatia has with its neighbors Austria and Hungary, being part of the Austro-Hungarian Empire until 1919. These long standing geopolitical ties take a different meaning when looking closer at the companies prominent in the region that participated in Croatia’s international tender. Those were Austrian company OMV and the Hungarian MOL, through its local subsidiary and ex National Oil Company of Croatia INA. While MOL is well known in Greece, OMV is relatively unknown to us, but not to the rest of the Southern and Central Europe, and the wider Balkans. OMV is present in 10 Central European and Balkan states with a huge portfolio ranging from upstream activities to downstream. MOL, in turn, shares a similar business model with regards to its geographical scope of operations. It is evident that any company with presence in this area wouldn’t like to miss out on the opportunity provided by such a bidding round, especially when it takes place in the heartland of its activities.

At the same time, what is often overlooked is the competition between these two companies. After OMV’s failed attempt for a hostile takeover of MOL, the two companies have entered into a state of fierce competition, and the Croatian bidding rounds offered the perfect stage for a showdown, with the Croatian blocks as the prize and the Croatian Government being the ultimate benefactor. Approaching the issue from a different perspective, one should also examine the factors that drove the performance of the Greek licensing round. Some will argue that had the timing been better for the Greek Exploration Round i.e. the bidding submission was six months to one year earlier, the situation would have been completely different. Timing hasn’t been great for Greece, that’s a given.

The previous Coalition Government in Greece worked tirelessly on the two bidding rounds for more than two years. The oil price was a lot more favorable 12-18 months ago and although neither the Ministry nor the markets could predict the fall of the oil price, the previous Coalition government (New Democracy/Pasok) could have accounted for the political stability in the country. It is also clear, that the very well documented GRExit fears following the recent elections in Greece, coupled with the orientation of the new Government towards changing the licensing model put in place for the 2nd International Exploration Round from a Lease Acreage Agreement into PSA (Production Sharing Agreement), alienated a number of companies which were interested in submitting bids. Transparency and guarantees over the fiscal and legal stability are central in reducing risk. The oil industry is not unfamiliar to the risk of changes and has demonstrated high resiliency in several occasions; however, the risks have to be quantifiable, and uncertainty works in a prohibiting factor when it comes to such investments.

Although the current oil price environment has made the criteria for investment more stringent, this does not mean that economically viable projects with low or manageable risks will not go ahead. On the contrary, it means that the legislation and tax packages on offer have to be internationally competitive in order to attract the available capital. This means that reassurance mechanisms have become a necessity in order to bypass the current risk aversion sentiment in the market. The Greek officials have to adopt an extrovert approach towards the industry, replicating the international best practice examples and shaping an attractive (predictable and stable) political, legislative and fiscal environment which will enable them to unlock the country's potential. Similarly, the recent investment patterns illustrate that aggressive marketing strategies are becoming increasingly important in a highly competitive hydrocarbon exploration industry. In the words of Lionel Robbins "Economics is the science which studies human behavior as a relationship between given ends and scarce means which have alternative uses." If the Greek Government wants to attract foreign investment in hydrocarbon exploration, and the know-how and expertise that come with it, it has to make sure that it adapts to this competitive international market environment.

# Greece aims to be hub for Turkish Stream

Anadolu Agency, *31.03.2015*

**Greece favors the Turkish Stream project to boost its chances of becoming a gas hub for Southeast Europe, said Marco Giuli, a policy analyst from the Brussels-based European Policy Centre. His comments come as Greek Energy Minister Panagiotis Lafazanis meets his Russian counterpart Alexander Novak and the CEO of Russian energy giant Gazprom in Moscow.**

**"Greece needs foreign investors to complete the necessary interconnections that will allow Athens to play this role. As such, it is looking to Russia as well as to other partners," Giuli said.**

According to experts, in the upcoming meeting a gas discount for Greece could be discussed. "Gazprom is expected to offer a discount to Greece in exchange for a contractual extension. This could be instrumental in the well-known divide-and-rule strategy of Russia in energy matters. This is not a Greek-specific issue, as every EU member state negotiates separately with Gazprom, often obtaining similar advantages," Giuli said. Giuli added that regulatory developments in the EU have significantly impacted and curbed Gazprom's power – although not necessarily providing viable alternatives to many eastern EU countries. After Lafazanis' visit, Greek Prime Minister Alexis Tsipras will visit Moscow on April 8 as the Turkish Stream is a very significant project for Greece – a sentiment which has been voiced in several statements by Russian officials. The pipeline will allow Russian gas to go through Turkey, which will then be transported to the Greek-Turkish border for further transmission into Europe.

“As you surely know they will probably discuss the prospect of the Turkish Stream gas pipeline entering EU territory at the Greek border, and they will possibly discuss other trade issues also,” said Ingmar Oldberg, an expert from the Swedish Institute of International Affairs. “Depending on the outcome of the Greek-EU financial negotiations, talks on the possibility of loans to Greece and access of Greek assets like harbors will take place. Greece may use these meetings with Russian leaders as a means of obtaining more favors from the EU and Russia,” Oldberg said, adding that Russia will show its strength against the EU and the sanctions it imposed on the country.

The Turkish Stream project is intended to carry 63 billion cubic meters of natural gas annually and construction is aimed to begin before the end of 2016. The project is intended to replace the previously planned South Stream pipeline project, which was to carry natural gas to Europe via the Balkan region. The South Stream project was cancelled due to objections from the EU over its construction, according to Russian President Vladimir Putin. In December, Putin scrapped the South Stream natural gas pipeline project intended to pass through Bulgaria to Europe, and announced a new natural gas pipeline route through Turkey’s northwestern Thrace region. Putin also announced that a natural gas hub on the Turkish-Greek border would be constructed. Taner Yildiz, Turkey’s energy and natural resources minister said earlier in March that Turkey agreed with the Russian delegation in principle that both will take steps for the new gas route through Turkey, instead of having non-binding agreements.

## Ukraine at the Crossroads

Natural Gas Europe, *30.03.2015*

**Ukraine’s government more than doubled its taxes on gas production for private companies as part of a broader effort to shore up its embattled budget. The result is a combined marginal tax rate of close to 70%, putting Ukraine on a par with hydrocarbon exporting countries.**

**But Ukraine is not an exporter of hydrocarbons. Not any more. It is a country in the midst of a desperate gas shortage, as it continues to negotiate with Russia over gas supplies needed to cover demand for the winter. The tax increase, originally introduced as a temporary measure running until the end of the year, could now be extended indefinitely.**

This move, while understandable in the current political circumstances, could cripple – if not kill – private gas production, which has started to increase rapidly during the past year. This would be a costly mistake, because small, private gas companies – still living on the margins of the industry – could prove to be one of the pillars of the energy inde- pendence Ukraine so desperately wants. After all, it was small exploration and production (E&P) companies, not the majors, which launched and sustain the E&P revolution that will soon turn North America from the world’s biggest importer to an exporter of hydrocar- bons. To make something similar possible in Ukraine, great change – and thus great humility – will be required from a country that used to be a natural gas power.

Ukraine was once the cradle of the Soviet gas industry. The development of Ukraine's major gasfields – notably the Shebelinka field in 1950s – resulted in a production boom that saw Ukraine's gas output briefly rise to almost 70 billion cubic metres a year (cm/y). In fact, the first big gas pipelines built in the Soviet Union were designed to carry gas west to east, rather than east to west, as they do today. Ukraine's economy was built on cheap, plentiful gas and its gas professionals became the backbone of the Soviet gas industry. However, the natural depletion of Ukraine's largest fields, coupled with major discoveries in Turkmenistan and West Siberia, saw Soviet planners shift their focus and Ukraine's output stagnate. But Ukraine's economy and population continued to depend heavily on natural gas, which by the late 1980s was mostly drawn from the Siberian and Central Asian supergiant fields, turning Ukraine into a gas bridge from Eurasia to Europe. As a result, Ukraine entered the post-Soviet period as a major importer and transit artery for gas from Russia.

Although Ukraine's gas consumption has declined by more than 50% since it gained independence in 1991, it still consumed 50 billion cubic metres (cm) in 2013, making it Europe's fourth largest consumer after the UK, Germany and Italy. It also continues to rely heavily on gas flows from the east. Despite wholesale changes to its economy since independence in 1991, the state continued to play a dominant role in Ukraine's gas sector, both directly and through extensive regulatory oversight. While most other industry was privatised, Ukraine's hydrocarbon production has remained mostly in state hands. Ukraine's gas industry is dominated by state-owned Naftogaz Ukrainy. Its main producing subsidiary, Ukrgazvydobuvannya accounted for 15 billion cm of the 21 billion cm Ukraine produced in 2013. A further 3.6 billion cm of gas was produced by Chernomorneftegaz, a 100% Naftogaz production subsidiary responsible for production in the south of the country (mostly offshore Crimea) and Ukrnafta – an oil company in which Naftogaz holds 51%. The remaining 2.35 billion cm was produced by independent companies. Thus, in total, state-controlled companies accounted for 89% of gas production in Ukraine in 2013. By contrast, Gazprom controls 70-75% of gas production in Russia.

Since 1991, Naftogaz's central role has been two- fold: to operate Soviet legacy gas fields, delivering this "cheap inheritance" to Ukraine's population at low prices; and to manage Russian imports to cover the rest of the economy's gas needs. The government sets gas prices for the residential and utility sectors at what it believes to be the cost of producing and transporting the fuel (although in reality they tend to be far below real costs). Ukraine's industrial needs are met mainly through imports, but also from private gas production. The government sets a maximum limit on industrial prices based on the price of imported gas at the border plus transportation costs. Privately produced gas is delivered at negotiated prices that are kept below the maximum established price level.

There is a complication – domestic residential and utility demand is not met by domestic production. While Naftogaz produces just enough gas to cover direct residential consumption (17 billion cm in 2013), gas for heating (10 billion cm in 2013) is imported at prices, which are generally higher than the regulated price. The cost of this subsidy is supposed to be covered by fees from transiting Russian gas to Europe. This complex system worked as long as two conditions were met: that plentiful and relatively cheap Russian gas was available; and that the existing portfolio of Naftogaz's producing assets required minimal investment.

But the status quo’s commercial underpinnings are breaking down. The surge in prices for imported Russian gas during the last decade has put increasing pressure on the Ukrainian budget and Naftogaz’s bottom line. While import prices increased, the Ukrainian government has been reluctant to raise gas prices for the population. As a result, the burden of the cross-subsidy has also increased.

Meanwhile, revenues from gas transit fees – meant to plug the financial gap – have not increased proportionally as the volume of Russian gas transiting Ukraine has been gradually falling (from 128 billion cm in 2006 to 86 billion cm in 2013). This is due to the commissioning of the Nord Stream pipeline, which carries Russian gas directly to Germany, and an increase in gas transit through the Yamal-Europe pipeline via Belarus and Poland. On top of that, non-payments, especially from the heating sector, have also increased. At the end of 2013, Naftogaz’s financial losses, including non-payments, stood at roughly $4 billion. As a result, Naftogaz has been experiencing difficul- ties funding even the minimal needs of its upstream assets, resulting in stagnating production. Since 2011 its capital investment and drilling has dropped 30%. This, coupled with the loss of control over Crimea-based Chernomorneftegaz earlier this year, will likely result in continued production declines for Naftogaz as a whole for the next few years. While the Ukrainian government has made commit-ments to the European Union and the IMF to gradually unwind cross-subsidies by raising domestic gas prices, restructuring Naftogaz and eventually privatising its upstream assets, this process will likely take many years due to its highly politically and socially sensitive nature. Naftogaz is thus unlikely to channel large-scale invest- ments into gas production any time soon. But a potential alternative source of investment and gas production growth is starting to emerge: private gas producers.

Ukraine’s independent E&P sector emerged shortly after independence. For a variety of reasons, including low gas prices, non-payments for gas and extremely chal- lenging operating environment, few dared to invest in gas production during the first post-Soviet decade. But rising prices for imported gas since 2004 and the ability to sell gas at high prices to industry have started to attract inves- tors – mostly Ukrainian, some foreign – into the sector. Since 2007, independent gas production in Ukraine has almost doubled. In first half of 2014, independent production growth grew markedly – even as war broke out in Eastern Ukraine – increasing by over 30% compared to the same period in 2013. Today there are 22 registered gas producers in Ukraine, while more than 50 entities hold exploration and production licences. The combined gas reserves held in private hands now totals almost 100 billion cm. A large chunk of both production and reserves lie in the Dnepr-Donetsk basin and is controlled by seven groups of companies: Neftegazdobycha, KUB-Gaz, Burisma, GeoAlliance, Privat, Regal Petroleum and JKX Oil & Gas. Of the seven, London-listed JKX Oil & Gas and its Ukrainian subsidiary Poltava Petroleum Company (PPC) have the longest track record.

PPC began operations in 1994 at the Novonikolayevskiy cluster of licences, also known as Novonik, in the Poltava region – the heart of Ukraine’s hydrocarbon production. Since then the company has invested close to $500 million in its operations. PPC is involved in developing a broad range of assets and businesses that could be replicated by new entrants in the future. This includes “sweating” legacy assets, such as the Ignatovsoye, NovoNikolayevskoye and Molchanovskoye licences in the Novonik cluster, through infill drilling and well workovers. A waterflood of the Molchanovskoye oilfield is also in the advanced plan- ning stage.

The Elizavetovskoye field has recently been brought on stream via two wells, while a third has been drilled to test deeper reservoirs. On top of this, PPC has been exploring the Zaplavskoye licence. In August 2013 the company completed Ukraine’s first and one of Europe’s largest multi-stage well fracture of horizontal well R103 at the Rudenkovskoye field – the first serious attempt to develop Ukraine’s tight gas potential. But what has been done so far by independents could just be the tip of the iceberg. Ukraine could still hold a wealth of opportunities for E&P investors with an appetite for risk.

After more than a century of gas production, Ukraine’s main hydrocarbon-bearing regions – the Carpathian basin in the west and the Dnepr-Donetsk basin in the east – are very mature. The remaining easy-to-produce gas from large and relatively shallow fields operated by Naftogaz is running out. The future appears to lie in the country’s vast unconventional hydrocarbon resource, mostly in tight gas accumulations in the east and shale gas in the west. These hold estimated poten- tial resources of between 7 trillion and 16 trillion cm. Ukraine’s Energy Strategy to 2030 predicts a gradual decline of production from conventional fields, with all new growth coming from unconventional sources.

As part of this strategy, the Ukrainian government introduced a number of important changes to legislation and last year signed its first two production sharing agreements (PSAs) to develop unconventional gas with Shell and Chevron. The new PSAs are an important mile- stone for Ukraine’s gas industry. However, the lead times on these projects are almost certain to be long, given the lack of understanding of the geology and economics of unconventional gas in Ukraine. The fact that no country outside of North America has yet successfully commercialised its unconventional resources is also problematic. The recent exit of several international companies from neighbouring Poland due to a combination of poor early well results and high costs is a reminder that Ukraine’s unconventional future is far from secure.

Meanwhile, despite its long history as a gas producer, Ukraine still appears to have significant conventional potential, which, under the right circumstances, could be tapped relatively quickly. Ukraine’s official gas reserves stand at around 1 trillion cm. Given today’s production rates of 20 billion cm/y, this gives Ukraine a reserves-to-production (R/P) ratio of more than 50 years. By comparison, according to the Energy Delta Institute, the R/P ratio for the European Union averages 14 years. This suggests that there is a great deal of scope for accelerating production through additional investment across a number of areas.

Firstly, firms could look at existing producing fields. Efficiency was not one of the strengths of Soviet-era development. Many fields in production in Ukraine have ample opportunities for enhanced recovery through well workovers, appraisal of bypassed zones, recompression, hydraulic fracturing and other techniques. Recently, Ukrgazvydobuvannya – Naftogaz’s main production subsidiary – stated that of its 674 billion cm of booked reserves, 384 billion cm is not fully in production and requires additional investment in modern production techniques. Small fields too offer scope to increase production. Approximately a third of Ukraine’s gas reserves today are found in small fields, with reserves of under 5 billion cm each. Of Ukraine’s 380 or so discovered gas fields 100 – all of them small – are not in production.

Finally, an increasing share of Ukraine’s reserves are locked in fields that have tight or extremely variable res- ervoirs at greater depth (5,000-6,500 metres) and much higher pressure. Their appraisal and development is much costlier and requires top-notch technical expertise. Despite its maturity, Ukraine retains large conventional exploration potential (25 billion barrels of resources, not including the southern region). But again, most of these undiscovered reserves will be found at greater depth and in increasingly smaller concentrations in more complex geological conditions. Even after 100 years as a hydrocarbon producer, Ukraine retains enormous conventional gas potential. But this will also be much costlier to realise, with more heterogeneous reserves requiring focus and tailor-made solutions. To realise this potential, Ukraine will have to nurture the independent E&P sector. The most critical indicator for E&P investors is the upstream tax regime where both tax rates and predictability play equally important roles.

As part of an effort to reduce its fiscal deficit, the Ukrainian government introduced a sharp increase in gas taxation for private producers in August 2014. This entails raising gas royalty – known as a subsoil fee – from 28% to 55% of gross revenue for gas produced from reservoirs shallower than 5,000 metres, and from 14% to 28% for gas produced at a depth of more than 5,000 metres. This was the second tax increase announced in 2014, and the fifth in the past four years. As a result, Ukraine now has one of the heaviest tax regimes in Europe. Its combined marginal tax rate (around 70%) is now much closer to those imposed by major hydrocarbon exporters such as Norway, Russia and Kazakhstan rather than its peers in Eastern Europe, such as Poland, Romania and Hungary . The Ukrainian finance ministry justified the tax increases, saying private gas producers were enjoying super-normal profits thanks to high gas prices on the one hand and low production costs on the other. Ministry officials revealed that they based their calculation on one key assumption: the costs of independent producers are close to those of Naftogaz and its production subsidiaries, for which the government sets upstream transfer prices at $20-30 per 1,000 cm. But there are flaws in this reasoning.

First of all, Naftogaz’s portfolio consists of Ukraine’s largest and best-quality fields. Even so, officials from Naftogaz’s main production subsidiaries have repeat- edly stated that prices set by government regulators do not fully meet their operating costs, let alone capital investment for exploring and developing new fields. Most recently, an advisor to the president of Naftogaz stated that full-cycle costs of production for the company are close to $200/’000 cm. A recent report by interna- tional consultancy IHS reveals that after the recent tax increases, exploration for and development of new fields in Ukraine has become economically unattractive both in absolute and relative terms.

Secondly, independent producers are involved in developing a variety of assets, all with very different risk profiles and costs. A tax regime with a heavy royalty component will increase the tax take in the short term, but could sink projects involving high geological and technical risk. International experience has shown that regions with mature resource bases in the latter stage of development require flexible tax regimes. Such tax frameworks can accommodate a variety of investment needs and risk profiles for projects ranging from reviving depleted fields to wildcat exploration of previously bypassed prospects. The switch away from a royalty-based to a profit-based tax regime in the UK North Sea in the 1980s, a move followed by Norway in the 1990s, saw a revival in that mature petroleum province.

An alternative to profit taxation could be a more flexible royalty regime, with different rates set depending on the degree of project difficulty. Such a system has recently been implemented in Russia for both oil and gas projects. At present, Ukraine's royalty regime only allows for differentiation depending on whether producing horizons are shallower or deeper than 5,000 metres. This is not flexible enough. For example, many independent projects target fields that are in the 4,000-5,000 metre range. While the differ- ence in capital outlays with projects below 5,000 metres can be negligible, the tax rate would be significantly higher. Finally, other variables such as reservoir quality, degree of depletion and size of deposit can seriously affect costs and will need to be taken into account. While the new tax legislation allows for a two-year tax break on new wells, it is unlikely to make a serious enough impact on the economics of most projects, especially those with an exploration component.

A great deal more thought needs to go into upstream tax legislation in Ukraine. And once such legislation is passed, it would be important for the fiscal regime to remain in place and largely unchanged for a reasonably long period of time. After all, the boom in unconventional production in the US was preceded by a 20-year period during which significant tax breaks were granted for these types of projects. But a stable and flexible tax regime is only part of the puzzle. For E&P activity to pick up, Ukraine will need to gradually address a range of other issues affecting the investment climate in its energy industry and beyond. Despite the recent surge in independent production, the Ukrainian E&P sector is a high-cost environment with significant entry barriers for new players. One reason is that the services sector remains under-developed and highly concentrated – a mirror image of its clients on the production side. There is little competition in areas such as seismic acquisition, drilling and infrastructure construction. Advanced production technology, especially for hydraulic fracturing, is scarce and very expensive to mobilise. Technical specialists with knowledge and practical experi- ence in advanced exploration and production techniques are also in short supply and command very high salaries.

The best way to remedy this is to increase the number of producers and thus the size of the services market. But for this to happen, Ukraine will need to introduce significant amendments to sector regulation, currently focused on resource management and control rather than stimulation of investment. This means simplifying and streamlining licensing and approval processes, which are heavily bureaucratised and often opaque, especially at regional level. A review of often anachro-nistic technical rules, which still prohibit such common practices as underbalanced drilling and multiple zone completions, will be required to give producers more field development options. Serious thought needs to go into stimulating exploration through tax incentives, more realistic licence valuation, as well as through easier access to existing seismic and well data. The need to stimulate private gas production is, in principle, well understood in Ukraine. Ukraine's Energy Strategy to 2030 explicitly acknowledges the importance of private investment in upstream activities. A list of measures to improve Ukraine's E&P investment environment was drawn up with the help of international consultants such as IHS and McKinsey in 2012. While some of these measures have been implemented, much still remains to be done.

# Can Ukraine receive LNG via the Bosphorus?

Anadolu Agency, *31.03.2015*

**Turkey will not allow LNG ships to transit through the Bosphorus due to possible environmental damage and deterioration on its historical heritage, said Hasan Selim Ozertem.**

**"Ukraine wants to transfer its LNG through the Bosphorus. Kiev sees Ankara's position as important on their projects and Turkey has a clear stance on this issue," Ozertem said. Turkey is concerned about the number of tankers pasing through the Bosphorus. However, the recent number of tankers on the Bosphorus has increased to such an extent that it has become a danger to Istanbul's historical heritage.**

He added the increasing potential danger in the waters concerns Istanbul with its population of almost 20 million and for Turkey as a whole. "I read the Montreux Convention regarding the regime of the Straits, and according to the convention, it is not easy for Turkey to have a say on the trade ships, but Turkey may have a word about controlling traffic on the Bosphorus. But we shouldn't forget that the Montreux Convention was signed in 1936 and since then lots of things have changed especially the tonnage of ships and technology," he added. With Ukraine's aim of becoming energy-dependent from Russia, the country plans to build an LNG terminal worth more than $900 million to receive LNG supplies through the Bosphorus.

According to the Ukrainian media, Alexander Svetelik, deputy energy and coal minister of Ukraine said Turkey might let Ukraine transfer LNG across the Bosphorus Strait. "The Turkish side didn't make a final decision yet," he said. Following Svetelik's statement, Turkish Ambassador to Kiev, Yonet Can Tezel, spoke to the Ukrainian media and said Turkey will not allow the passage of tankers with LNG via the Bosphorus Strait.

Andrew Buckland, principal analyst for LNG shipping and trade research at Wood Mackenzie on the other hand argues that Turkey has not got the right to refuse the passage of commercial ships, including liquefied natural gas tankers to pass through the Bosphorus. "Under the 1936 Montreux Convention, in theory Turkey has to allow commercial ships including LNG to transit the Bosphorus, although in the past they have imposed restrictions on some ship types to make it more difficult," said Buckland. "LNG shipping has an excellent safety record and is not as dangerous as some existing cargo ships that currently transit the Bosphorus," he added. Ukraine imported 4.1 billion cubic meters of natural gas between January and February in 2014 all from Russia, while in the same period of 2015; it imported the same volume of gas but only 1.8 billion cubic meters from Russia and 2.3 billion cubic meters from Europe.

# Gazprom, Naftogaz agree on winter package extension, conditional to Putin's approval

Natural Gas Europe, *30.03.2015*

**Gazprom and Naftogaz apparently converged on extending the 'winter package' for at least three months, with the Ukrainian company welcoming the proposal put on the table by the European Commission and the Russian gas monopoly reportedly asking the government to keep the pricing policy for Ukrainian clients for three months.**

**'Ukraine received a letter from European Commission Vice-President for Energy Union Maroš Šefčovič in which he discusses his proposal to Russia to continue the current pricing mechanism for Russian gas supplied by Gazprom to Ukrainian consumers' reads the note published by Naftogaz.**

The Ukrainian company also reported that Šefčovič proposed a meeting in Brussels in mid-April. A few hours, Gazprom's Aleksey Miller reportedly said they are ready to extend the pricing mechanisms for three more months. "We consider the period of three months is optimal. First, because a spring-summer period is coming and also because we see a high dynamic of change in the gas prices in foreign gas markets," Miller said.

# Why Russia suddenly wants to supply cheap gas to Ukraine

Business Insider, *31.03.2015*


**The Russian government is requesting that Gazprom provide discounted gas to the struggling government in Ukraine. The deal seems weird because Russia is also supporting an armed insurgency inside Ukraine, consisting of pro-Moscow rebels.. So why is Russia suddenly offering to help the country it has spent the last few months undermining?**

**Last week the European Commission sent a letter to the Russian government asking it to consider granting Kiev a discount on its gas exports to the country, such as abolishing the export duty which currently costs $US100 per thousand cubic metres of gas.**

The Russian response — requesting Gazprom lower its Ukraine prices — hints that Russia is seeking to cool tensions in the region in order to wriggle out of international sanctions as it attempts to pull itself out a deep economic downturn. Gas deals between the two countries have long been a major source of friction. Ukraine imported 58% of the gas needed for its domestic market from Russia in 2013, while Moscow has repeatedly used its gas bounty to exact major political concessions from Kiev.

A gas deal brokered between former Ukrainian Prime Minister Yulia Tymoshenko and Russian President Vladimir Putin to get gas flowing again in the aftermath of a 2009 standoff resulted in her being sentenced to seven years in prison and a fine of $US200 million (the Ukraine criminal justice system is highly political). Yet the following year, the new pro-Moscow administration was able to secure a 30% discount on its gas imports in exchange for extending Russia's lease of the Black Sea port of Sevastopol (part of Crimea, which has now been annexed by Moscow).

Kiev has spent the past months trying to wean itself off Moscow's pipeline by buying more gas from Europe. Prime Minister Arseniy Yatsenyuk said last month that the country would borrow $US1 billion using government guarantees in order to shift the country to European suppliers of natural gas. However, Kiev's funding problems means that the process is likely to take longer than anticipated. The European Commission and Ukraine want the Gazprom discount to last for six months. The Russian company doesn't want to offer more than three. Russia's Kommersant newspaper reports that a deal is likely as Ukrainian demand looks set to decline rapidly unless Gazprom accepts lower prices. It comes at a critical juncture for Kiev as it begins implementing ambitious economic reforms agreed with the IMF as part of a $US40 billion bailout package. Part of this deal involves restructuring the country's debt, which could result in significant losses for its creditors. As Business Insider reported, Russia's $US3 billion loan to Ukraine from its sovereign wealth fund (due to be repaid in December) is one of the debts that may be renegotiated as Kiev seeks to lower its repayments by $US5.2 billion in 2015. Because the loan is counted as "official debt" any unilateral default on Ukraine's side would breach IMF rules, meaning that the IMF would not continue to provide funding.

## Gazprom: Profits plunge 70%

CNN, *31.03.2015*


**Gazprom saw its net profit fall 70% to 189 billion rubles ($3.3 billion) in 2014. The weak ruble was a big reason. The profit does not include Gazprom's subsidiaries, such as its oil-producing arm Gazprom Neft (GZPFY), which reported its own 2014 profit falling 32% earlier this month.**

**The state-run energy giant has been hit by Russia's conflict with Ukraine. Its gas supplies to Ukraine have been at the center of the conflict. Moscow has repeatedly threatened to cut off Ukraine's supply. Europe has in turn accused Gazprom of using its dominant position to manipulate prices and hinder the free flow of gas across the continent.**

About a third of Europe’s natural gas comes from Russia and 15% flows directly through Ukraine. Gazprom’s falling profits are bad news for investors, the largest of which is the Russian government, who are likely to see their previously generous dividends slashed. According to a Bloomberg report, Moscow sees Gazprom’s 2015 dollar revenues in Europe sinking to the lowest in a decade. Gazprom’s activities alone made up around 8% of Russia’s GDP in 2013 -- around half of Russia’s government revenues come from oil and gas exports.

# Greek Energy Minister: US to never satisfy Europe’s demand for Russian gas

Sputnik, *31.03.2015*

**US supplies of LNG to Europe cannot compete with Russian gas deliveries, Greek Energy Minister Lafazanis told.**

**“US gas will never substitute nor satisfy Europe’s demand for natural gas,” Lafazanis said, adding that US attempts to enter Europe’s LNG market were “a strategic maneuver to help isolate Russia further.” Russia, the world’s largest gas exporter, provides about 30 percent of the European Union’s gas. “Russian natural gas deliveries to Europe are essential to meet its demands, they are in Europe’s own interest,” the Greek energy minister said after a meeting with his Russian counterpart in Moscow.**

# Western Europe could see record Russian gas imports

Reuters, *01.04.2015*

**Russian gas imports into Western Europe could rise to a record this summer as utilities increase purchases from Russia, taking advantage of lower prices for oil-indexed gas contracts, analysts said.**

**Europe’s biggest utilities have deferred taking delivery of Russian gas in the winter until the second quarter, when weaker oil prices worked through into gas contracts, making the supply cheaper. Caps on output from the Dutch Groningen gas field and gas exports from Western Europe to Ukraine left Western Europe’s gas storage sites only a quarter full at the end of March, data shows.**

"For continental storages to reach a healthy level before the start of next winter, buyers have to take around 65 billion cubic metres (bcm) (of Russian gas) between April and September," Marina Tsygankova, an analyst at Thomson Reuters Point Carbon, said. That equates to average daily flows of 350 million cubic metres (mcm), 70 percent higher than the average 201 mcm/day between October and March. Such high flows are extremely rare and have never before occurred during summer months, raising questions whether they would be possible. "Of course, there is a huge risk, but Russia has both production and transportation capacity to reach those levels," Tsygankova said, speaking after Point Carbon published its seasonal gas market outlook this week. To ramp up supplies to Western Europe to 350 mcm/day, Russia would need to increase flows via Ukraine to levels last seen at the end of 2013, before the conflict in eastern Ukraine. Ukraine is locked in a longstanding pricing row with Russia over gas but hopes to sign a memorandum with Moscow this month on supplies that will run until the end of March 2016, its energy minister said. If Russia fails to ramp up deliveries, continental Europe would need to obtain more gas from Norway and Britain, which would boost UK gas prices, Point Carbon said.

# The EU and Gazprom

EU Observer, *01.04.2015*


**In 2007, Alexei Miller, head of Gazprom famously boasted he would raise the company's market value to US$ 1 trillion; up from US$ 360 billion at the time.**

**After years of hard-nosed tactics in Europe, Gazprom's reputation as a reliable supplier is in tatters. The fallout over the Ukraine crisis brought severe pain to the Russian economy and prompted the EU to press ahead with the launch of its Energy Union. What's more, EU competition law has proven to be a powerful tool against the whims of Putin and Gazprom, and acts as a careful reminder to those member states that wish to bend the rules.**

Hungary and Bulgaria – to name but a few – will undoubtedly be more careful next time. Rattled by sanctions, and facing a legal wall in Europe, Russia had to change course. Today, Gazprom is increasingly forced to do deals with countries outside of Europe that carefully exploit the Kremlin's weaker negotiating position. The axing of South Stream on 1 December 2014 caught many by surprise, not least the EU member states involved in the project. The pipeline, which at a cost of US$ 50 billion always had a questionable economic rationale, was Gazprom's key-geopolitical project in Europe. Following Putin's mantra of 'divide and rule', it would provide 63 billion cubic metres (bcm) per year to the European market, get Southeast Europe hooked on Russian gas for the foreseeable future, and bypass Ukraine; all in a day's work. Contrary to Russia however, Europe operates by different standards, and knows such a thing as 'the rule of law'. Under EU competition law gas companies are not allowed to simultaneously own the pipeline infrastructure and supply the gas.

Keen to demonstrate to the world that Russia does not need Europe with its pesky rules and regulations, Putin announced an alternative plan that would export Russian gas to Turkey instead. Dubbed 'Turkish Stream', the pipeline will run underneath the Black Sea to Turkey from where gas will be delivered to a gas hub at the Turkish-Greek border. From there, Europeans – if they so desire – could ship gas to the European market. Clever plan? Think again. Turkey managed to secure a whopping 6 percent discount on gas deliveries from Moscow, and is set to aim for more. Furthermore, Turkey is no Ukraine. It is not as susceptible to the kind of strong-arming that Moscow subjected Kiev to over the years.

Moreover, by entering the Turkish market in this way, Gazprom is opening itself up to competition from Azerbaijan, and potentially Iran. If there is a nuclear deal with Iran, chances are that gas exports to Europe may become a reality in the distant future. Putin then may see his own divide and rule tactics being turned against him. The Turkey deal – which still needs to be finalised – bears many similarities with an earlier deal struck between Moscow and China. Under pressure in Europe, Gazprom turned to the Chinese. After years of acrimonious talks, in May 2014 Moscow and Beijing finally inked a US$ 400 billion deal that would secure 38 bcm of natural gas deliveries per year from Eastern Siberia to China's Eastern region for a period of 30 years. Although qualified as the 'gas deal of the century' by Putin, the reality is very different. First, to call the negotiations protracted would be an understatement of biblical proportions; both parties had been negotiating since the 1990s. Second, with Russia's position in Europe weakened, China finally saw the opportunity it was waiting for. With its back against the wall, and eager to show the world that it could do without Europe, Gazprom made significant concessions on the price. Deal of the century alright, just not for Russia.Gazprom for its part will continue to rely on the European market for the bulk of its revenues for the foreseeable future. In February 2015, the EU Commissioner for competition Margerethe Vestager announced the EU was weeks away from launching its anti-trust battle against Gazprom. The company stands accused of overpricing its clients in Eastern Europe.

# EU Commission suggests Russia, Ukraine hold gas talks in April in Brussels

Sputnik, *30.03.2015*

**On The European Commission has suggested the Ukrainian and Russian sides meet in mid-April in Brussels to discuss gas talks, Ukraine's Naftogaz gas company said.**

**"The Ukrainian side received a letter from European Commission Vice President (Maroš) Šefčovič, in which it suggests to the Russian side to keep the current mechanism of pricing for Russian gas that is delivered by Gazprom for Ukrainian consumers. Vice President Šefčovič also told the Ukrainian and Russian sides of the European Commission's readiness to hold a three-party meeting in Brussels in the middle of April," Naftogaz said, citing the vice president.**

The announcement came after Russian Energy Minister Alexander Novak met on March 20 with Kiev and European Commission officials for talks on the so-called summer package of Russian gas supplies to Ukraine in Brussels. The summer package will replace the winter package, the current EU-mediated supply deal, that expires at the end of the March. Under the current deal, Kiev is paying $329 per 1,000 cubic meters of Russian gas, which includes a $100 discount. The current gas discount for Ukraine is valid until April 1. During March 20 trilateral talks, Novak said Russia will make a decision by the end of March on the possibility of a gas price discount for Ukraine.

# More collaborative thinking needed on European gas markets

Hurriyet Daily News, *30.03.2015*

**There is a Chinese character that equates crisis with opportunity. We face such a situation as the energy market turbulence, created by the oil price collapse, declining investments and geopolitical tensions, is in full swing. The process of adjustment in the energy market is far from over.**

**EU's political leaders and mandarins have grasped the opportunity to move forward with a series of new initiatives including the Energy Union. Some observers have described these as merely a consolidation of existing initiatives under a new umbrella. Others see in them a bold new effort to adapt Europe to the changing dynamics of world.**

The Energy Union, despite the focus on security of gas supply, reflects to some extent the approach of the German Energiewende, with its commitment to move away from "outdated business models" toward community-based energy supply. That model has been largely bad news for gas. The commission's plans do not come in a vacuum. They respond to the dynamics in world gas markets, which have seen profound changes over the past decade, with the rise of shale gas in North America, problems with Gazprom's supply and politicization, new technologies, growth in the LNG supply, trading, falls in demand and a decline of available investment finance.

Remarkably, in early 2015, Europe was the most attractive destination for LNG shippers. Additional gas volumes continue to appear in the global market in the form of new Australian LNG, and there is the prospect of U.S. and East African LNG to come. There are also many new gas projects around Europe – in the North Sea, the Black Sea, the Caspian and the eastern Mediterranean, including offshore Israel – but some may struggle to be economic with the current price and squeeze on capital expenditure budgets, in addition to geological and geopolitical challenges. For Europe, developing Algeria's onshore shale gas – believed to hold a massive 700 trillion cubic feet of recoverable reserves – as well as constructing the $45 billion Southern Gas Corridor, the first part of which is slated to supply 10 billion cubic meters (bcm) of Azeri gas to Europe via TAP by 2020, need high levels of capex. Both Algeria and the Southern Gas Corridor feature prominently in the Energy Union strategy, in addition to LNG and Norway supplies.

After the dramatic halving of the oil price since June 2014, there is now every chance that natural gas will follow suit. Indeed the fall has already begun. Gas demand will also fall. The commission believes 1 trillion euros will need to be invested in the EU energy sector over the next five years alone. Whether such a colossal sum can be mobilized by energy companies, particularly in the absence of robust gas demand signals from the commission, is another question. Between 2011 and 2014, gas lost 30 percent of its share in the EU power generation mix to coal. Gas demand declined to around 420 bcm last year. And in the absence of policy reforms European demand is likely to stay weak for almost two decades. That matters for investors because demand security is a key determinant of their decisions. The ambition of becoming “the world leader in renewable energy” is of prime importance to Brussels – with 27 percent of the EU’s energy planned from renewables by 2030. Also, gas projects in the Caspian, North Africa, eastern Mediterranean and Norway can count on a much higher level of political support compared to the last commission.

Turkey is a critical partner in the new gas equation for all the key players: the EU, other gas producers in its neighborhood and Russia. It remains to be seen how the EU will respond to the proposed 63 bcm “Turkish Stream” pipeline opening a new line via Turkey to European markets and whether it will adversely affect the future of the Southern Gas Corridor. Ankara also aims for a 30 percent share of renewables in its energy mix. Any nuclear “renaissance” will further complicate the gas supply and demand picture. More collaborative thinking, depoliticized dialogue and business engagement will be needed with major players if we are to develop win-win propositions for all parties and avoid confrontations.

# Italy’s Saipem says needs more money to finish Poland’s LNG terminal

Reuters, *30.03.2015*

**Italian firm Saipem will complete the delayed construction of Poland’s LNG terminal this summer, but only if it receives further payment, Polish daily Rzeczpospolita said.**

**Saipem is leading the consortium which is building the terminal in the Baltic city of Swinoujscie. The LNG terminal will be ready to take the first loads in the summer, assuming that the consortium receives appropriate support from Polskie LNG and that financing of the terminal’s full operations in the following months will be provided. Polskie LNG, which is owned by Poland’s gas grid and is responsible for the investment Rzeczpospolita said.**

The terminal is Poland’s flagship project in its plan to cut dependence on gas imports from Russia. Poland said earlier this month it would not increase payments for the construction, which was supposed to be completed by the end of 2014 for a total of 2.4 billion zlotys ($636 million). The daily also said, quoting unnamed sources, that apart from additional payments Saipem expects Poland to withdraw fines it imposed on the consortium for the delays.

# E.ON announces closure of two power stations, Germany increases Norwegian imports

Natural Gas Europe, *30.03.2015*

**E.ON and its partners decided to close the Irsching 4 and 5 gas-fired power stations in Southern Germany from April 1, 2016.**

**'The decisions were made because the two CCGTs have no prospect of operating profitably when the current contract with the network operator expires in March 2016' reads a joint press release of the consortium, referring to a contract between the owners and the network operator. Irsching 5 has a nameplate capacity of 846 megawatts and entered service in 2010. Irsching 4, which has a capacity of 550 megawatts and began operating one year later.**

'If the network operator prohibits the shutdowns by declaring the units to be system-relevant, Irsching 4 and 5 would be subject to the provisions of the German Ordinance on Reserve Power Plants' the companies announced.

# Acer asks ENTSOG to further align network code on harmonized transmission tariff structures

Natural Gas Europe, *31.03.2015*

**ACER called ENTSOG to amend the Network Code on Harmonised Transmission Tariff Structures for Gas, and further align it with the Framework Guidelines.**

**'The Agency's main concerns regard the scope of the Network Code and in particular the definition of transmission services, publication requirements, the description of the various cost allocation methodologies, the approach to payable price, the conclusions of the impact assessment on the harmonisation of the tariff setting year, the pricing of interruptible capacity and non-physical backhaul capacity, and incremental capacity' reads a note released.**

ACER has asked ENTSOG to address these issues in its revision of the Network Code, which is meant to harmonise the approach to tariff setting for gas transmission services in the European Union. ENTSOF formally submitted the final draft on 26 December 2014. ACER also praised ENTSOG for its work. ‘The Agency acknowledges the significant work undertaken by ENTSOG in developing the Network Code. In particular, the Agency values the openness of the process led by ENTSOG that allowed contributions from the stakeholders and good cooperation with the Agency.’

# GASUM reports 87% decrease in operating profit

Natural Gas Europe, *31.03.2015*

**Gasum reported 87% decrease in operating profit in 2014, explaining the result in light of the decline in sales.**

**‘In addition to the sales margin lost due to the lower natural gas volume sold, operating profit was also eroded by the write-offs made during the period under review relating to issues including preparatory work for the western extension of the transmission pipeline network and the decrease in the fair value of derivative contracts entered into for the purpose of hedging the sales margin of natural gas sold to customers under a fixed price factor following the oil price collapse toward the end of the year’ reads a note released.**

Return on equity in 2014 was 1.1%. It was 8.9% in 2013. During the year, Gasum acquired a majority share in Skangass, which brought along a doubling in balance sheet total. The company, which is owned by the State of Finland (75%) and Gazprom (25%), confirmed its strategy and its commitment to LNG, despite tax changes further affecting the competitiveness of gas against coal. “The tax changes taking effect at the beginning of 2015 will further reduce the competitiveness of natural gas in combined heat and power (CHP) production” Gasum wrote in its Financial Statements 2014. It also said that it will continue to pursue its own terminal project, explaining that the terminal can be built only if the gas market in the Baltic Sea area develops. Skangass’ terminal in Pori (Finland) should be completed in early autumn 2016.

# Belgian Fluxys and Spanish Enagás acquire Swedish Swedegas

Natural Gas Europe, *01.04.2015*

**European gas transmission system operators (TSO) are clustering more and more. The Belgian TSO Fluxys and its Spanish counterpart Enagás together acquire Swedegas, the owner and operator of Sweden's entire high-pressure gas pipeline network.**

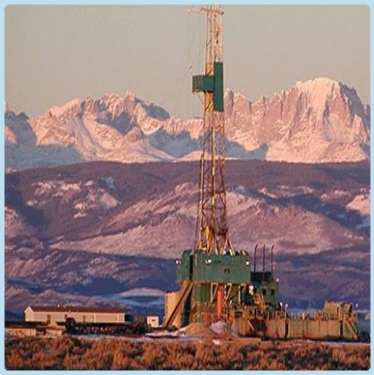
**Enagás and Fluxys will each invest around €100 million in terms of equity and, as soon as the contract is signed, each will own 50% of Swedegas. In addition third party debt financing will be provided. Both companies are managed as unbundled - not ownership linked with producers and suppliers -TSO as modelled by the European Union.**

Because neither of the buyers have activities in Sweden and because their turnover doesn't exceed the allowed amount, the transaction doesn't need the approval of the European Commission. Seller is EQT Infrastructure, a EUR 1.2 billion fund investing in medium-sized infrastructure businesses in the Nordic region, parts of Continental Europe and North America. It's investment targets are regulated infrastructure, concession-based infrastructure, market-based infrastructure and infrastructure-related services. EQT Infrastructure is one of the 17 investment funds managed by The Swedish group EQT, the leading private equity group in Northern Europe.

Swedegas owns around 600 km of high-pressure gas pipelines and the Sallen underground storage facility, located nearby Halmstad. It is also developing a bunkering and small scale LNG terminal in Gothenburg (40% Swedegas), categorised as a Project of Common Interest (PCI) by the EU. It works in a stable regulatory framework, approved for the next four years (2015-2018). This transaction offers a strategic fit with the core business and the international growth strategy of Enagás and Fluxys. The joint venture between the two companies enables a common line of interest to be pursued and synergies between Enagás, Fluxys and Swedegas to be unlocked. The acquisition of Swedegas also provides stable and predictable cash flows for the new owners. Fluxys is a major gas transit, storage and terminal operator, present in Belgium, the UK, the Netherlands, France, Switzerland and Germany as well as under the North Sea. Enagás manages the Spanish gas system and is the main carrier of natural gas in Spain, where the company owns approximately 11,000 km of pipelines, five regasification plants and three underground storage facilities. Enagás is also present in Mexico, Chile and Peru. Both Fluxys and Enagás are partners in the Trans Adriatic Pipeline (TAP) project, linking Turkey with Italy via Greece and Albania.

# Germany sets very high bar for fracking

Reuters, *01.04.2015*



**German Chancellor Angela Merkel's cabinet signed off on a draft law that imposes an effective ban on the controversial technique of fracking for shale gas. Fracking, or hydraulic fracturing, involves blasting chemicals and water into rock formations to release trapped gas. Opposition is strong in densely populated Germany due to concerns about the risk of contaminating drinking water.**

**Environment Minister Barbara Hendricks said the new law would set Germany's strictest conditions for fracking. Protecting health and drinking water are top priorities. For this reason, we want to restrict fracking as far as possible.**

The new law, which now goes to parliament for approval, will impose an outright ban on fracking for shale gas in the next few years and only allow scientific test drilling under strict conditions to assess the risks and environmental impact. The law could allow commercial shale gas fracking in exceptional cases from 2019 but only after successful test drilling and the approval of a special committee. Germany's gas industry has warned restricting fracking could increase the country's dependence on imported energy at a time when geopolitical concerns, particularly over Ukraine, are growing. The BDI industry lobby group described the new conditions as "completely over the top". Last year, gas imports from Russia accounted for 37 percent of Germany's supply. Only 12 percent of Germany's needs were covered by its own reserves, down from almost a fifth a decade earlier. The legislation will allow fracking for deep-lying or "tight" gas, a technology that has been used for decades in Germany. But even this type of fracking will be subject to stricter rules and environmental audits, Hendricks said. The ban will be extended to all areas that supply drinking water, including dams and reservoirs, while fracking up to a depth of 3,000 meters (3,300 yards) will also be prohibited. Opposition to fracking remains strong in Germany and 79 percent of those surveyed for a Forsa poll in 2013 were in favor of strict environmental regulations. Europe had hoped to emulate a shale gas boom in the United States which has helped to lower energy costs and boost industry. But strong popular opposition, a recent slide in oil prices and question marks over Europe's reserves has raised doubts over the prospects for fracking.

Chevron Corp has decided to stop exploring for shale gas in Poland because reserves did not lived up to initial expectations. France and Bulgaria have banned fracking. It is allowed in Britain but is subject to strict environmental and safety guidelines and the Scottish government has imposed a moratorium on granting permits for all unconventional oil and gas development.

# Ethiopia hopes to export gas by 2017

Anadolu Agency, *02.04.2015*

**Egypt's Ethiopia hopes to start exporting gas in 2017 following completion of an 800kmnatural gas pipeline linking eastern Ethiopia to Djibouti, an Ethiopian official said. "Installation of the pipeline is expected to be finalized in 2017. By then, we hope to begin exporting gas to the world market via Djibouti," Ethiopia Bedecha, deputy head of communications at Ethiopia's Ministry of Mines, told The Anadolu Agency.**

**"International gas pipeline construction companies have begun purchasing bid documents [to tender bids] to install the pipeline," he said.**

Bedecha says Ethiopia has an estimated 4.7 trillion cubic feet of natural gas in the Kalub and Hilal gas field in the country's east. Development of the gas field has been leased out to China's Poly Petroleum Investments. "Consultancy firms are also buying bid documents," Bedecha said.
He said the firms would provide means of "connecting the construction of the Ethiopia-Djibouti fuel pipeline, which both governments [ Ethiopia and Djibouti] plan to build, to the Kalub and Hilalnatural gas pipeline." Development of the Kalub and Hilal gas field has been stalled for decades.

According to Bedecha, exploration of the gas field first began back in the 1970s. "But the commercial potential and feasibility studies were only completed three years ago," he said. "Finance and other issues, including security, had delayed implementation of the project," he added. In 2007, nine Chinese and 65 Ethiopian workers were killed in an attack on the offices of a Chinese oil company in eastern Ethiopia by the rebel Ogaden National Liberation Front. The attack had led to the suspension of exploration activities in the region.

# China to build 8 LNG receiving terminals during 2016-2020

Natural Gas Asia, *30.03.2015*

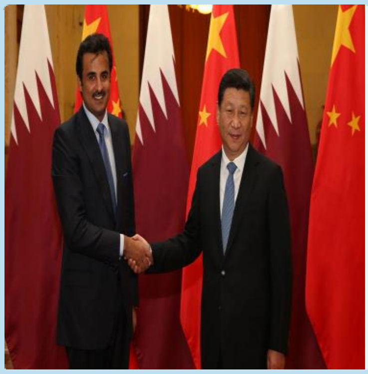
**China is projected to build 11 natural gas storage facilities and eight LNG receiving terminals during 2016-2020, said Han Jingkuan, vice president of PetroChina Planning and Engineering Institute, reported Xinhua Finance Agency.**

**The gas storage facilities would have 32.4 billion cubic meters (bcm) of working gas volume by the end of 2020, Han said while speaking at the 2nd China International Natural Gas, CNG and LNG Distribution and Trade Conference. The eight new LNG receiving terminals would have 24 million tonnes of handing capacity, bringing national total LNG handling capacity to 72 million cubic meters.**

China is expected to add around 20,000 km of natural gas pipelines in 2016-2020 and have over 90,000 km of total natural gas pipelines by the end of 2020, Han added. The eight new LNG terminals are expected to come up in Huangmao Island, Xiamen, Lianyungang, Yuexi, Qinzhou, Wenzhou, Shenzhen and Zhoushan. According to Xinhua Finance, by the end of 2014, China had 19 natural gas storage facilities in operation with less than 3 billion cubic meters of actual working gas volume despite 17.7 billion cubic meters of designed working gas volume.

# Two Qatari private firms plan to build LNG storage facility in China

Natural Gas Asia, *30.03.2015*



**Two Qatari private firms have decided to invest $5 billion in China's Shandong Dongming Petrochemical Group to develop multiple projects in China.**

**Qatar's Suhaim Bin Hamad Enterprises Group and Qatar Investment and Development Group (QID) announced a $5bn worth agreement to acquire 49 percent of Chinese petrochemical firm. Shandong Dongming Petrochemical is China's largest independent refiner. The deal is likely to be finalized by the fourth quarter of this year, QID Chief Executive Ibrahim El Tenay told reported in Doha, The Peninsula reported.**

The partners agreed to construct 1,000 mixed oil, non-oil and LNG/CNG stations within a 300-km radius of Dongming's Heze refinery. Parties agreed to build LNG and LPG port and storage facilities in Shandong or Jiangsu province, the newspaper reported.

# Woodside closes apache deal

Natural Gas Asia, *01.04.2015*

**Woodside has completed the purchase of Apache Corporation's assets in Australia and Canada.**

**In December last year, Woodside entered into a binding transaction with the Texas based company to acquire its Wheatstone LNG and Balnaves oil interests in Australia and Kitimat LNG project interests in Canada, for $2.75 billion and an expected closing adjustment of approximately $1.0 billion. The Australian Wheatstone LNG and Balnaves oil component of the transaction successfully closed. For a total cost of $2.817 billion including a closing adjustment of $567 million, Woodside said.**

Woodside now has a 13% interest in the Wheatstone LNG Project and a 65% interest in the Julimar-Brunello upstream gas development, with near-term production and a 65% interest in the Balnaves oil project, with immediate production.

# Latin American crude shifts to Asian markets

Anadolu Agency, *01.04.2015*

**The boost in Latin American companies' oil exports to Asia has started to shake the dominance of Saudis in the region. Many Latin American oil producing companies have started to expand their sales to the Far East as their exports to the U.S. have decreased due to the country's shale boom.**

**Pemex started marketing Mexican crude oil in South Korea. Spot shipments began in January and will run until next April. An approximate amount of five million barrels of oil is expected for delivery during this period, according to Pemex. The company said that most of the four shiploads of oil from Mexico for delivery to South Korea in 2015 will be allocated.**

Asian oil demand is expected to increase by 135 million tons by 2020, according to Wood Mackenzie. However, Saudi Arabia's current 23 percent current market share in Asia could drop to 21 percent if the current export volumes remain. About 54 percent of Ecuador's oil exports in September went to China, and the remaining crude oil exports went to Venezuela and Uruguay, Ecuador's state-owned oil company, Petroecuador said. Latin American countries offer cheap crude oil prices to the Asian market. The official selling price of Arab light crude for Asia reached its largest discount of $2.30 per barrel in March 2015. This means the price to Asia is at its lowest level in more than a decade, according to Wood Mackenzie. Consequently, Saudi Arabia is forced to take action by providing price discounts in order to remain competitive and to retain its market share in Asia.

# US crude stocks to decline with rising refinery runs

Anadolu Agency, *03.04.2015*

**Crude oil stocks are expected to decline in the U.S. with increasing refinery runs surpassing the growth in oil supplies from the second quarter onwards, said Wood Mackenzie.**

**The research and consulting firm said "it forecasts refinery crude runs to rise significantly in April as refineries exit seasonal maintenance and gear up for the summer driving season." "Refinery crude runs could increase over 1.7 million barrels per day from the spring lows to the summer high and set new records," said the research firm's Senior Research Analyst for Americas Refining and Oil Product Markets Afolabi Ogunnaike.**

He stressed the increase in refinery crude oil runs will exceed the supply growth of oil, thus leading to eventual stock withdrawals. According to the U.S.' Energy Information Administration, EIA, crude oil inventories reached a total of 471.4 million barrels for the week. "The ramp up in crude runs is expected to be the largest factor impacting the trajectory of US crude stocks," Ogunnaike said, adding "As U.S. refineries increase their throughputs, we anticipate they will also increase their imports of crude oil from the March 2015 levels."

Wood Mackenzie stressed crude storage in Cushing in the U.S. state of Oklahoma, which is a hub for crude oil pipelines and also for storage capacity, reached about 80 percent of its entire capacity. However, such oil storage volumes can be relieved through oil pipelines bypassing Cushing or carrying some of the stored oil from there to the Gulf coast. The facility in Cushing represents about 19 percent of all commercial crude oil storage in the country with its 70 million barrel capacity. The EIA said Friday March 23 the level of crude storage in Cushing is the highest on record, marking an increase over 15 consecutive weeks to reach 54.4 million barrels on March 13. However, the research firm emphasized that the U.S. crude oil storage is not close to reaching capacity. In fact, the consulting company projects a decrease in crude stocks in the summer.

# Announcements & Reports

### ► *The US Shale Gas Revolution and Its Impacts on Qatar’s Position in Gas Markets*

**Source** : Columbia University
**Weblink** : https://gallery.mailchimp.com/20fec43d5e4f6bc717201530a/files/The_US_Shale_Gas_Revolution_and_Its_Impact_on_Qatar_s_Position_in_Gas_Markets_March_2015.pdf

### ► *Algeria Field Report: Developing Shale Gas in North Africa*

**Source** : Brookings
**Weblink** : http://www.brookings.edu/blogs/markaz/posts/2015/03/24-algeria-field-report-shale-gas-boersma

### ► *Economics of U.S. Oil Export Ban*

**Source** : Baker Institute
**Weblink** : http://bakerinstitute.org/research/banning-exports-makes-american-oil-cheap-refiners/

### ► *US Crude Stock Growth to Fall as Refinery Runs Rise*

**Source** : Wood Mackenzie
**Weblink** : http://www.woodmac.com/public/views/crude-storage

### ► *Natural Gas Monthly*

**Source** : EIA
**Weblink** : http://www.eia.gov/naturalgas/monthly/

### ► *Petroleum Marketing Monthly*

**Source** : EIA
**Weblink** : http://www.eia.gov/petroleum/marketing/monthly/

# Upcoming Events

## ► *Flame 2015*

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

## ► *9th Atyrau Regional Petroleum Technology Conference*

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

## ► *14th 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

## ► 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***

## ► 6th 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

## ► 22nd 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/

## ► *6th OPEC International Seminar*

**Date** : 03 – 04 June 2015
**Place** : Vienna - Austria
**Website** : 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

## ► *12th Russian Petroleum & Gas Congress*

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

## ► *13th Moscow International Oil & Gas Exhibition*

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

## ► *7th South Russia International Oil & Gas Exhibition*

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

## ► *22nd 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

## ► *3rd East Mediterranean Gas Conference*

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

## ► *23rd Kazakhstan International Oil & Gas Exhibition and Conference*

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