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Turkey's reckless gas game

Foreign Policy, *11.05.2015*

During a four-hour helicopter ride over the Black Sea and the Sea of Marmara in early February, Turkish Energy Minister Taner Yildiz and Russia's Gazprom boss, Alexey Miller, mapped out plans that could potentially rebuild the long-adversarial relationship between their two countries.

The men scouted the likely path of "Turkish Stream," Moscow's latest grandiose pipeline proposal, which would channel natural gas from the Russian coastal town of Anapa all the way to Ipsala, on Turkey's border with Greece. But Yildiz and Miller also traced what could be the newest fault line in Europe's geopolitical landscape.

That helicopter ride, and the subsequent formal agreement signed in early May, suggest Turkey's patience with Brussels is wearing thin—the EU, after all, has been slow-footing the country's membership for decades now—and Ankara's willingness to support Europe's foreign-policy priorities, from diversifying energy resources to isolating Russia, is diminishing. Now, this one pipeline, which could deliver gas as early as next year, could have the power to embolden Russian President Vladimir Putin, endanger a critical alliance the West has spent decades cultivating, and upend Eurasia's entire energy and security landscape.

In other words, Turkey would become a middleman for Europe's energy buyers, and it would be precisely the linchpin Moscow needs to keep an energy hold on the continent. To be sure, Turkey has long been at the center of global pipeline politics. Since the 1990s, Europe has fantasized that natural gas pipelines would someday push fuel from the Caucasus and Central Asia to Europe. And Turkey's privileged geographical position would indeed allow for this, while there's abundant gas in places such as Azerbaijan. Europe's dreams finally seemed to be coming true in March 2015, when, after years of development, Turkey and Azerbaijan broke ground on a trans-Anatolian pipeline designed to shuttle gas from the Caspian Sea, through the Caucasus and Turkey, and into Europe.

But here's the rub: Europe doesn't consume enough gas to justify two new massive pipelines. Put simply, the road goes through Turkey, and Turkey will decide whom Europe will deal with on energy. Turkey's games with Europe, while not a complete about-face, are nevertheless jarring. Ankara has been Western-leaning and secular since the end of the Ottoman Empire in the aftermath of World War I—an allegiance that was cemented in 1952, when the country joined NATO. But that started to change at the turn of this century, when Ahmet Davutoglu, currently the prime minister and a longtime advisor to President Recep Tayyip Erdogan, began trying to forge much closer ties with nearby Muslim countries and crafting an increasingly independent stance toward Washington and NATO. (In 2003, for instance, Ankara notably refused permission for the U.S. 4th Infantry Division to cross Turkey to invade Iraq. More recently, Turkey has proved a reluctant partner in the U.S.-led coalition fighting the Islamic State and has taken an antagonistic approach to Israel after years of good relations.)

Turkish Stream, then, might be viewed as the culmination of Davutoglu's vision: The country is moving to become a neo-Ottoman powerhouse and the center of Eurasia's energy structure. Such rebranding comes just in time for Russia, which, for nearly 10 years, has been looking for a way to keep a reluctant Europe hooked on its energy while sidestepping a problematic Ukraine. Starting in 2007, Putin began championing "South Stream," a Russian-built pipeline meant to carry Russian gas across the Black Sea, through Turkish waters, into Bulgaria, and then into the rest of Europe. Moscow only grasped in 2014 that the plan didn't comply with EU law: Brussels isn't too keen on monopolies, especially ones that control both energy and the pipes that carry it. Nonetheless, Russia was already well on its way to scheming a new way forward. In December, while in Ankara for a one-day trade and economic mission, Putin abruptly announced the death of South Stream in the middle of a news conference and debuted the new Turkish Stream. Russia and Turkey's energy relations, Putin said, "have reached a truly strategic level." Although the initial announcement came as a surprise to nearly everyone, including Russian energy officials and Turkish authorities, just two months later Yildiz and Miller were boarding that helicopter for their scouting mission.

What's significant—and problematic—about Turkey's apparent leap into Russia's embrace is that Ankara has been both a bulwark of Western security architecture for more than 50 years and a key to Europe's plot to reduce reliance on Russian energy, an even more urgent priority since the start of the Ukraine crisis. In one fell swoop, Erdogan's Turkey seems to be abandoning its wilting dream of joining Europe and appears to be throwing in its lot with the one country most determined to undermine the global order in general, and European security in particular. From Brussels's point of view, Turkey would likely be a more reliable transit country for energy supplies than Ukraine, but it still lacks much of the physical infrastructure needed to serve that role, such as natural gas storage tanks. What's more, unlike existing pipelines between Russia and Europe, Turkish Stream wouldn't even deliver gas directly to the European Union; rather, the gas would be held in Brussels's backyard in the hope that it would spend billions of dollars to go and fetch the gas at the Turkey-Greece border. For Moscow, the upside of Turkish Stream is obvious: If it were built, Putin would finally succeed in isolating Ukraine, while still keeping big parts of Europe reliant on Russian fuel. And for Ankara, Turkish Stream could be the vehicle for finally achieving Davutoglu's dream of reinventing Turkey. But for all his yearnings to resuscitate former glories, he seems to be overlooking the country's complicated history with Russia.

For 400 years, from the middle of the 16th century through the height of the Cold War, Turks and Russians battled constantly for supremacy in the Black Sea, the Bosphorus, and Crimea. And those issues haven't been collecting dust in history books. After a couple of decades of peace, the hundreds of thousands of Turkic Tatars living in the Crimean peninsula are again dreading Russian reprisals reminiscent of the Stalin years; Russia is ramping up naval activities in the Black Sea; and Putin is eyeing a greater military presence near Turkey, including new basing agreements with Cyprus and Syria. This is all compounded by long-standing differences over the conflict in Syria: Turkey wants to oust President Bashar al-Assad and has let Islamist groups run rampant, while Russia staunchly backs its Syrian ally. Thus, Turkey's part in the newest pipeline project and the cementing of a strategic relationship with Russia amount to a massive bet that centuries of historical rivalry and animosity can be erased with cheap gas, some spit in a palm, and a friendly handshake. That calls to mind the old Turkish proverb: "The sheep separated from the flock is soon eaten by the wolf." Or, in this case, the bear.

Greece-Turkey pacification, Iran-Bulgaria ties positive news for Brussels?

Natural Gas Europe, *12.05.2015*

Southeastern Europe and the Eastern Mediterranean made headlines, with seemingly positive developments in relations between Greece and Turkey, and spotlights once more on Bulgaria.

Indeed, Sofia was lauded by Iran's President Hassan Rouhani, while Mevlut Çavuşoğlu and Greece's Nikos Kotzias made conciliatory remarks, which could positively impact on Cyprus, too. "We discussed security measures that could be taken to avoid unwanted results from military activity in the Aegean, and agreed on a series of measures to increase security in the sea," Çavuşoğlu said.

Apart from longstanding border disputes, the two countries have also different positions on the Cyprus issue. The thaw in ties came along with developments in the Mediterranean island. "Yesterday's meeting took place in a very positive climate… It was a sincere and open dialogue. It is important that the resumption of the talks on Friday was agreed. The first meeting will mainly deal with structural and procedural issues" Cyprus' Government Spokesman Nikos Christodoulides commented in a note released.

While Spain's Foreign Minister Manuel García-Margallo y Marfil was meeting his Bulgarian counterpart to increase bilateral cooperation, Iran's Rouhani said that Bulgaria can be a bridge between Iran and Europe. 'President Rouhani said Bulgaria enjoys an excellent geographical location in southeast of Europe, adding it can make a link between Iran and the European states in case of energy' Rouhani's office wrote, after his meeting with the new Bulgarian ambassador Tehran Christo Polendakov.

TANAP shows Azerbaijan, Turkey's energy power

Azer News, *12.05.2015*

The Trans-Anatolian Natural Gas Pipeline project is an indicator of the energy power of Azerbaijan and Turkey, said Ahmet Deniz, the governor of the Turkish province of Ardahan.

He told Trend that TANAP project is important for both the region and Europe, adding, "TANAP is being built at an accelerated pace." Deniz also said the implementation of the TANAP project will promote the creation of new jobs in the Ardahan province, which will favorably affect the growth of its economy. He stressed that TANAP is a good example of fraternal relations of Azerbaijani and Turkish peoples.

The province of Ardahan, located in the north-eastern Turkey, is one of the regions of the country, through which TANAP will run. The TANAP project envisages the transportation of gas of Azerbaijan's Shah Deniz field from the Georgian-Turkish border to the western borders of Turkey. TANAP's initial capacity is expected to reach 16 billion cubic meters of gas per year. Around six billion cubic meters of this gas will be delivered to Turkey and the rest of the volume to Europe. Turkey will receive gas in 2018. The gas will be supplied to Europe in early 2020 after the Trans Adriatic Pipeline (TAP) is constructed.

BP and the TANAP consortium signed March 13 a shareholder agreement, according to which, BP will become one of the shareholders of TANAP. The agreement is one of the main documents for BP's ownership of a stake in the TANAP project. Following the completion of a legal implementation procedure, TANAP's shareholders list will be as follows: SOCAR – 58 percent, Botas – 30 percent and BP – 12 percent.

Is Turkish Stream a pipe dream?

Al-Monitor, *12.05.2015*

Turkish-Russia ties were strained in an unprecedented manner recently after President Vladimir Putin gave strong support to the widespread belief that the Armenian massacres during World War I were genocide, which Turkey officially rejects, and attended the commemorations in Yerevan to mark the centenary of the event.

Ankara responded angrily by listing Russian atrocities in Ukraine, Caucasus and Central Asia, while President Recep Tayyip Erdogan turned down an invitation to attend the Victory Day Parade in Moscow to mark the 70th anniversary of the defeat of Nazi Germany.

Meanwhile, reports have appeared in the Turkish media suggesting that Ankara had cooled toward the so-called Turkish Stream pipeline project between the two countries, which is expected to deliver vast amounts of Russian natural gas when completed. Developments are, nevertheless, proving again that despite differences the two countries have on regional issues such as Ukraine, Crimea and Syria, and the angry remarks they may exchange over sensitive issues such as the Armenian question, it is business as usual in terms of economic cooperation, particularly in the strategic energy field.

Putin announced in early December during his visit to Ankara for the fourth meeting of the High Level Cooperation Council that he was scrapping the pipeline project that would have carried Russian gas to Europe via Bulgaria, and diverting it instead to Turkey, from where it could reach Greece and then Europe. Putin's "gift" to Turkey came after the European Commission objected to the South Stream pipeline that would have gone through European Union member state Bulgaria, which submitted to EU pressures and cooled toward the project. It also came at a time when Moscow's ties with the West, which has slapped sanctions on Russia over Ukraine, are strained.

Speculation among energy industry sources suggested at the time that Moscow was acting impulsively and that the "Turkish Stream" pipeline, the name given to the project announced by Putin in Ankara, was not feasible. Moscow is trying now to dispel suggestions that Turkey is cooling toward energy cooperation with Moscow while Turkey is also signaling that it will continue its energy cooperation with Russia. Alexei Miller, the chairman of the management committee of the Russian gas company Gazprom, was in Ankara on May 7 for talks with Energy Minister Taner Yildiz and officials from the Turkish pipeline company BOTAS. "Agreement was reached on the commencement of operation and gas supply via 'Turkish Stream' in December 2016," Miller said in a statement after his talks.

Turkey's semi-official Anadolu Agency reported after the talks that the 1,100-kilometer (683.5-mile) Turkish Stream pipeline is projected to deliver 63 billion cubic meters of gas per year through four parallel lines, with an estimated 47 billion cubic meters reaching the Greek-Turkish border, while the remaining 16 billion cubic meters is allocated for use by Turkey. The agency also quoted a Turkish official who said Gazprom had only started building the line for the 16 billion cubic meters of gas for Turkey's domestic consumption, but has not begun the construction of the other three lines that will carry gas to Europe. It said it was not clear when this construction would start.

The United States is reportedly pressurizing Greece to refrain from participating in this project by acting as a conduit to Europe for Russian gas. State Department envoy Amos Hochstein was in Athens on May 8, a day after Miller's talks in Ankara, trying to dissuade Greek officials from accepting a Russian proposed pipeline to connect with the Turkish Stream pipeline. Talking to diplomatic correspondents in Ankara, John Bass, the US ambassador to Turkey, also reflected Washington's displeasure over the Turkish Stream pipeline project. He indicated that oil and gas should not be manipulated to increase political pressure on individual countries. "Our approach to South Stream and our approach to any possible successor pipelines that Gazprom seeks to negotiate will be viewed very much through that prism and from that fundamental principle," Bass said. He added, "We do not want to see development of gas infrastructure in Europe that increases the dependence of individual countries on one sole supplier." Moscow is reportedly countering US pressures by wooing Athens, which is in the throes of an economic meltdown, with the promise of $5 billion against future profits from the pipeline to be built in that country.

Meanwhile, Greek Prime Minister Alexis Tsipras and Putin discussed energy cooperation in a telephone conversation on May 7. Putin reportedly expressed Moscow's readiness to finance a Greek company that will participate in the construction of a pipeline in that country to carry gas to Europe. This pipeline will have a direct bearing on the future of the Turkish Stream pipeline. According to Necdet Pamir, a veteran energy expert and the current head of the main opposition Republican People's Party's (CHP) Energy Commission, the feasibility of the Turkish Stream pipeline is doubtful without the Greek connection to Europe. "If Putin can't resolve his problems with the EU, there is no European market for him for the gas Russia sends via Turkish Stream, the overwhelming bulk of which is supposed to be delivered to Europe," Pamir told Al-Monitor. Pamir sees the Turkish Stream pipeline project as it stands today more in a political light than an economic one.

He said, "Putin is trying to show the West that he is not without alternatives to the route over Bulgaria that the EU opposed. As for Turkey, it wants to conclude an intergovernmental agreement with Russia for this project before the June 7 general elections to impress the electorate." Pamir added that all the talk of making Turkey an energy hub in terms of natural gas also rings hollow since it is not clear what re-export rights Ankara has secured from Moscow for this hub to be profitable for Turkey. Pamir, who indicated that Turkey currently does not have anything near the storage capacity for it to become such a hub, also sounded a warning. He suggested that if Moscow overcame its differences with the EU in the near future there is nothing stopping it from scrapping the Turkish Stream pipeline project as it was originally proposed.

Government sources in Ankara consider Pamir's views as partisan because of his CHP affiliation, but the main points he makes are shared by independent experts. Kerim Has, from the Ankara-based International Strategic Research Organization (USAK), indicates that Turkish Stream is not just a commercial venture but a project with political consequences. He cautions, however, that the sides have not yet signed a binding agreement concerning this venture, pointing out that there is only a memorandum of understanding between Gazprom and BOTAS. "For Turkish Stream to be constructed there is the need for an EU decision on the construction of the interconnected lines, especially in Southeastern Europe," Has told Al-Monitor. He said there was as yet no agreement between Russia and Greece, and that the declaration on this topic, signed by the foreign ministers of Turkey, Greece, Hungary, Serbia and Macedonia, was nonbinding.

Echoing Pamir, Has also underlined that important particulars such as the price of the gas to be delivered through Turkish Stream had yet to be negotiated and finalized between Turkey and Russia before this project can finally go ahead. While Ankara and Moscow are keen to reflect a positive outlook concerning this project — mostly, it appears, for political rather than economic reasons at this stage — serious doubts linger about its feasibility, which make it unclear if the undertaking will materialize or remain a pipe dream.

From Russia with love: The Moscow-Ankara energy affair

Forbes, *13.05.2015*

Last week's deal between Turkey and Russia to launch the Turkish Stream gas pipeline by December 2016, may spell a new era in Turkey and Russia's energy and political relations. Coming just after a case brought by the EU Commission against Gazprom.

Russia's recent energy overtures to Turkey are driven in no small measure by Gazprom's weakening position in Europe. Ever since Gazprom cut gas to Ukraine in 2009 impacting Europe's supply in midst-winter, the EU sought to diversify its energy sources, improve its energy infrastructure, and reduce its reliance on Russian gas.

The Europe's recent charges against Gazprom's monopolistic practices including setting "unfair prices," seeking to partition European gas markets, and bullying EU member states into Gazprom-led pipeline infrastructure projects signal that Gazprom's operations will be more constrained in the European markets. In 2015, seemingly responding to the war in Ukraine, the EU announced its future project to create a European Energy Union. The goal: to bolster its energy security and reduce hydrocarbons.

Meanwhile, Russia has plans for its own energy union within the framework of the Moscow-led Eurasian Economic Union and the Istanbul-based International Association for Energy Economics (IAEE). Turkey's geographic position makes it a strategic participant as a transit and energy hub country for both Europe and Eurasia's energy projects. Already, Turkey has agreed to participate in Europe's planned Southern Gas Corridor, which would bring Caspian gas to Europe via Turkey to diversify away from Russian gas. Gazprom then sweetened its deal: It offered Turkey a gas price cut while urging it to host the competing Turkish Stream pipeline to carry Russian gas to Southern Europe. After some maneuvering, the Moscow-Ankara deal was struck and Turkish Stream will launch by December 2016. Turkish Stream will also replace Gazprom's planned South Stream pipeline project, which was cancelled due to EU regulatory pressure in 2014.

Moscow and Ankara are not new energy bedfellows. The first direct gas pipeline between Russia and Turkey was Blue Stream, which was inaugurated in 2005 by Russian President Vladimir Putin and Turkish then-Prime Minister Erdogan. Since then Turkey has relied increasingly on Gazprom. If in the wake of the 2009 Russian-Ukrainian gas crisis, the EU diversified and became more carbon efficient, Turkey has signed a series of agreements that have only increased its energy dependence on Russia. Today, the energy thirsty emerging economy, which imports 98% of its gas buys some 60% from Gazprom. The new deal between Russia and Turkey also will increase volume across the existing Blue Stream route.

In addition, in 2010 Ankara awarded Russian companies the contract for Turkey's first nuclear energy plant. Overall, Turkey's energy consumption in the power sector doubled from 795 million cubic feet (MMcf) to 1.9 Bcf per day in the 2000s and continues to grow at a robust 4.5% a year. As a recent day-long, nation-wide power grid outage which cost the country an estimated $700 million attests, Turkey's demand is expected to outstrip supply until at least 2030. The attractiveness for Ankara of a Moscow-led energy union may also be due to the tumult to its south. Ankara has displayed discomfort at the growing regional influence of Iran—its second largest gas supplier. Cementing energy ties with Moscow to bring gas to southern Europe could also amplify Ankara's leverage in negotiations with Kurds seeking an outlet for the gas fields in northern Iraq. As the EU sets out to forge a European Energy Union, it should recall Turkey's strategic role for both Europe and Russia in their evolving energy strategies. Western policy makers and investors should recognize that there will be competition for Turkey's favor for years to come and the success of Southern European pipeline infrastructure may depend on the Moscow-Ankara relationship and Erdogan's political fortunes. As Europe confronts its own internal divisions, Turkey is one partner that the West should keep close at hand.

Turcas CEO: Turkey should strengthen gas hub potential

Anadolu Agency, *12.05.2015*

Turkey's geographical location offers an ideal model for a potential natural gas hub for Europe, according to Batu Aksoy, CEO of the Turkish energy company Turcas.

"Turkey is an important country and should strengthen its 'hub' and transit position. The Turkish Stream may help Turkey do just that," Aksoy told. Aksoy cited the many discoveries around Turkey such as Eastern Mediterranean Sea and Northern Iraq. He added that Russia plans to transfer its gas via Turkey through the proposed Turkish Stream pipeline while Azerbaijan has its Shah Deniz stage two project which aims to also transit through Turkey.

Stage one operations at the Shah Deniz field, located on the Caspian Sea south east of Azerbaijan's capital Baku began in 2006. Production realizes 26 billion cubic meters of gas and 53,000 barrels of condensate per day. According to BP, its operation in the Shah Deniz stage two project is expected to be up and running in 2018. BP has a 28.8 percent share along with other partners; Turkish Petroleum Corporation with a 19 percent interest in the pipeline while SOCAR has a 16.7 percent interest, Lukoil has a 10 percent share and Nico has 10 percent. Norway's Statoil completed the sale of its share of 15.5 percent on the project to Malaysian oil and gas company Petronas for $2.25 billion at the end of April.

"As you see, Turkey has a good position while diversifying supplies is very important. Turkey certainly needs new suppliers, and due to its position, it's important for other countries also," he said. He added that despite the uncertainty of the timeframe for the Turkish Stream project, the important issue is the intention and the financial resources which will be made available to the country. In December 2014, Russia's Vladimir Putin announced the scrapping of the South Stream pipeline project due to a disagreement between Moscow and the European Union countries. Putin proposed a new route to deliver the gas to Europe through Turkey, which was dubbed the 'Turkish Stream.'

In 2014 Turkey's natural gas agreements brought 51.8 billion cubic meters, bcm, while the country consumed 49 bcm. "Turkey's demand and supply rate is important, and that's why diversification of suppliers will be substantial. Turkey needs to develop its energy storage projects. Natural gas consumption in the winter and summer is really different for Turkey. In the summer, it doesn't have any gas problems but the winter is crucial," Aksoy said and added, Northern Iraq's oil and hydrocarbon discoveries in the Eastern Mediterranean Sea would bring Turkey new resources.

In keeping with Turkey's desire to strengthen its geopolitical position on energy, in October 2014 Turkey and the government of the Turkish Republic of Northern Cyprus strongly opposed any "unilateral" move by the Greek Cypriot administration to explore for hydrocarbon resources around the island. Turkey said its natural resources should be exploited in an equitable manner under a united Cyprus. The Turkish Cypriot government has repeatedly said the resources of the island of Cyprus belong to both communities, and stressed that Turkish Cypriots will not give up their rights to the resources.

Iran wants investments in LNG sector

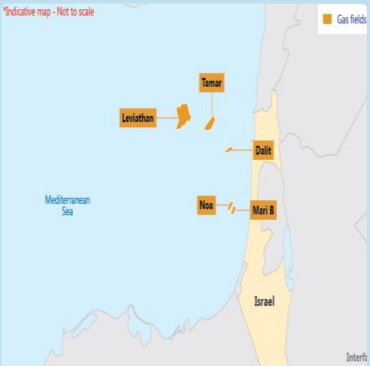
Natural Gas Asia, *11.05.2015*

Iran is looking for investments in its LNG sector, the head of National Iranian Tanker Company (NITC) said. "We lagged behind in this market due to the sanctions. Now we are looking for investors," Ali-Akbar Safaei said, reported Shana News Agency.

Safaei added that LNG is a vital sector as markets in the East and the West need Iran's gas and the country can build a production-transport-consumption chain in this sector. "Given the rivalry in marine transportation and flexibility in shipping, Iran's LNG exports would be done by ship and at competitive price," he said.

Israel softens anti-trust rules but newcomers still drawn

Interfax, *14.05.2015*



The new Israeli government has backed away from stringent anti-monopoly measures to break up the ownership of its gas fields, but its latest proposal will still bring some new players into the sector.

The weaker measures – vigorously opposed by Antitrust Authority Commissioner David Gilo – require Delek Group to sell its 30% stake in the Tamar field, although the company does not have to do so until six years after a deal is signed. United States-based Noble Energy will also have to dilute its stake in the field from 36% to 25%, instead of to 10% as demanded by Gilo.

This will delay the breakup of Tamar ownership until 2021 at the earliest, and some controls will remain over domestic gas pricing as a result. Both companies must entirely sell out of the smaller Tanin and Karish fields, but there is no change to the ownership structure of the giant Leviathan field, according to the deal negotiated by the Prime Minister’s Office, the Ministry of Finance, and the Ministry of Energy and Water. The new arrangement has also thrown out clauses that would have forced the Leviathan partners to individually market the field’s gas in Israel, as well as a proposal that aimed to make Tamar competitive against its larger neighbour by restricting Noble’s ability to sell gas domestically. The companies involved are satisfied with the latest proposal, with Noble calling the deal “an appropriate and workable solution”. It said in a statement to Interfax the proposal “strikes the right balance” between addressing concerns about monopoly ownership and providing regulatory certainty to the owners.

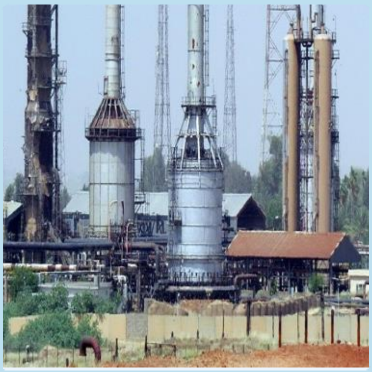
One analyst, who did not want to be named, said a promise to speed up approvals and lift the volume of gas available for export from Tamar was made to sweeten the deal, while another option is said to include Jordan as a ‘domestic’ customer, thus widening the options for local sales. A Noble spokeswoman said the company would continue to keep the development of Leviathan and the expansion of Tamar on hold until a final agreement was signed, but it expected to be able to bring those operations back online less than 12 months afterwards. “Following a final agreement, we expect to be able to complete gas sales contracts, rebuild our project engineering and execution teams, secure the necessary construction agreements with our suppliers and secure external financing necessary to enable an FID [on Leviathan],” she said. “Once we have taken an FID, we estimate [we will need] three to four years for construction and field development before first production commences,” she added.

Nati Birenboim, a former adviser to the Israeli minister of energy and water and now chief executive of Tamuz Group, is optimistic the deal will be good for Israel – if only because new parties will have the opportunity to buy into the Tamar and Leviathan fields. “In the structure today you see Delek and Noble both in Tamar and Leviathan, [meaning] they are a monopoly,” he told Interfax. “But you will see the entrance of other interests in both fields [in the next few years].” He suggested that future interest in the Tamar field – which has 15- and 20-year contracts to supply gas to Israel and companies in Jordan, as well as interest from entities in Egypt – could come from finance sector organisations looking for a less risky investment in the energy sector. Birenboim also believes Noble and Delek will eventually have to bring in a larger partner to develop the Leviathan field, given the up-to $8 billion price tag of extracting the gas. He sees at least one new larger energy company entering the sector that way, but admits the lack of potential for another foreign or local operator to take over from Noble in Tamar or Leviathan is a key reason for letting it keep the cross-ownership in both concessions. Birenboim expects the agreement will be signed soon after Israel’s new government is installed next week. Israel’s former Finance Minister Yuval Steinitz was appointed as the new minister of national infrastructures, energy and water resources on Thursday, and will be responsible for settling the deal. He previously set up the Sheshinski committee to review Israel’s natural resources taxes and supported its proposals for a steep tax hike on gas companies.

The antitrust commissioner has not attended meetings to develop the new framework as a protest against watering down the anti-monopoly measures, and Israeli newspaper Globes has reported the authority's legal adviser and chief economist are siding with the regulator's position. The analyst said the government could use two methods to bypass Gilo. It could either use the Restrictive Trade Practices Law to grant an exemption for a particular practice to boost foreign policy or national security, or use a national energy and infrastructure projects bill – as proposed by Prime Minister Benjamin Netanyahu – that will allow the government to speed up reforms. Given the fragility of the new coalition and the intransigence of the parliament, the Restrictive Trade Practices Law is likely to be the easier route, she said.

The Gaza marine field: Left behind

Natural Gas Europe, *11.05.2015*



The Eastern Mediterranean region's transition into a potential player in the natural gas market has been highly publicised in the recent years.

The discovery by Texan Noble Energy of substantial natural gas deposits under Israel's seabed, with the Leviathan and Tamar fields estimated at respectively 22 and 10 Trillion Cubic Feet (Tcf) of natural gas, has triggered exploration activities in neighbouring Cyprus. The island was successful in 2011 when Noble Energy discovered Aphrodite, located in Block 12 of Cyprus' Exclusive Economic Zone (EEZ) and estimated at 4.54 Tcf.

The island pursued its search efforts for more hydrocarbon in its waters, but the Italian-North Korean consortium ENI/KOGAS licensed to conduct exploratory drilling in Block 9 of the island's EEZ faced two dry holes and it is uncertain if it will conduct further drilling. France's TOTAL, licensed to drill in Blocks 10 and 11 of the island's maritime zone has withdrawn from the island for not having identified 'drillable prospects'. Rumours that TOTAL may be resuming its activities offshore the island have not yet been confirmed yet as the French company pursues its talks with the Cypriot government. Noble Energy is now in the process of finalising a development plan for the Aphrodite field to submit to the Cypriot government in the coming weeks that may involve selling natural gas to natural gas-thirsty Egypt. Lebanon too has began efforts to tap into its offshore riches: Lebanon's pre-qualification round, launched in spring 2013, attracted some of the world's biggest players in the energy scene including TOTAL, ENI, Shell, Statoil, Chevron, and ExxonMobil. Forty-six companies were qualified, including 12 operators. But despite Lebanon's high appeal in the pre-qualification round, the country has failed to launch its first licensing round delayed by its inability to issue two decrees that are essential for tendering Lebanon's offshore blocks, one delimitating the blocks open for bidding and the second laying out a model for future Exploration and Production Agreements (EPA).

Geopolitical tensions may stand in the way of the successful development of the Levant Basin's offshore riches. And despite technical difficulties encountered in the path towards natural gas production, there is no doubt that the hydrocarbon discoveries in the Eastern Mediterranean are important, if not on an international level, at least for the parties directly concerned. Once heavily dependent on imports to satisfy domestic demands, Cyprus, Israel and perhaps one day Lebanon, will have enough gas to satisfy domestic demands for decades and become net natural gas exporters, at least regionally. The untold truth is that the Palestinians too, have gas. In fact, British giant BG discovered a field in 1999 estimated at 1 Tcf and located 30km off the coast of the Gaza Strip at a water depth of 603 km. Former Palestinian leader Yasser Arafat called it at the time 'A gift from God'. Sixteen years later, the field has still not been developed and Palestinians remain almost entirely dependent on Israeli gas to satisfy domestic demand.

Natural Gas Europe spoke to a person on the ground highly involved in the case who requested to remain anonymous. 'The reason why the Gaza Marine field has not been developed to date is because BG failed to find a buyer for the Palestinian gas', said the source. The development of the field is an expensive endeavour that is not possible without securing a customer first. Several negotiations took place, including the options of selling the gas to Egypt's export LNG terminals and then shipping the gas from Egypt to far-reaching market in the liquefied form, supplying domestic demand and sending the gas to the Israeli market, but none of the scenarios came to fruition. 'Now that Israel has discovered enough gas to satisfy its domestic demand for decades and sell some of its gas to export markets, it is even less interested in the Palestinian gas and less likely to allow for the development of the field', added the source. One of the main objection advanced by the Israelis is the concern around how the Palestinians would spend gas revenues. Despite various measures and reforms adopted by the Palestinians to increase transparency after September 11, the Israelis kept advancing the lack of transparency as the main reason for their reluctance to support the sale of Palestinian gas that would generate an inflow of revenue.

The future of the Gaza Marine field looks even grimmer now that the Israelis are no longer dependent on gas imports to satisfy domestic demands. "Why would they support the development of the Gaza Marine field, if they don't need the gas anymore. For them [the Israelis], either they take the gas, or no one does", said the source. Technically, the Gaza Marine field, being located in shallow waters and relatively close to the shore, is easy to exploit. The problem seems however political, more than anything else. "Israel controls a security zone between Palestinian and Israeli territorial waters, and any access to these waters must be cleared by Israel. The Mari-B field [which began production in 2004], and the Noa well [located 20 km west of Mari-B, estimated at 1.5 to 2 Tcf (combined)], should have fallen within Palestinian waters" added our source. 'Electricity in the West Bank and Gaza is one of the most expensive in the region', added our source, which led to a debt by the Palestinian electrical companies to the Israeli Electrical Corporation (IEC), their main supplier of almost 2 billion Shekels. Furthermore, the Gaza strip suffers from frequent power outages, with over 6 hours of shortage per day.

‘If Palestinians had a better life, conflict will be less recurrent. Palestinians want to live a normal life and have access to the basics: water, electricity, and communications. The Palestinians have their hands tied and their future depends on the Israelis’, added the source. Asked about whether Shell’s acquisition of BG may have an impact on the development of the Gaza Marine field, our source tells us that despite being present in the region for 25 years, BG failed to reach the stage of the development of the field. There is a hope that Shell will adopt new approaches that may move things forward. But it is highly unlikely.

Saudi Aramco discovered eight new, oil gas fields in 2014

Natural Gas Asia, *11.05.2015*

Saudi Aramco discovered eight new oil and gas fields last year, the state owned company said in its 2014 annual report released.

“Upstream, we reliably met domestic and international demand, discovered eight new fields, and booked reserves that significantly exceeded production — despite the fact our combined oil and gas production approached an all-time high,” chairman Khalid al-Falih wrote in the report. The company discovered five gas fields: Abu Ali, Faras, Amjad, Badi, and Faris; and one oil and gas field, Qadqad. Two oil fields discovered last year are Sadawi and Naqa.

Without giving details about the reserves of the new fields, the company said they represent the highest number of discoveries in the company’s history. At the end of 2014, Aramco’s natural gas reserves stood at a record high of 294 trillion cubic feet. “Gas exploration and production programs, both conventional and unconventional, made major advances during the year. The importance of this progress cannot be overstated, as natural gas is increasingly vital to the Kingdom to provide clean energy for domestic needs and feedstock for value-added products that help to diversify the national economy,” Ali I. Al-Naimi minister of Petroleum and Mineral Resources said.

Iran in talks with countries for gas exports

Anadolu Agency, *15.05.2015*

Iran is negotiating to resolve pricing issues for natural gas sales with several countries. Head of NIGEC, Alireza Kameli, said that there have been some preliminary agreements reached without any settlement on pricing.

“Once agreements are reached over pricing of the commodity, the most important issue in the talks is resolved and the other issues will be easily agreed upon,” Shana energy news agency reported. Iran, which sits atop the second largest natural gas reserves worldwide, has limited gas exports and falls short of its potential due to the Western-imposed sanctions that hit the energy sector.

The EIA shows that Turkey is the biggest customer of Iran’s natural gas and imports more than 90 percent of Iranian gas at around 10 billion cubic meters. The country aims to heat up its energy sector by attracting foreign investment and increasing its trade. This prospect became more feasible with the increasing possibility of sanctions removal after an interim deal on its nuclear program was reached on April 2 with world powers. Iran is trying to improve its gas fields to allow for higher production. These improvements are mainly on its share of the South Pars field which amounts to some 40 percent of its total reserves, based on EIA figures.

Bulgaria’s Energy Minister: Turkish Stream will be costlier than South Stream

Novinite, *11.05.2015*

Bulgarian Energy Minister Temenuzhka Petkova has insisted that the Turkish Stream gas pipeline project will be costlier than the South Stream project.

She noted that Bulgaria had not yet received an official answer from Russia as regards the future of the South Stream project in view of the announcement of Vladimir Putin from December 2014 that Russia was withdrawing from the scheme. “It is too early to say that it is all over with South Stream,” Petkova stated. She said that the project company continued to exist because there was no official document confirming the suspension of the South Stream.

As regards the implementation of gas grid interconnector projects, she said that the construction of the pipeline to Greece was to start in March 2016 and the final investment decision on the project was to be taken on May 29. Petkova informed that the Bulgaria-Romania gas grid interconnector was to be ready by end-2015 and that the Bulgaria-Turkey and Bulgaria-Serbia gas grid interconnector projects were also moving forward. She went on to say that the current conditions made it possible to keep power rates unchanged and rejected allegations that the forthcoming local elections in autumn were the reason behind the attempts to avoid a power price hike.

Petkova reminded that the recent changes to the Energy Act had guaranteed the independence of the Commission for Energy and Water Regulation (KEVR) from the government and that it was elected by Parliament. She said that the times when electricity prices had been used as an instrument for conducting a social policy were gone, according to reports of dnevnik.bg. Bulgaria's Energy Minister made clear that KEVR was preparing an analysis on whether a power price hike from July 1 was necessary.

Azerbaijan: Southern gas corridor 30-32% ahead of schedule

Natural Gas Europe, *13.05.2015*

Works on the Southern Gas Corridor project are proceeding faster than expected, Azerbaijan's Energy Minister Natig Aliyev said. According to the report, the project is 30-32% ahead of schedule. "Our goal is to deliver gas to Europe in the next five years" Aliyev said, confirming the 2020 deadline.

The Minister told reporters that works are now focused on the expansion of the South Caucasus Pipeline going from Baku to Erzurum via Tbilisi. He also said that the modernisation of the Sangachal terminal has been completed. The facility, located 55 km south of Baku, receives, processes, stores and exports oil and gas. It also includes the SCP compressor.

Earlier this month, state energy company of Azerbaijan SOCAR has taken over as operator of Azerbaijan Gas Supply company (AGSC), assuming the role of selling gas from Shah Deniz field in Caspian to customers. It bought around 15% stake in the SCP from Statoil.

Deputy Minister: Bulgaria-Serbia gas grid interconnector will boost energy security

Novinite, *13.05.2015*

The construction of the Bulgaria-Serbia gas grid interconnector will boost the energy security of both countries and of the region as a whole, according to Bulgaria's Deputy Energy Minister Nikolay Nikolov.

Nikolov met with Miryana Filipovic, Mirjana Filipović, State Secretary of Ministry of Mining and Energy in Belgrade. "The gas grid interconnector will contribute to the diversification of gas-supply routes and will boost grid inter-connectivity," Nikolov said. The project envisages a reverse-flow gas pipeline that will connect the national gas transmission networks of Bulgaria and Serbia.

"Taking into account the fast-changing global gas map, the construction of gas grid interconnectors between Bulgaria and its neighboring countries proves to be of crucial importance for reducing the energy dependence of the country and the region," Nikolov stressed. He suggested that the implementation of the Bulgaria-Serbia gas grid interconnector was important for achieving a diversification of gas supply sources and routes. The meeting was attended by senior representatives of state-owned companies Srbijagas and Bulgartransgaz, who agreed to speed up work on the project. The progress of activities related to updating the parameters stipulated in the 2012 memorandum on the construction of the gas pipeline was also discussed.

Southern corridor: The role of Greece

Natural Gas Europe, 14.05.*2015*

Thomadakis remarked that the security of supply for the region is not the best, but explained that Greece could play the role of a new gas import gate role.

"According to all estimates, Southeast European (SEE) countries need diversified sources of gas and suppliers. New infrastructure will be available from the mid- to long-term, so nothing spectacular is to be expected before 2020," said Mr. Thomadakis. That means, he said, making use of what's already in place: existing infrastructure, implementing the 3rd Energy Package rules, developing emergency plans and using all available resources on a cross-border basis.

He noted that the EU is now showing a lot of interest toward the region. “Of course, we deserve that,” he quipped, continuing on by listing EU initiatives like the “Connecting Europe Facility,” the Juncker Package, and the Security of Supply regulation, which he said includes reverse flow in the Southeast European initiatives. Things are speeding up, said Mr. Thomadakis, with transport and supply contracts coming to an end in the next 2 years. He was tight-lipped about LNG supplies landing in Greece seeking opportunities to the north of the SEE region, commenting: “We will see things happening soon.” Those, he said, combined with interconnector development and bulk transport projects, have resulted in the formation of new alliances. “However, at some stage we must not forget the fundamentals: political will on its own does not create infrastructure – there is no greater example than the Nabucco project, or South Stream. “The presence of market forces is fundamental for the success of the efforts to build infrastructure,” he continued. “For every project a sufficient group of sellers, buyers is needed to enter agreements at prices which also support the sponsor’s needs for the viability of the projects.” He added that a flexible framework for projects like the Trans Adriatic Pipeline (TAP) could combine the needs of countries, project sponsors and regions.

Mr. Thomadakis also said it is important to “think small” by completing important gas interconnectors for small gas markets. “We need to exploit existing infrastructure, which, in most cases means we only need to remove legal obstacles.” It is necessary, he explained, for countries to stop thinking of themselves as “sole units,” and noted that many of them fall into doubt after projects have been cancelled. He offered, “We can live without these projects, or we can create the conditions for other projects to evolve.” He showed a list of projects including TAP and the Trans Anatolian Pipeline (TANAP), some of them focused on Greece, highlighting an LNG terminal, an import point and interconnection delivering Azeri gas to Greece since 2007. He commented, “Greece is a small country with a small gas market; therefore, the framework has been developed with a view to accommodate transport – transit gas flows. This was our intention from the beginning.” It had attracted market interest, he added.

Interconnector Turkey-Greece-Italy (ITGI), he said, is among the competition vying for Shah Deniz gas, being still included in existing plans that include TAP; an interconnector between Greece and Bulgaria; an LNG terminal; and the privatization of state-owned TSO, Desfa. Greece, he said, is anticipating Shah Deniz II gas by early 2020. “TAP and TANAP are already mobilizing and about to start construction on the ground,” he reported. He also spoke of doubling the capacity of the Greek LNG terminal, up to 7 bcm of gas, commenting, “The anticipated Greek import capacity will be between 10-12 bcm once the new pipelines and development of infrastructure currently going on will take place. “If we’re also to include reverse flow from Italy, which will go to 22 bcm/annum – and may be expanded to 35-50 bcm – all these will become available from the day TAP will start operating.” An additional 3 bcm of LNG can also be expected, according to him.

Meanwhile, the Interconnector Greece-Bulgaria, he said, is still alive, also mentioning new interconnectors like Bulgaria-Romania, Romania-Hungary and Bulgaria-Serbia in connection with existing infrastructure like the Trans Balkan Pipelines. Market-based pricing, said Mr. Thomadakis, is progressing, while Desfa and Fluxys are working on the development of a virtual trading point for Greece. “Therefore, we see that Greece will have an increasing role as a new gas import gate for Southeast Europe and the EU at the end of the day. However, this role will not be fully exploited unless suitable interconnector capacity becomes available, meaning connections from the South to the North.”

Ukraine wires $30-mil payment for Russian gas supplies in May

Platts, *14.05.2015*

Ukraine wired $30 million as an upfront payment to Russian natural gas giant Gazprom on Wednesday to secure gas imports in May, the national energy company Naftogaz Ukrayiny said.

The payment of $30 million is enough to import about 121.4 million cu m of gas from Russia. With the latest payment, Naftogaz wired a total of $180 million to Gazprom for Russian gas supplies since the beginning of the second quarter, according to Naftogaz. The previous payment of $40 million was made. Ukraine is buying Russian gas at $247.18/1,000 cu m in Q2, compared with $329/1,000 cu m in the first quarter.

Russia is the second largest supplier of natural gas to Ukraine. Ukraine accelerated imports of gas from Europe in June 2014 after Russia, once its main gas supplier, had suspended supplies completely for six months. Russia resumed its gas supplies to Ukraine in December 2014. Meanwhile, Ukraine increased Russian gas imports in May to about 20 million cu m/day from about 10 million cu m/day in April as it has been seeking to inject more gas into its underground gas storage facilities in preparation for the next heating season. Ukraine imported 235.9 million cu m of gas from Russia May 1-12, according to UkrTransGaz, the state-owned gas shipper. Ukraine plans to store up to 19 Bcm of gas in the storage facilities by October 15, when the next six-month high-demand season is due to begin. Ukraine's underground storage facilities contained 9.047 Bcm of natural gas as of May 13. Ukrainian gas storage facilities, some of the largest in the world, are capable of storing up to 32 Bcm of gas and are used to steady Russian gas supplies to Europe during the winter.

Experts call Russian exclave's FSRU plan a "gimmick"

Natural Gas Europe, *14.05.2015*

Gazprom announced Hyundai Heavy Industries has won the Gazprom Flot tender for the construction of the Kaliningrad floating LNG terminal however this news has left many experts scratching their heads.

"Are they really planning this? Frankly, I have not heard about that yet. If this turns out to be true, it would a weird enough as there is a sufficient number of liquefied gas terminals in the region. Besides, the Leningrad authorities are seriously considering construction of a LNG facility, so I don't get what the Kaliningrad LNG facility would be good for," Mikhail Krutikhin of the RusEnergy.

Other bidders for the tender included Daewoo Shipbuilding & Marine Engineering and Samsung Heavy Industries. A projected 3.5 km undersea pipeline will link the floating storage and re-gasification vessel with the supporting infrastructure on shore near the Kulikovskaya settlement at the southern end of the picturesque Curonian Spit. The contract for the facility is said to be signed this month, with the Korean terminal to be delivered by November 2017. Gazprom noted on its website that $294.77 million Kaliningrad facility may be the first gas provider for the region, but will be "subsequently replaced by the Baltic LNG project in Leningrad." "Indeed, the Leningrad authorities are seriously considering an LNG facility. It would serve as major LNG hub where a handful small-size gas tankers will be mooring and from which gas would be transported to other Baltic ports. So in the context, any talks about an LNG terminal in Kaliningrad remain a conundrum to me," Krutikhin said. On the other hand, he says he would not be "very surprised" if the Kaliningrad LNG facility plan turns out to stay on the desk. "Gazprom has a tendency to exaggerate and expedite things," the Russian expert said. "Recently, for example, it said the Leningrad (Saint Petersburg) LNG terminal is shaping but, but when we checked it, it turned out that the construction has not been materializing yet. So, most likely, the Kaliningrad thing is about propaganda," the consultant insisted.

One of the recent Hyundai Heavy Industries' deliveries were for Lithuania. The vessel was inaugurated last November in the Lithuanian seaport of Klaipeda. Arvydas Sekmokas, the former Lithuanian Energy Minister, now an energy consultant, believes that Kaliningrad, "if wanted," could successfully use the capacities of the Lithuanian liquefied natural gas terminal. "But, certainly, it is hard to see happening amid the ruffled geopolitics, though, economically, it would be a better thing for Kaliningrad than building its own thing," Sekmokas told Natural Gas Europe. He believes the Kaliningrad plan is part of the "paranoid assumption" that Lithuania might cut gas supplies to the Russian enclave. "This is nonsense. Lithuania has never sent such a message. So I see the Kaliningrad LNG news as a gimmick, akin to the lauded but never really pursued nuclear power plant project in Baltijsk in the region," the former Minister said.

It is not the first time Russia announces of its LNG plans in the enclave of Kaliningrad. Back in 2013, Gazprom CEO Alexey Miller, in a meeting dedicated to increasing the security of gas supply to the Kaliningrad region which took place at the company's headquarters, hinted the company is mulling an LNG facility in the region. The intention followed Gazprom's commissioning the same year of the first phase of the Kaliningradskoye underground gas storage facility boasting the capacity of 52 million cubic meters as the maximum daily deliverability is said to be 4.8 million cubic meters. After Russia announced the cancellation of the South Stream project near the end of 2014, Russian authorities and President Vladimir Putin himself started emphasizing the need to pep up LNG project development in Russia.

Boosting LNG production has been on the Russian agenda for a long time, though in reality Russia operates only one plant for LNG exports, a Sakhalin-based facility with a reported annual capacity of 9.6 million tons of LNG. In October 2014, Gazprom and Shell agreed on expanding the LNG plant. Russia's Yamal LNG project, envisaging the construction of an LNG plant with annual capacity of 16.5 million tons per year, is the most tangible current Russian LNG project. French oil giant Total is to pursue its implementation if China allots a record $15 billion loan for the project in the Yamal Peninsula in northern Siberia. According to Russia's Vzglyad newspaper, if China lends the money, the deal will become the largest ever to be funded by Chinese banks. Meanwhile, other Russian LNG projects have been gathering dust in the drawers. With the majority of them slated for the Baltic basin, the most plausible for now seems to be in Ust-Luga in the Leningrad region. The first phase of a 10 million ton LNG plant was supposed to be built in 2018, but has been rescheduled for later. Acknowledging the necessity to develop the LNG sector, Russia has just held the second international congress LNG Russia Congress 2015.

Gazprom's profit and gas exports fall in Q1 2015

Anadolu Agency, *15.05.2015*

Gazprom's net profit, calculated under Russian Accounting Standards, RAS, fell by 11 percent and gas exports to Europe fell by almost 20 percent, the company announced.

The energy tsar Gazprom's report, published under RAS for the first quarter of 2015, revealed the group's net profit fell by 11 percent to $2.8 billion, but its revenue increased by 2 percent. Additionally, the company's main source of income - natural gas exports to Europe - decreased by 19.1 percent, reaching its lowest level in six years. Gazprom's exports to its main customers also fell, including Turkey by 1.3 percent, Germany by 8.3 percent and Italy by 31 percent.

The report indicates that the decrease of gas exports to Europe was not Gazprom's choice but was "at the request of consumers." According to the report, the decrease in oil prices caused European clients to reduce their gas imports due to expectations of further reductions in contract gas prices, which are linked to oil prices.

Norway, Russia increasingly competing in same fields: Gas, geopolitics

Natural Gas Europe, *13.05.2015*

Statoil and Gazprom continue making headlines, confirming their pivotal role in Europe's gas markets. It comes as no surprise that, despite the British anti-Russia narrative, UK's Centrica extended gas supply contracts with both companies.

'Centrica has announced that it has increased the volume of gas it is buying from Statoil ASA under an existing supply agreement' reads a note released by Centrica. Centrica increase by almost 50% the volume it will buy from Statoil over the coming 6 years. 'The new agreement will increase the volume of gas by a further 2.3 bcm per annum, taking the total volume to be delivered over the10-year period to 73 bcm.

The agreement has been made at market terms and conditions' Statoil wrote on its website. According to the Norwegian company, the agreement confirms Statoil's position as a reliable supplier of gas to the UK. Britain needs around 70 bcm of gas each year, and needs to import more than half this volume. Centrica also extended its contract with Gazprom Marketing & Trading Limited. 'The new agreement, combined with the volumes agreed in 2012, takes the average volume of gas to 4.16 bcm per annum, taking the total volume to be delivered to the UK under the agreement to 29.1 bcm.'

In a sense, Norway and Russia are increasingly competing in the same fields - gas and geopolitics. Over the last days, Oslo announced it will granted $26.3 mln to Ukraine for budget support. "We have introduced a new form of reverse shipments and will not allow anyone to use gas supply as an instrument of imposing pressure on Ukraine in the future" Ukraine's Petro Poroshenko said after his meeting with Norway's Minister of Foreign Affairs Børge Brende. Meanwhile, Russian companies are stepping up efforts to increase production not only in Russia, but also elsewhere. 'Lukoil has begun production tests of two Gas Treatment Plants (GTPs) at the Northern Shady Site and the Kuvachi-Alat Field in Uzbekistan's Bukhara Region as part of the Kandym Early Gas Project, which is being implemented together with National Holding Company Uzbekneftegaz' Lukoil wrote on Tuesday.

Meanwhile, other countries' companies keep having problems with national legislation. Despite an increase in gas sales in the first three months of the year with respect to 2014, RWE warned that 'new political risks' are emerging in conventional power generation.'At the end of March, the German Ministry for Economic Affairs and Energy put forward plans for meeting the country's climate protection targets, under which power stations more than 20 years old will be subject to an additional levy from 2017 if their emissions exceed certain annual limits. A financial burden of this nature would have a substantial negative economic impact on RWE's lignite mines and lignite-fired power stations' RWE wrote in a note, in which confirmed earnings forecast for 2015.

Russia was right: Shale in Europe has proved a dud

Bloomberg, *12.05.2015*

When Cuadrilla Resources Ltd. opened an office in Poland in 2009, it had a reason to be optimistic: the shale boom was transforming the U.S. into the world's largest producer of natural gas. To the companies rushing to imitate that success in Europe, Poland looked like the next Texas.

Six years later, the U.K. explorer has yet to drill its first Polish well -- and that's in the country that's most eager to allow hydraulic fracturing in Europe. The so-called super-majors like Exxon Mobil Corp., Chevron Corp. and Royal Dutch Shell Plc have packed up and moved on. "It's not easy," said Marek Madeja, Cuadrilla's director of well services in the country.

"The costs of drilling in Europe are much, much higher than in the U.S., and there are so many regulations every step of the way." Despite Europe's desire to loosen its reliance on Russian gas, the shale revolution has turned out to be a dud. Difficult geological conditions, fierce environmental opposition, cumbersome regulations and a bloody war in Ukraine have conspired to quash investors' enthusiasm and wear down their patience. The collapse of oil prices to less than $50 a barrel in March was the final straw because the cost of much of Europe's gas, including Russian imports, is linked to crude. "The problem in Europe is that you never got a critical mass of wells for the synergies and cost efficiencies to kick in," said Michael Barron, London-based director for global energy and natural resources at Eurasia Group. "It's clear that here it will never be the game-changer it was in the U.S."

That’s particularly bad news for Ukraine, desperate to reduce its dependence on energy imports from Russia. A bloody conflict with Russia-backed separatists in the eastern Donetsk region persuaded Shell to abandon its operations in the area late last year. Chevron, albeit operating in the safer western provinces, soon followed suit. The smaller oil and gas producers that did remain in Europe –- principally in Poland and the U.K. -- continue to battle bureaucracy, arcane tax laws and local authorities that don’t want drilling in their backyards. The geology isn’t helping either: very few wells have yielded anything close to a commercially viable flow. Poland requires explorers to provide a detailed five-year operational plan before even breaking ground. For every adjustment of the plan, companies must file a request that can take the government months, or even years, to approve, Cuadrilla’s Madeja said.

In the U.K., hydraulic fracturing is backed by David Cameron’s government, which won reelection last week, but faces strong opposition from local communities who fear that injecting chemically treated water into the ground will pollute the environment and cause earthquakes. Despite the government support, only about a dozen wells are in the pipeline. The continent’s estimated reserves aren’t negligible: they probably amount to about four fifths of those in the U.S. The problem is that most countries either have an outright ban on hydraulic fracturing or have imposed a moratorium until its effects on the environment become better known. “Europe is much more densely populated, so people are living much closer to the activity than in the U.S.,” Eurasia’s Barron said. “There is still a lot of popular concern to be overcome.” The government in France, estimated to hold the largest reserves on the continent, remains implacably opposed to fracking and will keep a total ban in place at least until the 2017 presidential election. Spain, another country with sizable reserves, extended exploration licenses but hasn’t yet granted environmental approvals, and several regions banned the technique out of fear it could contaminate underground water.

There is some enthusiasm for shale gas exploration in Denmark, where Total SA won two concessions and may drill this year. Exploration in the U.K. may also accelerate if the new wells there prove commercially viable. But shale gas will always remain a complementary source of supply in Europe, where conventional gas, whether piped from Russia or other suppliers, remains the cheapest option, according to Bloomberg Intelligence analyst Philipp Chladek. “Fracking as a path to independence was a dream that’s just not going to come true,” Chladek said. “I wouldn’t say shale gas in Europe is dead, but it’s much more difficult than people thought.”

Poland firm willing to operate Iran gas projects

Press Tv, *11.05.2015*

The company's manager, Yugoslav Suzanski, was quoted as saying that PGNiG is interested in opening an office in Tehran in order to pursue its activities in Iran.

"Years ago, this Polish company was present in Lavan gas project [in Iran] and is willing to return to Iran's burgeoning market," he said. Meanwhile, Iran's deputy petroleum minister Abbas Sha'ri-Moqaddam said talks have been started with a Polish company for cooperation in petrochemical projects. "The main subject of talks with this European company is the purchase of equipment and state-of-the-art technology for petrochemical industries," he said.

Sha'ri-Moqaddam, who is also managing director of National Petrochemical Company, did not make clear if he was referring to PGNiG. Iran and the P5+1 group of global powers - the United States, Britain, France, Russia, China and Germany - reached mutual understanding on the parameters of a comprehensive agreement over the Islamic Republic's nuclear program in Lausanne, Switzerland, on April 2. The two sides have agreed to finalize a comprehensive deal on the nuclear program by the end of June. A final nuclear deal would result in the lifting of sanctions imposed on the Islamic Republic.

Sefcovic: EU to boost oversight of Russian gas contracts

Bloomberg, *12.05.2015*

The European Commission will present next year a proposal to increase the oversight of natural gas contracts with Russia and other external suppliers, Maros Sefcovic said.

A draft law to ensure gas agreements are in line with EU rules will follow the endorsement for the measure from the bloc's 28 nations, according to Sefcovic. "We can propose the Commission representatives in the negotiating teams, we can propose close consultations when such negotiations are taking place or we can even consider that we would have some kind of standard clauses to make sure that the agreements are in compatibility with EU rules." he said.

The crisis in Ukraine highlighted the need for Europe to tighten energy links among member states and cut its dependence on Russia, which supplies 27 percent of the bloc's natural gas. To ensure that intergovernmental agreements with Russia don't breach EU law, the regulator should vet their content during negotiations and not just before deals are adopted, according to Sefcovic. In December, Moscow-based OAO Gazprom halted work on the South Stream pipeline, designed to bring gas directly to Europe under the Black Sea, after the commission called on nations involved in the project to ensure it didn't violate EU rules.

The cornerstone of the European energy legislation seeks to make dominant power and gas companies improve access to transmission networks for competitors. "We have seen how many problems we had with such agreements in he past," he said. "Once agreements are signed and ratified it's very difficult to change them. It creates a lot of legal uncertainty and political tension." The commission will have two streams of work: one on intergovernmental agreements and another on a revision of the security of gas supply law, which will address commercial contracts, Sefcovic said. EU leaders in March balanced the need to enforce European laws on gas purchases with concerns over confidentiality of contracts by endorsing a clause guaranteeing that commercially sensitive information can be kept secret. The EU buys 53 percent of the energy it consumes from external suppliers at a cost of 1 billion euros ($1.1 billion) per day, according to the commission. Ten percent of the bloc's natural gas supply is piped through Ukraine.

Gas coming to Turkey and after that?

Natural Gas Europe, *13.05.2015*

The European Climate Foundation's Julian Popov stole the show in a session dedicated to "the future in South-east Europe without the South Stream pipeline project" at Flame in Amsterdam, the Netherlands, taking the ballast out of calls for building mega infrastructure projects like the now defunct Russian natural gas pipeline project.

Mr. Popov noted the distinction between political drivers and actual economic forecasts and "reality" when it comes to implementing such projects. "South Stream," he recalled, "was a very politically driven project, which was highly unrealistic.

"In that sense, the replacement [for South Stream] is also a highly unrealistic project, which is very politically driven, and it's not linked to any forecasts of actual [gas] demand," he said. Furthermore, he explained, a country like Bulgaria may be 100% dependent upon Russian gas, but gas makes up only 10-12% of the country's primary demand. Greece and Serbia shared similar situations regarding gas, while countries like Macedonia and Albania have virtually no consumption of natural gas.

If such big projects are built, asked Mr. Popov, will that change anything? He responded, “You could deliver 100 bcm to Bulgaria, but it won’t use more than 3 bcm, and there’s no reason to expect demand to grow.” He attributed that assertion to market liberalization, which is reducing demand, and to energy efficiency, something which is a key priority for countries in South-eastern Europe. Without a significant industrial boom, or coal replacing gas, according to him gas demand in the region is likely to stay at present levels or even a slight decrease. Providing a perspective from Croatia, Vladimir Durovic, Director of Strategic Development, Plinacro, noted that, in the wake of South Stream, Gazprom has changed its philosophy from being an “end user” to that of a “gas hub” with the new Turk Stream project, which would only deliver gas to the border of the European Union. “We have come to the realization that South Stream is cancelled,” he offered, “but at the same time, the new proposal is Turk Stream. Now, with gas coming to a hub in Turkey, what happens after that?”

He noted that South Stream, a huge project had had an actual leader. “For the countries in the region in terms of economics/politics, they are not in the position to develop a new transmission system now – it’s too complicated,” explained Mr. Durovic, who said that this is in contrast to Gazprom’s ability to build Turk Stream to Turkey whose position as a hub for other markets is a different situation. As to whether South-eastern and Central Europe has a need for such projects, according to Janos Feher of Hungarian TSO FGSZ, the answer is not clear. Recalling times when those countries were under the sphere of Soviet influence, he said then they were fully dependent on Russia for gas and the relationship was one-sided. Mr. Feher characterized the situation for those countries today: “Whether Ukraine will be switched off and a new tap will be opened in Turkey – it’s a poker game. We have to take it seriously, because whether we like it or not, this is the only connection.” He reported that Hungary had been the first to build an interconnector with Austria following the 2009 gas shut-off; still, Hungary depended on Russian gas. “We have to live with this, regardless of whether we agree with it or not,” he said.

Hungary, he said, had interconnectors with six of its seven neighbors. Hungarian-Romanian reverse flow, according to Mr. Feher, is slow in coming, but it will happen. He mentioned a project called “Tesla” which would involve Hungary, Macedonia, Serbia and Greece, and also Eustream’s “Eastring Project.” “With these projects we will solve this issue,” he said. “TSO’s, countries in this region know that mega projects depend on whether there is political support from the EU or not, and very expensive with long time frames. “So we believe that small steps and inter country cooperation are the way forward,” said Mr. Feher.

The Energy Community Secretariat’s Predrag Grujicic said he sees the shaping of gas policies in regulation, through application of the acquis towards the establishment of a pan European natural gas market. He recalled that the Energy Community had raised concerns against projects like South Stream, “But they saw it as an investment opportunity – this is what we keep forgetting. The economies of the contracting parties in the Balkans are in such bad shape that for them this was an example of a potential opportunity to raise their GDP by at least 1-2%.”

Mr. Grujicic observed that some countries are beginning to reform their gas markets and now was an opportunity to reform and gain better bargaining positions. Small regional connector projects, he said, are key to introducing more liquidity and fair pricing. “I don’t think this region will always be dependent on Russian molecules,” he opined. “We’re not saying that these countries should look for other routes and contributors of supply that will increase their security of supply. These small interconnectors will help them a lot,” he said. Session moderator, Ana Stanic, EA Law, pointed out that a stable gas demand for the region has always been a stumbling block.

UK gas import dependence grows with Centrica’s Russia, Norway deals

Reuters, *13.05.2015*

Centrica has signed new gas contracts with Gazprom and Statoil, reflecting the UK’s growing dependence on gas imports as its production declines.

The Gazprom deal give Britain a much higher exposure to Russian-sourced gas and comes despite European Union pressure to reduce the region’s dependence on Russian gas due to frosty relations with President Vladimir Putin over the conflict in Ukraine. Gazprom’s supplies to Centrica will rise to 29.1 bcm until 2021, compared with 2.4 bcm agreed in a three-year deal in 2012. On average of the six-year deal, Gazprom will provide roughly 9 percent of Britain’s gas needs.

“Whatever we might want as Europe, we need to be very careful about being pragmatic about the realities of it,” Centrica Chairman Rick Haythornthwaite at the company’s annual general meeting two weeks ago. “I think it’s unrealistic to think that Russian gas is going to be replaced in the near-term.” Gazprom, Russia’s top natural gas producer, meets a third of EU gas needs. Gas production in Britain, which was self-sufficient at the turn of this century, has fallen nearly 70 percent since a peak in 2000. Dependence on imports leave it heavily exposed to production risks that are beyond its control. The gas will be sourced by Gazprom’s London-based marketing and trading arm, which takes gas from a variety of sources, a Centrica spokeswoman said.

Centrica’s agreement with Statoil adds another 2.3 bcm per year to a ten-year 50-bcm deal signed in 2011, with supplies starting from this October. Statoil covers around 20 percent of Britain’s gas needs. “This is a gas-indexed type of contract and of course the details negotiated remain confidential between Centrica and us, but it’s not an oil-indexed contract,” said Ann-Elisabeth Serck-Hanssen, acting senior vice president for marketing and trading at Statoil.

The shift away from traditional oil-indexed contracts shows gas suppliers are proving more flexible in providing spot-based contracts that more accurately reflect changes in gas prices. The additional gas volumes contracted by Centrica are worth more than 8 billion pounds, according to Reuters calculations based on the average forward prices of seasonal British gas contracts until 2018. Centrica said all of its global gas and electricity supply deals, which include liquefied natural gas contracts and cross-border electricity flows, now have a value of over 50 billion pounds.

EU grants maximum assistance for preparatory work for Lithuania-Poland pipeline

Natural Gas Europe, *13.05.2015*

The European Union granted financial assistance to the Spatial Planning and Engineering Design Works of the Poland-Lithuania Gas Interconnection project, Lithuania's natural gas transmission operator Amber Grid wrote.

Under the agreement signed by Amber Grid and Gaz-System, the INEA granted EUR 10.6 million under the Connecting Europe Facility (CEF). 'The preparatory works of the Project were granted the maximum intensity of the EU financial assistance for studies 50 percent. Of the total amount, AB Amber Grid was granted EUR 2.5 million, and GAZ-SYSTEM S.A. was granted EUR 8.1 million.

Total estimated value of the spatial planning and engineering design works of the Poland-Lithuania Gas Interconnection (GIPL) Project amounts to EUR 21.2 million' reads a note published. The pipeline is meant to integrate the Baltic States gas markets into the European single market. Launch into operation of the GIPL is scheduled for 2020. The role of infrastructures has been underlined once more by European institutions, which sent messages in this direction over the last hours.

In one or two weeks, Vice-President of the European Commission in charge of Energy Union Maroš Šefčovič will add some flesh to the bones of the Energy Union, he said on Tuesday. During a debate sponsored by Statoil, the European Commissioner underlined the importance of the "governance system we are working at". According to him, after meetings with Member States, European authorities will then consider whether propose an "horizontal legislation" for all the countries.

Turkmenistan preparing for supply of energy resources to Europe

Trend, *14.05.2015*

President of Turkmenistan Gurbanguly Berdimuhammadov said that currently, the possibility of supplying Turkmen energy resources to Europe is being seriously considered.

He added that in this regard, the construction of the East-West gas pipeline is close to completion. The East-West gas pipeline will unite the main gas fields of Turkmenistan in the East in a single gas transportation system and will significantly increase the country's export potential. Aside from the onshore fields, Turkmenistan has sufficient reserve of energy resources in the Turkmen sector of the Caspian Sea for the European projects as well.

Alongside with the existing networks, the East-West gas pipeline can also provide the Trans-Caspian gas pipeline project with raw material. This project envisages construction of a pipeline to the coast of Azerbaijan wherefrom the Turkmen gas can be delivered to Turkish and European markets. The construction of around 800-kilometers long East-West gas pipeline is carried out by Turkmenneftegazstroy and Turkmengaz state concerns. Eight compressor stations will be constructed as part of the implementation of this project. The cost of the project exceeds $2 billion.

Turkmenistan's Ministry of Oil and Gas Industry and Mineral Resources has recently said that this pipeline's capacity is 30 billion cubic meters of gas per year. "The projectors of this regional gas pipeline had to fulfill difficult tasks on overcoming the complex parts of the relief, namely: to develop ameliorative measures to fight salines and draining of wetlands, as well as protect the gas pipes from groundwater," said the analytical material from the ministry. Turkmenistan ranks fourth in the world for the volume of natural gas reserve. It currently exports gas to China, CIS and Iran.

Norway, Brazil to compete in European oil market

Anadolu Agency, *12.05.2015*

Brazil and Norway could find themselves competing against each other in the European crude oil market, said Wood Mackenzie. Brazil and Norway's mega offshore projects will add 3.8 million barrels of crude oil per day to the global oil market from the Atlantic basin by 2025.

The crude from Brazil and Norway could represent a major opportunity for refineries in Europe and beyond as Norway and Brazil will try to maximize their margins from their streams. Mackenzie noted that Brazilian pre-salt crude will look to diversify their market share in Europe due to a saturation in U.S. refineries from North American suppliers.

"However, Brazil will end up competing with Norway's Johan Sverdrup oil field which dominates North Sea production after 2020 – one of the largest oil discoveries ever made on the Norwegian shelf," Mackenzie added. According to the U.S. Energy Information Administration, the world's largest oil discoveries in recent years have come from Brazil's offshore. Norway is Europe's largest oil producer, the world's third-largest natural gas exporter. The country is the largest oil producer and exporter in Western Europe and supplies more than 20 percent of Europe's natural gas needs.

In February, Norway's Statoil submitted a development plan for the Johan Sverdrup field to the Minister for Petroleum and Energy of Norway. "Lower shipping costs will favor the Norwegian crude, but the competitive balance will depend on refined product pricing, and how well-matched European refineries are to the new crude streams. This will become clearer once the all-important crude assay data for Johan Sverdrup is released to the market," said Gordon McManus, research director of refining and oil product markets at Wood Mackenzie. The Norwegian energy giant's Johan Sverdrup field, one of Norway's largest, aims to provide 25 percent of the country's production by 2025. Statoil, which has worked on this field for five years, forecasts that the field has a capacity of 2.35 billion barrels. The field will cost $31 billion to develop and will produce 600,000 barrels of oil equivalent a day at its peak.

PGNiG takes Gazprom dispute to arbitration

Argus, *14.05.2015*

PGNiG has filed for international arbitration over the price it pays for Russian gas imports.

The company has exercised its right to file for arbitration after failing to reach a "satisfactory" agreement during a six-month negotiation window with Russia's state-controlled Gazprom that ended earlier this month, PGNiG said. PGNiG requested a reduction in the price it pays for Russian imports in its 10.2bn m³/yr contract with Gazprom, which runs until 2022. PGNiG wants Gazprom to cut Poland's partially oil-indexed supply price to bring it closer to market prices in western Europe.

Algeria sends first LNG cargo to Egypt

Argus, *13.05.2015*

Algeria is sending its first LNG cargo to Egypt on the 138,000m³ Berge Arzew tanker, which is scheduled to arrive at the Egyptian port of Ain Sukhna.

Egypt started importing LNG last month and has received two Qatari cargoes and one Spanish reload so far. The Berge Arzew loaded at Algeria's 21.9mn t/yr Arzew LNG export complex. Algeria's state-owned Sonatrach agreed to supply six cargoes to Egypt in April-September. Trading firm Trafigura will supply 33 cargoes to Egypt in 2015-16, while fellow trading firm Vitol will supply nine cargoes over two years from June.

Noble Clean Fuels, a unit of Hong Kong-based commodities trading firm Noble Group, will provide seven cargoes over two years, with deliveries starting in April. Overall, Egyptian state-owned gas firm Egas has bought 55 cargoes for delivery in 2015 and 2016, and 35 for 2015-20. It is paying 12.5-14pc of the Brent crude price for the six months before delivery for the cargoes. Egypt's first floating storage and regasification unit (FSRU), the 170,000m³ Hoegh Gallant, arrived at Ain Sukhna at the beginning of April carrying a Qatari LNG cargo. It has a regasification capacity of 550mn ft³/d (5.7bn m³/yr). Egas has also made further enquires for a second FSRU to increase LNG imports.

China becomes number one oil importer country

Anadolu Agency, *13.05.2015*

Low oil prices, economic growth, consumption and oil demand over recent years is continuing to turn China into the biggest oil importer country, a fact which is likely to continue over the long term, experts believes.

“The net oil imports of China have been continuously increasing in line with its rapid economic growth. Therefore, it is natural that China will catch up with the U.S. in terms of net crude oil imports,” Ahmet Goncu, told. Goncu said China has surpassed the U.S. as the world’s largest net importer of crude oil. The U.S. imports 7.2 million barrels of oil per day while China imports 7.4 millions of barrels per day.

In April China’s oil imports saw a 13 percent rise. “An indication of the level of growth is the fact that some 23.5 million cars were sold to Chinese buyers in 2014, up 6.9 percent from the levels in 2013,” Managing Director David Wech of the research institute of JBC Energy said. Until the 1990s, China was self-sufficient in terms of oil production when most of its oil was extracted from the Daqing field in the northeast Xinjiang region of China. However, as China’s consumption of crude oil in constantly increasing, China is importing crude oil from many countries.

The largest oil exporter to China is Saudi Arabia followed by Russia, Iran, Iraq as well as other Gulf countries. Overall, around 60 to 70 percent of China’s crude oil imports come from Middle Eastern countries, according to Goncu. “Saudi Arabia is China’s biggest supplier of crude, with 994,000 barrels per day over 2014 and 1,038,000 barrels per day over the first quarter of this year,” Goncu said. “Industry experts believe that the oil prices will go to between $70 and $80 per barrel while China stores oil like other countries,” said Lin Boqiang, director at the Energy Economics Research Center at Xiamen University. Lin said that due to the lack of facilities in the country, China may seek out alternative ways to store more oil when prices are low and explained that it is the country’s policy to store 90 days’ worth of oil. He proclaimed that the country will continue to be the largest oil importer country for the future. “China is increasing the oil stored for contingency planning purposes. Especially during periods of low oil prices, the country is utilizing the opportunity to increase imports and build up its reserves,” Goncu said. Wech agreed, and said the increase in crude imports suggests it is likely that China has been taking advantage of lower crude prices in order to add to its crude reserves. “It’s important to note however that not all of the crude that exceeds requirements is going into reserves as refinery intake has also increased,” added Wech.

LUKOIL starts production tests in Uzbekistan's Kandym region

Anadolu Agency, *13.05.2015*

Production tests began on two gas treatment plants in Uzbekistan's Bukhara region in the west of the country, LUKOIL announced.

LUKOIL in conjunction with Uzbekistan's national holding company, Uzbekneftegaz, are undertaking production tests as part of the Kandym Early Gas Project, according to the press release. According to the release, tests began at the Northern Shady Site and the Kuvachi-Alat Field. These plants have a combined annual capacity of 2.2 billion cubic meters, bcm, and will process natural gas from 34 wells to supply the Mubarek Gas Processing Plant in the Bukhara region.

In 2004, Lukoil and Uzbekneftegaz had agreed to cooperate in the development of the Shady and Kandym gas fields for a period of 35 years. In 2007, the fields saw their first production. LUKOIL holds 85 percent share and Uzbekneftegaz holds a 15 percent share, according to their production sharing agreement on the project. The Kandym Early Gas Project contains more than 170 kilometers of power lines, an electric substation, over 180 kilometers of pipelines, 237 kilometers of fiber-optic lines, 150 kilometers of roads and seven bridges, LUKOIL proclaimed. In 2012, Uzbekistan was the third largest natural gas producer in Eurasia, behind Russia and Turkmenistan, according to U.S.

Kazakhstan's Q1 oil production decreases

Anadolu Agency, *15.05.2015*

In the first quarter of 2015, a slight decline of 0.3 percent in Kazakhstan's oil production took place compared to same period last year to reach 22.5 million tons, according to the country's economy ministry.

For the first quarter of 2015, a decrease in gasoline output saw a fall of 9.2 percent to 861,200 tons and a diesel decrease was 5.6 percent down to 1,430 tons, according to ministry. The government in Kazakhstan owns 33 percent of the oil producing companies. American and European countries have 36 percent, and the rest includes, Chinese, Russian and independent international companies.

There are 150 operational oil fields in the country and the top five fields in Kazakhstan represent half of the known reserves. Kazakhstan has been producing oil since 1911, and has the second-largest oil reserves as well as the second-largest oil production among the former Soviet republics after Russia, according to U.S. Energy Information Administration. Kazakhstan is a major oil producer. The country's estimated total petroleum and other liquids production was 1.70 million barrels per day in 2014, said the EIA.

US oil stocks fall two weeks in row, imports rise

Anadolu Agency, *14.05.2015*

U.S. crude oil stocks, domestic production and oil imports decreased, EIA, said.

Commercial crude oil inventories in the U.S., excluding stocks in the Strategic Petroleum Reserve, fell by 2.2 million barrels in a week to reach 484.8 million barrels. The crude oil stocks were at 487 million barrels. This is the second consecutive week that crude stocks have fallen, after 16 consecutive weeks of increases in the country's crude inventories. Domestic oil production in the U.S. remained almost unchanged, rising by a modest 5,000 barrels in a week to stand at 9.4 million barrels a day.

Decline in oil, gas drilling rig count slows down in US

Anadolu Agency, *11.05.2015*

A decline in the number of oil and natural gas drilling rigs in the U.S. slowed down, the oilfield services company Baker Hughes' data showed.

The oil drilling rig count in the country fell by 11 to reach 668 the lowest number of oil rigs in the U.S. since 2010. The number of natural gas drilling rigs in the U.S. only fell by one, and reached 221. The gas rig count was 323 a year ago in the U.S., and has fallen 102 since then. One of the major reasons for the slowdown in the decline of drilling rigs is the latest rally in oil prices. The price of the global benchmark Brent crude oil rose around 20 percent in April.

Oil prices fell around 60 percent from June 2014 to Jan. 2015, which hurt producers' return of investments. Although the latest fall in the rig count was relatively small in comparison to previous weeks, it was the 22nd consecutive weekly fall for the oil rig count, which fell 58.5 percent since reaching a peak of 1,609 in October 2014. Meanwhile, the falling number of oil rigs in the U.S. is expected to slow domestic oil production in the country and put an upward pressure on oil prices beginning from the third quarter of the year.

The total number of rigs decreased worldwide as well, falling to 2,557 in March 2015 from 3,597 the same month a year ago, recording a 29 percent decline, according to data compiled on the website of Baker Hughes. The biggest fall in the rig count was recorded in North America, while the Middle East became the only region to have an increase in the number of rigs between March 2014 and March 2015. In North America, the total rig count fell from 2,252 to 1,306 in the period between March last year to March 2015 - a 42 percent decrease, while the percentage decline in Canadian drilling rigs surpassed that of the U.S.

US speeds up LNG permits with 2nd approval in a week

Anadolu Agency, *13.05.2015*

Cheniere Energy's LNG terminal in the U.S. state of Texas has become the sixth project to get approval.

The U.S. Energy Department announced it has issued a final authorization for the Corpus Christi Liquefaction Project to export domestically produced liquefied natural gas, LNG, to countries that the U.S. does not have a free trade agreement, FTA, with. The energy industry has been criticizing the Obama administration, claiming it is too slow in approving LNG exports. However, the latest approval of the Corpus Christi is the second LNG permit given by the U.S. government in less than a week.

"The Corpus Christi Liquefaction Project in Corpus Christi, Texas is authorized to export LNG up to the equivalent of 2.14 billion cubic feet (63 million cubic meters) of natural gas per day for a period of 20 years, the Energy Department said in a statement on its website. "The development of U.S. natural gas resources is having a transformative impact on the U.S. energy landscape," said the department in the statement. With the shale boom in 2008, the U.S. has significantly raised its shale gas production, from 2 trillion cubic feet (57 billion cubic meters) in 2008 to 11.4 trillion cubic feet (323 billion cubic meters) in 2013, according to the U.S.' Energy Information Administration, EIA. "This increase in domestic natural gas production is expected to continue, with the EIA forecasting a record average production rate of 72.4 billion cubic feet (two billion cubic meters) per day in 2015," the Energy Department said.

This is the second approval for Cheniere Energy as its Sabine Pass project in the state of Louisiana has become the first to acquire an LNG export permit in 2012. The permit will allow the project to potentially export 2.76 billion cubic feet (83 million cubic meters) per day, and it is expected to ship its first cargo at the end of 2015. U.S. Energy Department approved Dominion Resources' Cove Point LNG project in the state of Maryland to export 0.77 billion cubic feet (23 million cubic meters) of natural gas per day for a period of 20 years. The Freeport LNG terminal in Quintana Island, Texas was authorized on Nov. 14, 2014 to export LNG for a total volume of 1.8 billion cubic feet (54 million cubic meters) per day for a period of 20 years. Moreover, Carib Energy's facility in Florida and Sempra Energy's Cameron LNG facility in Louisiana were approved in Sept. 10, 2014. Sempra Energy's Cameron LNG terminal in Cameron Parish, Louisiana was authorized to export up to some 1.7 billion cubic feet (51 million cubic meters) per day of natural gas for a period of 20 years, while Carib Energy's facility in Martin County, Florida was authorized to export up to some 0.04 billion cubic feet (1.2 million cubic meters) per day for a period of 20 years. The companies that want to export LNG from the U.S. to non-FTA countries need to get approval from the Department of Energy, which grants authorizations unless the proposed gas exports "will not be consistent with the public interest."

It's not over yet

Petroleum-Economist, *14.05.2015*

Is the worst over? Market sentiment may be shifting, even before the fundamentals really have their say. For the past two years, the prevailing wind has been bearish. Demand growth has been weak, thanks to economic problems in Europe and the transition from an investment-led to consumer-led economy in China.

The supply side has reinforced this picture of market weakness. The phenomenal growth of light tight oil production in the US, rising oil sands output from Canada and, since autumn 2014, Saudi Arabia's reluctance to withhold supply have all pushed oil lower.

Now the perception is starting to change. The futures curve no longer shows the steep contango that was seen earlier this year, suggesting traders believe the market will balance towards the end of 2016. If the fundamentals play out as the market now seems to think they will, $60 a barrel Brent might just be the start of a gentle rally that will leave prices at a new "Goldilocks" level: not too hot, not too cold, but just right; a price that keeps both demand and supply ticking higher, pretty much in balance.

At least that’s what producers might hope. There’s still plenty of uncertainty that might muddy the waters. Start with consumption. The International Energy Agency (IEA) says “unexpected pockets of demand strength have emerged”, most likely in response to the falling price. Demand data lag supply data by several months, so the full picture isn’t visible yet, and some of the demand isn’t consumption, but stock building. But India and Russia, for example, are showing bigger-than-expected consumption growth. Cheaper fuel and a healthier economy have helped push US demand higher, too. There is some evidence – including a slight fall in fuel economy, according to the University of Michigan – of SUVs and light trucks coming back into fashion. The IEA expects demand to rise by 1.1 million barrels a day (b/d) this year, helped along by the improving macroeconomic picture (that is, more travel and more goods being bought, made and sent around the world). It is a big lift from the 700,000 b/d seen for 2014, but hardly gangbusters. Above all, note that we really won’t know how quickly (or slowly) demand is growing until much later this year.

If the picture is mixed on the demand side, it’s even more so where supply is concerned. In North America, where the rig count continues to fall, the peak in output may finally be imminent (again) – but it probably won’t last. That’s the forecast from the Energy Informational Administration (EIA), which says that US crude oil output will hit 9.4 million b/d in the second quarter of 2015, then decline by 210,000 b/d in the third quarter. Yet, once the market balances later in the year, prices will rise, says the EIA, and US oil output will resume its upwards path. In short, the US supply numbers leave something there for the bulls … and something for the bears. It’s the same in Canada. Projects already under way could add another 500,00 b/d or so of supply in the next two years, but then the growth peters out – unless prices firm in the meantime, in which case the pause in supply growth may be relatively short. Either way, for now output is going to keep rising, whatever the price.

Then there’s Opec, where the signals are even less clear. The group’s output leapt 900,000 b/d higher in March, to more than 31 million b/d. The latest forecasts for the call on Opec now show a significant gap between the year average (29.5 million b/d) versus the average for the second half of the year (30.35 million b/d). Either way, Opec is overproducing. If Libya’s output continues to recover – a big if – or Iran’s rises in the wake of a full nuclear deal, things will come to a head. It is possible that in the second half of the year, Opec will have got what it wanted – a slow down in non-Opec supply growth – but face a supply overhang from its own production. At some point, it would have to cut to account for that and face the prospect of non-Opec supply coming back into play to fill in what it had removed. Reading Saudi Arabia’s motives in all this is difficult, too. For now it’s even pumping greater volumes of oil onto the market. Output reached 10.1 million b/d in March, a whopping 390,000 b/d higher than in February, according to the IEA. Oil minister Ali Naimi says output was even higher, at 10.3 million b/d (which was the number the kingdom reported directly to Opec). Exports have been rising steeply.

But all may not be as it seems. Some Opec watchers remain convinced that the kingdom, under pressure from fellow group members, is already preparing to shift strategy. “They will cut, but only into a firming market, perhaps later this year,” says one senior analyst close to the Saudi ministry. Certainly, recent speeches from Naimi and Ibrahim Muhanna, an advisor to the minister, have left open the prospect of cuts – but only if key non-Opec producers (for which, read Russia, Mexico and possibly Norway) agree.

Indeed, Muhanna confirmed what Petroleum Economist exclusively reported just after the Opec meeting in November: that the kingdom had been ready to agree cuts with Russia and Mexico, but failed. “Neither non-Opec producer was prepared to cut. They have their own reasons. So Opec took a bold decision. In the current circumstances, it could not act alone. It agreed to keep the same production level and to let the market balance itself.” In other words, it was only after Saudi Arabia could not get the cuts it wanted that it decided on Plan B, the market-share strategy. It means that Plan A remains viable. Seen in that context, Saudi Arabia’s increased production in recent weeks could be tactical, not strategic: a ploy to cajole others into cutting by threatening a period of high production if they don’t. Supporting this theory are rumours from within the kingdom that its spare capacity is now in play – that is, no longer to be used as an emergency buffer, but as a tool. At 3 million b/d, that spare capacity is a “huge weight” hanging over the market, says Seth Kleinman, an analyst at Citi.

Furthermore, if a cut is to be had then it makes sense for the kingdom to establish the kind of baseline it wants to be cutting from. If it can claim output of 10.3 million or 10.5 million b/d when the cuts happen, then a 500,000 b/d cut will leave it with plenty of market share. Iran is also likely a factor in this. Despite their hostility to a deal, the Gulf Arab producers may now be reluctantly accepting the likelihood of one. Iran’s exports are already on the rise – the IEA says heavy buying from China lifted the number to 1.27 million b/d in March, compared with 1.1 million b/d or so in recent months. (Before sanctions, Iran exported about 2.2 million b/d). A swift 600,000 b/d production jump could come within months of sanctions being lifted, says the agency. That’s a lot of oil for Iran’s fellow Opec members to accommodate. So, if they think a deal likely, it probably makes sense for them to lock in as much of the market as they can before Iranian oil starts hitting a market that still can’t decide its direction.

Announcements & Reports

► *Monthly Oil Market Report*

Source : OPEC
Weblink : http://www.opec.org/opec_web/en/publications/338.htm

► *Short-Term Energy Outlook*

Source : EIA
Weblink : http://www.eia.gov/forecasts/steo/report/natgas.cfm

► *Drilling Productivity Report*

Source : EIA
Weblink : http://www.eia.gov/petroleum/drilling/

► *Petroleum Marketing Monthly*

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

Upcoming Events

► *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 Inernational 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