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Russia's Gazprom, Turkey's BOTAS agree on natural gas

Anadolu Agency, *09.06.2015*

Gazprom signed gas supply agreements with Turkish state-owned Botas and private importers of Turkish gas, Alexander Medvedev, the company's deputy chairman announced.

Turkey imported 27.3 bcm of natural gas from Gazprom 2014 in which Botas purchased the main volume. Details of the figures involved in Tuesday's deal are not available yet, but Taner Yildiz said in early February that after seven meetings held between Turkey and Russia to negotiate natural gas pricing, Russia agreed to give Turkey a 10.25 percent discount from March onwards. However, the discount has not yet been finalized as talks continue.

Russia and Turkey are also in negotiations over the proposed Turkish Stream project. At a press conference, Medvedev said the intergovernmental agreement between Russia and Turkey on the Turkish Stream construction may be signed before the end of year, according to Russian state news agency Tass. However, Russian news agency Sputnik reported Tuesday that the intergovernmental deal will be signed before the end of June. The first segment of the Turkish Stream natural gas pipeline project may cost 3.3 billion euro, Medvedev was quoted as saying by Tass. "The figure is tentative and based on the cost of the South Stream gas pipeline providing for the construction of the pipeline to Bulgaria," Medvedev said.

Early December last year, Russian President Vladimir Putin scrapped the South Stream pipeline that would have carried the Russian gas to Europe via Bulgaria. Instead, Putin proposed a new project; the Turkish Stream. The Turkish Stream project plans to carry Russian natural gas through the Black Sea to reach Turkey's Thrace region in its northwest and take the gas to the Turkish-Greek border.Yet, it is not certain which southeastern European countries will join the Turkish Stream. Macedonia, Serbia, Albania, Montenegro, Bosnia and Herzegovina, Croatia, Slovenia and Slovakia are possible countries en route to reach central Europe.

Delivery of gas to Europe? Not without Turkey

Daily Sabah, *10.06.2015*

Turkey has a key role due to its position at the center of routes of natural gas delivery through pipelines to international energy markets, an expert said.

Finance and Investment, organized by Eurasian Dynamics and sponsored by Turkey's Anadolu Agency, Kate Mallinson, a political risk expert at the London-based international business intelligence firm GPW, spoke about Turkey's energy role in the region. Stating that Azerbaijani gas will not on its own be sufficient to diversify Europe's natural gas demand, Mallinson said Iranian gas reserves, in the future could also be supplied through Turkey to international markets.

Although Iran cannot produce nor export natural gas at optimal levels because of sanctions, this may change should these be lifted. Azerbaijan's minister of energy Natig Aliyev said on June 3 that Iran could join the Trans Anatolian Natural Gas Pipeline, TANAP, to provide natural gas to Europe. "For Europe, energy security is the second top priority after the crisis in Ukraine. Turkey and Europe will gain 16 billion cubic meters of gas with Azerbaijan's Shah Deniz II field. However, this only accounts for 10 percent of Europe's total gas need. So, new resources have to become available." When TANAP's first phase is completed in 2018, it will have an initial capacity to carry 16 billion cubic meters of gas per year from Azerbaijan's Shah Deniz II field through Georgia and Turkey to Greece and then further into Europe.

Mallinson also stated that Turkmenistan's natural gas reserves constituted another significant resource for international energy markets in the long term. Highlighting that Turkmenistan had the fourth largest gas reserves in the world, Mallinson said "Turkmenistan is very eager to sell its natural gas. That's why Azerbaijan is focusing on Turkmenistan to use its natural gas resources." Turkmenistan has been considering the delivery of its natural gas to the west through the proposed Trans Caspian Gas Pipeline, a planned project which would run under the Caspian Sea to reach Azerbaijan. From Azerbaijan, the Turkmen gas may then be delivered to Georgia, connect to TANAP in Turkey, and reach Greece. While Europe imports around 30 percent of its gas from Russia, the recent tensions over Crimea in Ukraine also poses a risk for EU for secure gas supplies from Russia.

Russian President Vladimir Putin announced last December that plans were in motion to build a new gas pipeline, called the Turkish Stream, through Turkey's Thrace region to deliver gas to Greece. If realized, Turkish Stream and TANAP projects will make Turkey a transit country to deliver natural gas from Russia, Azerbaijan, and perhaps even from Turkmenistan and Iran, to Europe.

Experts believe that the TANAP project has great importance in terms of Europe and Turkey's energy security. The pipeline is planned to pump 16 billion cubic meters (bcm) of gas per year, 6 bcm of which will be designated to Turkey's domestic consumption. TANAP project managers say that the pipeline will transfer 31 bcm of gas and Turkey - the ninth biggest gas importer by 45 bcm per year - has a right to increase its share to 21 bcm per year when the pipeline starts to function with full capacity by 2023. Energy specialists forecast that Turkey's total gas consumption will reach 70 bcm per year in 2020.

Yildiz: Technicalities stall Turkish Stream

Argus, *10.06.2015*

Turkey is ready to sign an agreement on lower gas prices with Gazprom, but talks on the proposed Turkish Stream pipeline project are mired in technical details.

Price talks between state-controlled Gazprom and Turkish state-owned gas importer Botas have "been finalised" and the sides are ready to sign an agreement by the end of this month, Turkey's energy minister, Taner Yildiz, said today. Botas will receive a 10.25pc reduction in the price pays for Russian gas the same figure that was revealed in February. Gazprom is prepared to grant a discount to the base price in the oil-linked formula.

It had previously wanted to give a discount only to the final price. But negotiations over the Turkish Stream pipeline, which would initially pump 15.75bn m³/yr of Russian gas to northwest Turkey, close to the Greek border, are stalled over details of the pipeline's route through 190km of Turkey's Black Sea waters, Yildiz said. "The foreign ministry has not received the precise co-ordinates," Yildiz said. "We will meet our Russian colleagues in Baku on 13 June and will revisit the issue then." Turkey plans to take all the gas provided through the four 15.75bn m³/yr lines that will make Turkish Stream. The project would enable Russia to export gas to Turkey's border with southeast Europe, by-passing Ukraine. Turkish Stream was proposed after Russia abandoned the 63bn m³/yr South Stream pipeline.

General elections in Turkey on 7 June produced no party with an overall majority and Yildiz is energy minister in a caretaker government. Any inter-governmental agreement signed on Turkish Stream would also require ratification in the new parliament, he said. Project development of Turkish Stream "is not as mature as we'd like, but our determination is clear", Yildiz said. "The project has not reached parliament, so its legal situation is different" from Turkey's agreements with Russia on the construction of a nuclear power plant, he said. Price negotiations with Gazprom had ensured a guarantee for Turkish private-sector companies that "they will not have to face a loss-making situation" though their gas purchases from Russia, Yildiz said. Turkey's currency fell following the election results and banks are warning that the lira could remain under pressure while four parties in parliament discuss forming a coalition government. Turkish importers sell their gas in lira, but buy it in dollars, making them vulnerable to exchange rate risk.

Iraqi relations unaffected by Turkey's new uncertainty

Anadolu Agency, *11.06.2015*

Turkey's new political uncertainty will not affect energy relations with Iraq, James Franklin Jeffrey, former U.S. ambassador to Turkey said.

Jeffrey spoke about Turkey's political circumstances in the aftermath of the latest general elections, where a coalition government is now a possibility, along with the country's trade with Iraq in oil and natural gas. "It has been hard for coalition governments in Turkey to make decisions. Although, it is hard for Turkey to turn its back on the Kurdish Regional Government [KRG], it may be difficult to make new decisions in a politically uncertain environment," he said.

Taking into account the fact that Turkey aspires to be an energy hub, Jeffrey said the country should diversify its natural gas resources. "Turkish President Recep Tayyip Erdogan places high importance on Turkey's relations with the KRG in Erbil. That's why I don't think there will be many changes in Turkey's relations with Iraq. Iraq is a big market for Turkey," he said. However, Jeffrey emphasized that Turkey needs energy cooperation with the Iraqi central government in Baghdad, not only with the KRG in Erbil. The KRG exports its crude oil to international markets via Turkey's southern port of Ceyhan, while Turkey plans to import natural gas from Iraq in the near future.

Jeffrey stated that Daesh militants' activities in Iraq have paved the way for cohesion among Iraqi people, and stressed that Erbil and Baghdad have found common ground in oil and hydrocarbons with the Dec. 2 deal. The former ambassador added that he expects the disagreements between the KRG and the central government, regarding oil sales and the share of the federal budget, to continue until new legislation is adopted on hydrocarbons in the country. Erbil and Baghdad reached an agreement on Dec. 2, 2014 on the exportation of the KRG oil in exchange for a share of the budget from the central government. According to the agreement, the KRG was to export 250,000 barrels of oil per day with the Kirkuk province providing 300,000 barrels per day under the supervision of central government's oil marketing company, SOMO. In return, Baghdad was to provide 17 percent of the national budget to the KRG.

There have been numerous disputes between Erbil and Baghdad due to the amount of crude oil being exported. While Erbil accuses the central government of failing to provide its full share from the national budget, Baghdad claims the KRG has not delivered the promised amount of crude oil from Kirkuk. Jeffrey served as the U.S. ambassador to Turkey in Ankara between 2008 and 2010, and to Iraq in Baghdad between 2010 and 2012, before retiring in 2012 from the U.S. State Department. Apart from officials from the central government in Baghdad and the KRG, international energy companies' executives and experts also attended the conference, where Iraq's oil and natural gas sectors, its potential resources and the country's future were discussed.

Iran can deliver natural gas to Europe via 3 routes

Anadolu Agency, *11.06.2015*

Iran can deliver natural gas to Europe via three different routes, director for international affairs of National Iranian Gas Company, NIGC, Azizollah Ramezani said.

"After developing new phases of South Pars field, Iran will have good potential for enhanced gas exports and it could be connected to the European gas network," he was quoted saying by Iran's official news service SHANA. "The Europeans are seeking to diversify sources of energy supply," Ramezani said, stressing "for gas exports to Europe we cannot be limited to a single route or a specific pipeline, and we will examine all existing options."

The director said one of the routes for consideration is through Iran-Iraq-Syria, while a route through Armenia-Georgia-Black Sea is another option and the Trans Anatolian Natural Gas Pipeline (TANAP) could also be considered. TANAP is planned to originate from the Georgia-Turkey border to pass through Anatolia extending 2,000 kilometers. It aims to deliver gas from Azerbaijan's Shah Deniz II field to Greece where it will be connected to the Trans Adriatic Pipeline (TAP). To become operational in 2018, TANAP will have an initial capacity of 16 billion cubic meters. This is planned to increase to 23 billion cubic meters by 2023 and to 31 billion cubic meters by 2026. Azerbaijan's Minister of Energy Natig Aliyev said Wednesday that Iran can join TANAP to provide natural gas to Europe. Russia's permanent envoy to the European Union, Vladimir Chizhov, said on May 29 that there is a possibility of Russia joining TANAP as well, after he referred to Serbian and Macedonian interests in joining the project. Ramezani said Wednesday Iran can supply 25 to 30 billion cubic meters of gas to Europe every year.

According to Shana, the South Pars field contains 40 trillion cubic meters of natural gas, and is estimated to contain around eight percent of the world's natural gas reserves alone. Mehdi Yousefi, the managing-director of Pars Special Economic Energy Zone, PSEEZ, said on June 1 the South Pars gas field is producing 450 million cubic meters of natural gas at the moment and has 29 phases under development. He noted that Iran increased its gas output by 120 million cubic meters a day on average. Moreover, Iran's Oil Minister Bijan Zangeneh said on May 6 that natural gas production capacity from the South Pars field is planned to reach 700 million cubic meters a day in three years' time, and perhaps even shorter if Western sanctions on the country are removed with the successful conclusion of nuclear negotiations with the P5+1 countries.

Iran’s NIGC confirms interest of France’s TOTAL

Natural Gas Europe, *09.06.2015*

Iran’s NIGC wrote that France-based firms are considering investments in the country, reporting comments made during the recent World Gas Conference in Paris.

‘On the sidelines of the World Gas Conference in Paris, the chief executives of 15 French companies including Total, Technip, Schneider and Vinci Energy held direct talks with the managing director of National Iranian Gas Company Hamidreza Araqi to discuss opportunities in Iran. According to the report of the public relations of the NIGC, he also met with France’s MEDEF which brings together French entrepreneurs’ reads a note published.

In a separate communiqué released, NIGC said that gas injection to gas storage facilities rose by more than 41% in March, April and May. ‘Manouchehr Taheri said that during the first month of the [Iranian] year [began on March 21], Farvardin, gas injection to storage facilities hit 49 million cubic meters, 19 million cubic meters above the planned target for this time of the year, Iran’s SHANA news agency reported.’ Meanwhile, Russia and Iran are moving closer. According to MiddleEastMonitor, Tehran and Moscow established a joint fund for Iranian oil sales on Monday. The fund will be made up with a percentage of Iranian oil sales. Iran would then buy goods and equipments from “international” companies through the fund. This would be go hand in hand with Russia’s imports of Iranian oil reported by Reuters. At the same time, according to Reuters and Hurriyet, Russia and Turkey could agree over gas prices by the end of June. Finally, reports indicate that the European Union antitrust regulators gave Gazprom more time to response to the Statement of Objection sent on April 22. The new dealing should be in mid-September.

Aphrodite gas field development plan submitted

Argus, *11.06.2015*

The partners developing the Aphrodite gas field offshore Cyprus have submitted development plans to the Greek Cypriot government.

Noble Energy and Delek and Avner Oil have submitted a development and production plan for the field, Delek said. The submitted plan includes the establishment of a floating production unit that will have a capacity of 8bn m³/yr. The partners also propose the construction of two sub-sea pipelines from the Aphrodite field. The first pipeline will bring gas to the south of Cyprus island for domestic consumption, while the second pipeline will ship gas to Egypt.

The field was discovered in late 2011 and Nicosia hoped that it could provide the supply basis for an onshore LNG plant, which would have attracted significant foreign investment. But appraisal drilling in 2013 revealed reserves of about 5 trillion ft³ (141bn m³) — not enough to justify an LNG train — prompting Cyprus to begin exploring alternative plans for the field's development. Egypt and Cyprus signed an initial deal for oil and gas co-operation in February and agreed to carry out technical tests for determining the route of a pipeline to Egypt. Egypt could start importing pipeline gas from Cyprus by as early as 2018, Egyptian oil minister Sherif Ismail said earlier this year.

Azerbaijani gas can reach Europe via Algeria

Vestnik Kavkaza, *06.06.2015*

Azerbaijan can develop its gas supplies to Europe, joining with the Trans-North African pipeline through the Algerian ports, the Azerbaijani Ambassador to Algeria, Mahir Aliyev, reported. He recalled that the North African country has two large ports, which are engaged in the transportation of liquefied and natural gas, and Azerbaijan can take advantage of them.

The diplomat noted that the energy sector is one of the promising areas of cooperation between the two countries. "Algeria, as well as Azerbaijan, is rich in energy resources. Algeria takes 13th-14th place in the world.

Oil-rich Azerbaijan looks to get rich from West, Russian tension

Wdam, *09.06.2015*

Oil-rich Azerbaijan is looking for ways to bolster its economy after a year of weak crude prices. The first ever staging of the European Games gets started in the capital Baku. The country needs the tourist dollars. In Azerbaijan, they know the meaning of 'peak oil.' They're living it. One of the most profitable offshore oil fields in the world is now in decline.

Production is slowing at ACG Deepwater, about 60 miles off the coast of Azerbaijan in the Caspian Sea. The nation is located between Russia and Iran on the Caspian. And the price per barrel is down sharply. "Do I look worried?" said Elshad Nassirov, vice-president of Socar.

Nassirov is a vice president at Socar, Azerbaijan's national oil company. As a matter of strategy he says decreasing production is just not an option. "Our production which is now about one and a half percent. I would say that we have to increase our production in order to provide alternative, neutral oil and gas to the world markets," he said. What does neutral mean? Nassirov says the company must continue to be a reliable energy partner for Europe. A crucial alternative to Russian oil and gas. Azerbaijan's dilemma: How to do that, find and fund new oil and gas projects in the coming decades? It means investing in oil and natural gas and crucially trying to reshape Europe's entire energy strategy with new pipelines.

Azerbaijan is banking on the southern corridor project, delivering Caspian gas straight to Europe by 2020. The deal is done but the pipeline must be built. Not an easy ask with energy prices still low and volatile. To get it done, Azerbaijan will likely have to shoulder more of the cost on its own. The payoff could be huge for Azerbaijan financially and politically. "It's very interesting because we're actually seeing is that because of the crisis between Russia and the West we're seeing that the West is actually starting to support Azerbaijan significantly to get the southern gas corridor project flying because it's seen as a key alternative to Russia," said Livia Paggi, a political risk analyst with GPW, an international business intelligence firm. And watch how Azerbaijan nurtures and funds the southern corridor project could forever strengthen Europe's energy security. And once again give this small, but energy-rich nation uncanny influence in the region.

Azerbaijan suspends gas deliveries to Russia for 2015

Natural Gas Europe, *09.06.2015*

Azerbaijan made an almost 7-hold decrease in gas deliveries to Russia last year. Most recently, an official told Natural Gas Europe that Baku will not export any natural gas to Russia in 2015.

A government official who wishes to remain unnamed said that decision of suspending gas delivery to Russia in 2015 made up due to the increase of domestic gas consumption level. The State Oil Company of Azerbaijan (SOCAR) delivered only 207 million cubic meters of gas to Russia during last year, while this figure was 1.37 billion cubic meters in 2013.

The reason of decreasing gas export to Russia in 2014 was explained officially “due to temporary interruptions caused by road construction projects in northern regions.” Azeri official said that the domestic gas usage increase has occurred in Azerbaijan’s housing and industrial sectors.” Azerbaijan Methanol Company (AzMeCo) is increasingly using natural gas feeds while Holchim Open joint-stock company’s cement plant in Azerbaijan has raised the production level. AzMeCo was inaugurated in July 2013. Since August 2014, AzMeCo has exported 100 thousand tons of the produced methanol to the world markets. The plant is still working with half capacity, while the full production capacity of this plant is 720,000 tons per annum. Holcim (Azerbaijan) OJSC, is also a part of Switzerland’s Holcim Group that is one of the leading cement and clinker manufacturing company in Azerbaijan. Decreasing and then suspending of Azerbaijani gas deliveries to Russia came while Azerbaijan has increased gas export volume to Turkey since 2014.

Azerbaijan exported 62 percent of produced gas from Shah Deniz Stage 1 (SD1) during the last year however figures were projected to reach 70 percent in 2015. SD1’s gas production would be 9.8 billion cubic meters (bcm) in current year. In total, Azerbaijan has planned to increase gas production level from 29.7 bcm in 2014 to 30.2 bcm in 2015. However, SOCAR’s own gas production is expected to decrease from 7.2 bcm in last year to 6.5 bcm in 2015. SOCAR is responsible to export gas to Russia. Azerbaijan started gas delivery to Russia in 2010 due to a 5-year long agreement, signed between SOCAR and Gazprom in October 2009. However, the sides had agreed to extend the agreement each year after 2015.

Gas connection between Serbia, Bulgaria "EU priority"

B92, 11.06.*2015*

The project to build a gas connection between Serbia and Bulgaria is one of the EU's top priorities, European Commission Vice President Maros Sefcovic has said.

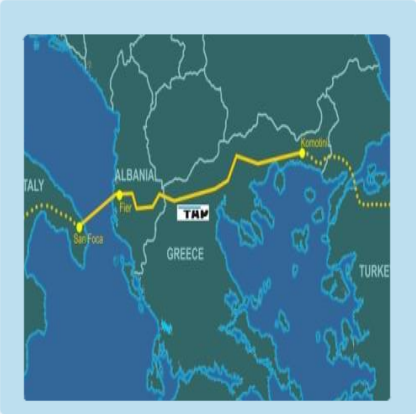
The proposals for funding the project pursuant to EU rules for IPA funds are yet to be discussed with the prime ministers and the ministers in charge, Sefcovic told reporters as he toured the Nikola Tesla power plant in Obrenovac near Belgrade. A special EU working group is working on the project and progress is expected to be made at the next meeting, to be held in Dubrovnik, Croatia, next month, he said.

The EU is backing the project in order to enable countries with only one gas supply route to obtain more gas connections, as well as lower gas prices, Sefcovic noted. The project will boost energy security in the region, as well as the integration of the countries of the region, said the European Commission vice president. Sefcovic also said on Wednesday that he expected that an agreement on gas supplies to Ukraine would be reached at a meeting between EU representatives and Russian and Ukrainian energy ministers. "The meeting should be held at the end of June," he told reporters, and added that "the exact date of the meeting was still unknown as the agenda of the event had not been decided yet." Sefcovic said he "hoped that the meeting would indeed take place, stressing that he and the European Commission would do everything to have the agreement reached."

Serbian Prime Minister Aleksandar Vucic received Sefcovic to say after the meeting that "Serbia should ensure itself a steady supply of gas during a period starting from 2019." A gas supply diversification is necessary to ensure energy security in the country and it could help reduce the price of that fuel, Vucic told at a press conference. Vucic said that Serbia was willing to use EU support and start importing gas from Arab countries instead of relying just on gas from Russia and Azerbaijan. He "expressed his gratitude to the European Commission and the EU Delegation to Serbia for supporting Serbia's energy sector and donating air filters to the Obrenovac-based Nikola Tesla power plant." The prime minister said it was a help to Serbia's objective of reducing greenhouse gas emissions by 9.8 percent by 2030. Vucic also said that the government "will discuss the price of electricity" and inform the public on Thursday, and that the hike "will not take place before August 1."

Amended: TAP issues ITT for offshore section

Natural Gas Europe, *09.06.2015*



TAP issued an Invitation to Tender (ITT) for Engineering, Procurement, Construction and Installation (EPCI) for the offshore section of the project.

'The ITT is open to the companies who have pre-qualified following the contract notice TAP launched. The EPCI scope includes associated works at the landfalls in both Albania and Italy, offshore installation, seabed intervention, fiber optic cable supply and installation, as well as pre-commissioning and survey activities' reads a note released. The 36-inch offshore section across the Adriatic Sea from Albania to southern Italy will be over 100 km in length.

"Offshore pipeline construction is a technically complex project. As such, the selection of bidders who have been invited to tender has followed a rigorous pre-qualification process, particularly taking into consideration bidders' ability to demonstrate a commitment to zero harm" Knut Steinar Kvindesland, Procurement Director at TAP, commented. In his speech, Energy Commissioner Maroš Šefčovič did not mention the Southern Corridor, but stressed other pillars of the Energy Union - LNG, gas storage, and electricity. "In February, we presented a Communication on how to reach the 10% electricity interconnection among Member States. Other than interconnected infrastructure, the Energy Union will not be a reality unless we build a true internal market in which the EU legislation is fully applied. The Commission will continue to make sure EU law is correctly applied and enforced, and will use infringement procedures more vigorously to make this happen" Šefčovič said.

Gazprom announces gas prices for Ukraine

Anadolu Agency, *09.06.2015*

Russia's gas sales prices to Ukraine for the second half of the year were announced by Alexander Medvedev.

Medvedev said the undiscounted gas price for Ukraine will be $287 per thousand cubic meters in the third quarter of 2015 and the fourth quarter's undiscounted price will stand at $262.50 per thousand cubic meters. Tass said it reported earlier that natural gas price for Ukraine would stand at $247 per thousand cubic meters until the end of June. Alexander Novak said that new gas discounts for Ukraine will be discussed at a trilateral meeting between Russia, Ukraine and the EU at the end of June.

Ukraine's Minister of Energy and Coal Industry, Vladimir Demchishin, said Monday that Russian natural gas to Ukraine should be cheaper than gas which the country gets from Europe via reserve gas flows. He stressed that natural gas purchases via reverse flows from Europe come at a price of around $250 per thousand cubic meters. The energy minister said Ukraine will not overpay $45 per thousand cubic meters if Russian gas costs $295 per thousand cubic meters in the third quarter of the year. Ukraine's gas pipeline operator, Ukrtransgaz, announced last Friday that Ukraine started reverse natural gas imports from Hungary again, after they were suspended early April.

Shell mulls Ukraine exit, meets Gazprom in Milan

Natural Gas Europe, *11.06.2015*

While Gazprom and Shell were meeting in Milan, several media reported that Shell might be willing to leave Ukraine, withdrawing from its last exploration well in the Eastern part of the country.

'We have begun discussions with the Ukrainian government and our partner Nadra Yuzivska LLC on the way forward with the PSA' Shell wrote, explaining that its upstream block in Ukraine has been on hold for nearly a year due to confrontations between pro-Russian militants and Ukrainian soldiers. The Anglo-Dutch firm clinched a deal with Kiev in early 2013 to explore the Yuzivska unconventional field.

Ben van Beurden, Chief Executive Officer of Shell, met with Alexey Miller, Chairman of the Gazprom Management Committee in Milan. 'The parties addressed the prospects for cooperation in the oil and gas sector and the current situation in the European and LNG markets, as well as the status of Sakhalin II and the future collaboration within the project' Gazprom wrote in the evening. The company led by Miller recently said that it is willing to cut off gas transiting Ukraine to western Europe in 2019. Gazprom's Alexander Medvedev said that European customers will get gas at new delivery points. Finally, Ukraine's Petro Poroshenko said that local elections in Ukraine will be held in October.

Ukraine to sidestep its contract with Gazprom, will pay Hungary instead

Sputnik, *08.06.2015*

A recently clinched interconnection agreement between the Ukrtransgaz and FGSZ stipulates the so-called virtual reverse of gas, also known as backhaul,which may enable Ukraine to scrap its gas contract with Russia's Gazprom.

It seems that Ukraine is trying to eliminate its contract with Russia's gas giant Gazprom, the Russian newspaper Kommersant reports, referring to a recently clinched interconnection agreement between the Ukrainian gas transmission system operator Ukrtransgaz and its Hungarian counterpart FGSZ; the deal envisages the so-called virtual reverse of gas, also known as backhaul, via Ukraine.

Actually, this means that Kiev will be able to buy Gazprom gas from European companies with which Russia has existing contracts, directly taking it from the pipe en route to Europe. This not only enables Ukraine to avoid paying for the transportation of gas, but also allows it to fully provide itself with gas without sticking to a contract with Gazprom, Kommersant reports. In addition, European companies will be able to store the gas in Ukrainian underground storage facilities, making Ukraine a gas hub. According to Kommersant, Ukrtransgaz has inked an interconnection agreement with FGSZ, which will prompt Ukraine to officially demand that Gazprom should reveal the so-called shipper code, which is referred to a certain gas supplier or customer and which pertains to information about the volume of gas supplies. Kiev said that it will file a lawsuit via the European Commission if Gazprom does not hand over the shipper code, Kommersant says, adding that in the EU, backhaul is fully in line with the Third Energy Package, a legislative document which establishes guidelines for an internal gas and electricity market in the European Union. Gazprom has, meanwhile, said that despite Ukraine threatening to file a complaint, the 2009 contract scheme, which does not stipulate backhaul, remains in force in relations between Gazprom and Ukraine.

Serinus granted new licence in Kharkiv oblast, doubles land base in Ukraine

Natural Gas Europe, *08.06.2015*

Serinus Energy announced that KUB-Gas, Serinus' indirectly 70% owned subsidiary, has been granted a new concession in eastern Ukraine. The West Olgovskoye block was awarded to KUB-Gas Borova LLC by way of a Special Permit by the State Service of Geology and Minerals of Ukraine.

"West Olgovskoye more than doubles our land base in Ukraine. The unique aspect of this new permit is the presence of the very large Druzhelyubovskoe field, which provides very strong evidence that the hydrocarbon fairway present in our Olgovskoye and Makeevskoye fields continues into West Olgovskoye" Tim Elliott commented.

West Olgovskoye is located in the Kharkiv oblast, immediately offsetting the Olgovskoye and North Makeevskoye licences currently owned and operated by KUB-Gas. The term of this new Special Permit is for 20 years with the right to a 20 year extension, during which KUB-Gas will be allowed to conduct both exploration and production activities. "We believe the terms of the permit are fair and reasonable. The bulk of the work commitments are not required until 2018 to 2020. In the interim, we hope that the political issues in the eastern part of the country will gradually improve, allowing the Ukrainian government to return to more growth oriented fiscal policies with respect to the energy industry" Elliott concluded. Serinus is an international upstream oil and gas exploration and production company with a diversified portfolio of projects in Ukraine, Brunei, Tunisia, Romania and Syria and with a risk profile ranging from exploration in Brunei, Romania and Syria to production and development in Ukraine and Tunisia.

Deputy CEO: Russia's Gazprom not yet holding negotiations on Eastring project

TASS, *09.06.2015*

Gazprom is not yet holding negotiations on Eastring project and has only familiarized itself with it, Deputy Chief Executive Officer of the gas holding Alexander Medvedev said.

"We are not yet holding the dialog. We familiarized ourselves with that [project]," Medvedev said. TASS reported earlier citing Russian Energy Minister Alexander Novak that Russia is waiting for a formal proposal to join the East European gas pipeline Eastring construction project on the territory of Slovakia, Bulgaria, Romania and Hungary. A reverse pipeline connecting Ukraine and Turkey may appear in EU's gas transport system in the next several years.

The design provides an opportunity of integrating gas pipelines of Slovakia, Hungary, Romania and Bulgaria with further connection to the Russian-Turkish gas pipeline. Plans to implement the project were announced by Eustream. The future gas pipeline will be named Eastring and is planned to be laid from Slovakian Velke Kapusany to the Turkish-Bulgarian border. The annual capacity of the pipeline will total 20 bln cubic meters of gas.

Gazprom reiterates no gas exports via Ukraine after 2019

Reuters, *09.06.2015*

Gazprom has reaffirmed plans to cut off gas transiting Ukraine to western Europe in 2019 and urged the European Union to speed up a decision on Russian gas delivery routes to ensure it receives supplies after that time.

Moscow wants to bypass Ukraine in its shipments of gas to Europe due to a succession of pricing rows. Tensions between Moscow and Kiev are also high due to fighting in east Ukraine, where pro-Russian rebels are fighting Kiev forces. Gazprom plans switching flows to Turkey by laying pipes beneath the Black Sea, a project known as Turk Stream in Europe and Turkish Stream in Russia.

"We will not export gas via Ukraine after 2019. The customers will get gas at (newly) agreed delivery points," Gazprom Deputy CEO Alexander Medvedev told reporters. He said Gazprom guarantees gas volumes to be delivered to a new hub it hopes to create on the Turkey-Greece border, but said it was for the EU to decide how to take the fuel from there. He said the matter needed to be discussed soon in order to give time to build the necessary infrastructure on the EU side. The European Commission said it had not received any specific plans from Russia over Turk Stream. In December, Russia scrapped its South Stream pipeline project which would have supplied gas to southern Europe without crossing Ukraine, because of objections from the EU on competition grounds.

Turkish Energy Minister Taner Yildiz told Reuters on Monday Gazprom was likely to start the construction of Turk Stream by the end of June. Medvedev added that all commercial conditions for a contract with Turkey's state-owned Botas had been agreed, while the price might be agreed by the end of this month. He also said Gazprom plans to export between 153 billion and 155 billion cubic metres to the European Union and Turkey this year. The company sees an average price for gas supplies to the EU and Turkey at between $240 and $245 per 1,000 cubic metres, Medvedev said at a conference. Separately Gazprom was given a two-month extended deadline of mid-September to respond to European Union antitrust charges of over-charging in eastern and central Europe and blocking competitors from entering the market.

Russia tries Italian card, amid difficulties with China, production

Natural Gas Europe, *10.06.2015*

While experts came up with a downward revision of Chinese gas demand, Gazprom confirmed its commitment to its main projects and historic partners, despite some new difficulties. Meanwhile, BP wrote in its annual review of world energy that Russia added the most oil and gas reserves during the last year.

Using data released by Russia for the first time, BP wrote that Russia reported the largest gain in terms of gas reserves, adding 1.35 trillion cubic metres. However, the good news came amid some difficulties on several fronts. Firstly, Russian gas production significantly decreased in 2014.

'Global natural gas production grew by 1.6%, below its 10-year average of 2.5%. Growth was below average in all regions except North America. The US (+6.1%) recorded the world's largest increase, accounting for 77% of net global growth. The largest volumetric declines were seen in Russia (-4.3%) and the Netherlands (-18.7%)' BP wrote. Secondly, consultancy firm Wood Mackenzie reported that China will be faced with weaker gas demand. 'Gas demand growth in China has been reduced significantly with demand now expected to reach around 360 billion cubic metres (bcm) and 560bcm in 2020 and 2030 respectively compared to 420bcm and 640bcm previously.

This is due to short-term and structural drivers' Wood Mackenzie wrote in a separate statement, referring to low oil prices and high domestic gas prices (short-term factors) and switch from industrial production to the service sector (long-term factor). The company also argued that China will incur oversupply. 'Chinese companies have signed around 66bcm per annum of term LNG contracts. Of this total, new contracts will ramp up through 2015, ultimately supplying an addition of approximately 23bcm per annum of gas into the domestic market by 2018. Given the significant downward revision in demand, China's NOCs are now pursuing numerous channels to reduce volumes.' These two factors - decrease in gas 2014 production and gloomy prospects for Chinese gas demand - put additional pressure on Russia, which is already called to take a decision on its gas contracts with Ukraine by the end of the month. Finally, Gazprom has also to do with a planned maintenance of its Sakhalin II LNG plant. According to Reuters, production from the plant will halve between mid-June and mid-July. Sakhalin Energy is a joint venture comprising Russian gas export monopoly Gazprom (50%), Shell (27.5%), Mitsui (12.5%) and Mitsubishi (10%) are the partners in the field. Against this backdrop, Russian companies are trying to strengthen ties with Europeans and Chinese companies. Gazprom, which will soon hold a conference about its Asia-Pacific strategy, is trying to limit the damages mainly referring to its traditional partners.

'Milan hosted today a working meeting between Alexey Miller, Chairman of the Gazprom Management Committee and Claudio Descalzi, Chief Operating Officer of Eni. The parties addressed the cooperation in the gas sector as well as Russian gas supplies to Europe, particularly to Italy. Alexey Miller and Claudio Descalzi paid attention to the Turkish Stream project and the future capacity creep at the Blue Stream gas pipeline' Gazprom wrote on Tuesday. Russia's President Vladimir Putin was in Milan, where he met Italy's Prime Minister Matteo Renzi. Also officials of Russian energy companies took part to the meeting. 'Rosneft Chairman of the Managing Board took part on June, 10th in Russian-Italian top-level talks in Milan, during which the President of Russia Vladimir Putin and the Prime minister of Italy Matteo Renzi discussed key issues of the economical cooperation between two countries' reads a Rosneft's emailed note.

Lukoil reports 35% decrease in sales revenues

Natural Gas Europe, *10.06.2015*

Russia's Lukoil reported a 35% decrease in sales revenues to $23,190 million, explaining that revenue, EBITDA and net income suffered because of the decrease in the plunge of oil prices. The company also confirmed a deal with China's Sinopec for the sale of its interest in Caspian Investment Resources Ltd, which controls assets in Kazakhstan.

'Capital expenditures, including non-cash transactions, in the first quarter of 2015 decreased 24.8% y-o-y to $2,430 million. Free cash flow in the first quarter of 2015 quadrupled to $728 million. Hydrocarbon lifting cost in the first quarter of 2015 decreased by 18.9% to $4.24 per boe in total.

On the other hand, in the first quarter of 2015, hydrocarbon production increased by 7% y-o-y to 2,369 thousand bow per day. 'The increase was mainly due to the start of commercial production from West Qurna-2 project in Iraq. Throughput at the Company's refineries in Russia decreased by 12.3% mainly due to a decrease in refining margins as a result of changes in tax legislation.' Lukoil also reported a downward revision for a deal with Sinopec over assets in Kazakhstan. Before the agreement was reported at $1.2 billion, while now the compensation for the Russian company decreased by around 20%. 'Lukoil and Sinopec signed an agreement for the sale of Lukoil's 50% interest in Caspian Investment Resources Ltd. It will replace the previous sales and purchase contract signed on April 15, 2014. According to the agreement the sale price of the stake will be $1,067 million. The transaction's closing is subject to requisite governmental consents and approvals and is to occur by December 1, 2015. Arbitration procedures initiated by Lukoil against Sinopec in London in February this year will be suspended for the period until completion.' With the deal, Sinopec will increase hydrocarbon production by over 10 million barrels of oil equivalent.

Despite ambitions, BP sees Russian gas waning

UPI, *10.06.2015*

BP in a statistic review said Russian natural gas production declined, just as the Kremlin holds out its reserves as a component of European energy security. BP in the 64th edition of its statistical review of world energy said global natural gas production last year grew by 1.6 percent.

Production of the EU declined 9.8 percent to its lowest level since 1971. European economies rely on Russia for about 20 percent of their natural gas, though most of that runs through Soviet-era pipelines in Ukraine, where conflict and contractual disputes between Moscow and Kiev present risks to European energy security.

BP said pipeline shipments declined 6.2 percent globally for the largest decline on record, with Russian deliveries down 11.8 percent. Gazprom Deputy Chairman Alexander Medvedev said Monday the European economy will be about 1.7 trillion cubic feet short of what it needs to keep the economy moving by 2025. Building Turkish Stream, a scaled down version of the broader South Stream pipeline network, could Europe get the energy it needs, he said. BP is one of the companies behind the Shah Deniz gas field off the coast of Azerbaijan, which European leaders see as an alternative to Russia gas. Russian Foreign Minister Sergei Lavrov said European energy security may be at stake with its stance on alternative options. Lawmakers in the United States, meanwhile, said free-trade deals with EU member states could open the door for shipments of liquefied natural gas drawn from shale deposits. More exports, they say, will extend U.S. economic leverage overseas and protect its allies against the economic whims of U.S. adversaries. Medvedev, however, said that strategy is backed largely by "Washington dreamers."

The future of Russian gas? Not in China but Europe?

Natural Gas Europe, *09.06.2015*

Should Russian gas strategists be focusing on Europe or China for future growth? At first sight the answer looks obvious. There is no choice between fast growing China v. feeble debt ridden Europe. The Europeans are diverting rapidly away from gas, and Russian gas in particular.

However on closer examination lower Chinese economic growth combined with a shift away from fossil fuels is likely to significantly reduce the size of the market for Russian gas. There are opportunities to grow the European gas market as the EU redesigns its climate change and supply security policies.

At first sight it looks like the Russian government made the right call in negotiating the Power of Siberia deal with Beijing. The costs are heavy. The costs of building this 3600 kilometre pipeline which would bring 38bcm of gas annually into China would be at least $20 billion. This is on top of a second Altai pipeline running from existing Siberian fields would bring 30bcm over 1420 kilometres into China at an additional estimated cost of $14 billion These heavy costs stem from the need to invest in new fields in Eastern Siberia and lengthy pipeline system required for both routes. Gazprom's underlying assumption however is that there is a huge energy hungry Chinese market which can take Russia's gas. However, that assumption may not be as credible as it once was. The slide in oil prices over the last year was in part about rising shale oil production in the US. It was though also about falling Chinese demand. Chinese economic growth fell from its once robust 12% to around 7%. Even the 7% figure may well be an over-estimate. There is real concern that in order to prop up these figures China has been bringing forward demand. The most startling example of this practice is the recent relevation that between 2011 and 2014 China consumed 6.6 gigatonnes of concrete. By contrast in the whole of the 20th Century the United States only consumed 4.5 gigatonnes. Because of the need to build modern cities to house a huge once-rural population these figures do not necessarily mean that what we are witnessing is the largest capital mis-allocation in world history. However, it is at least a matter of bringing forward significant future demand. This rate of consumption cannot be sustained over the next decade. This is on top of the massive liquidity injected into the Chinese economy by the Central Bank pushing stock market and property prices higher even as formal growth figures slide.

It is not only a structural fall in demand that is likely to impact significantly on demand for Russian gas. The Chinese state is also taking very seriously the impact of pollution in the cities. Gas switching from coal is occurring which could increase demand, but existing Central Asia gas supplies and cheaper LNG makes Russian gas not necessarily that competitive. Equally, the Chinese investment in solar is paying off as prices slide for solar panels and solar reaches grid parity. It is also clear that despite setbacks the Chinese have not given up on working out how to extract gas from their large shale deposits. At the very least falling demand and alternative sources of supply may put pressure on the Altai and Power of Siberia projects. Given how expensive the projects are will Gazprom actually be able to sell enough gas at high volumes and high prices into the Chinese market to make significant returns? At first sight Europe looks like a poor alternative to the Chinese market. The austerity policies of the Eurozone have suppressed demand. Current EU climate change policy and has had the perverse effect of promoting coal and demoting gas, which combined with carbon leakage has the overall effect of increasing Europe's C02 emissions. Worse still because of the Ukraine dispute, Europeans are seeking to rapidly diverse gas imports away from Russian gas.

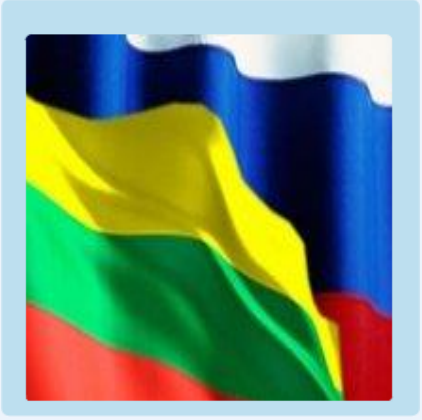
However, there are potentially significant silver linings for Russia in European energy policy. First, it is clear that the new Juncker European Commission recognise that EU energy policy needs to promote gas and reduce incentives to use coal. As policy measures are undertaken to reduce reliance on coal the gas market should expand. Ironically, the energy security measures introduced by the EU to physically complete the EU single gas market and ensure EU liberalisation rules are fully applied also helps Gazprom. In a fully integrated single gas market no otherwise dominant energy company can threaten to cut off suppliers as gas will flow in from other parts of an increasingly diversely supplied market. Hence the potential political threat is removed making it increasingly easier for Gazprom and potentially other Russian energy companies to sell gas into the European market.

Furthermore, as part of a peace settlement over Ukraine a big gas deal with Europe could provide the economic underpinning for such a settlement. Russian energy companies could agree to produce much more gas for the European market, essentially switching their business model from a low volume high price model to a high volume low price model. The potential economic gain for Russia would be to generate much greater revenues by selling much larger quantities at lower gas. Ironically, the pipeline wars of the last few years do give Russia the capacity to provide gas in such quantities as all the pipeline capacity, Ukrainian, Nord Stream and a Turk (Turkish) Stream/South Stream option would be deployed. From a Ukrainian perspective full use of its network for transit would generate significant additional transit revenues. From a European perspective cheap gas would allow significant cuts in C02 emissions by switching from coal, while also allowing European industry to more effectively compete against US industry fuelled by cheap shale gas.

Equally, in this context an antitrust deal over the concerns raised by DG Competition could also move toward settlement. The point here is that if Gazprom is going to maximise its access to a deep liquid open European gas market it wants to put the past behind it and settle the antitrust issues. It no longer needs the practices of the past to prosper. In addition it means that senior Gazprom officials need to abandon the protests against reverse flow gas to Ukraine or blocking access to the Ukrainian-Slovak interconnector to allow more gas to flow to Ukraine. In a more integrated market where Gazprom sells much more gas to Europe there is no need for market restrictions. Essentially because Gazprom already has the largest gas fields, the largest reserves, the pipelines and the customers in Europe it should be the biggest beneficiary of European energy liberalisation. The policies of the past get in the way of making the most of the European market. By contrast, the capital entry costs into the Chinese market, potential range of competitor suppliers and falling demand make the Chinese market much more problematic for Gazprom.

Lithuania and Gazprom to square off in gas price dispute in Stockholm

Natural Gas Europe, *09.06.2015*



As Lithuania is looking forward to the opening of the hearings this month over the possible Gazprom gas price overcharge at the Stockholm Arbitration Court.

“Lithuania and Poland, obviously, were not the only Eastern European states being overcharged for the Gazprom gas suppliers. Lithuania must be credited for having stood up against the Gazprom gas price injustice. With the Lithuanian lawsuit about to be taken on and the judicial outcome seen quite positive for the plaintiff, the Poles and other Eastern European countries will definitely be closely watching the process and learning the lessons,” Arvydas Sekmokas told.

Among those to come forward with the kind of claim, he believes, is likely Slovakia, the key player now in reverse gas flow to Ukraine. “The country’s importance now (due to the reverse gas flow) is high and it is likely to use it as a means to re-negotiate the gas price with Gazprom. If talks do not work out, Stockholm might be an option for it, as well as some other countries that have already positive rulings against the company,” the expert pointed out. Slovakia had paid Gazprom among the highest prices for the gas supplies in the EU until recently. Although the country has been given a discount, the Slovak government insists there’s space for an even better deal. Over the last few years, the Russian gas giant has revised the terms of contracts with a number of European customers after unfavorable judicial decisions. In the summer of 2013 Gazprom, for example, was told by the Vienna International Arbitral Center to reduce its price for gas supplies to Czech Republic’s RWE Supply & Trading CZ.

Earlier, in 2011-2012, Gazprom had agreed after lengthy negotiations to curtail the gas prices by an average of 10 percent for French GDF Suez, German Wingas, Slovak SPP, Turkish Botas, Italian Edison and Sinergie Italiane and the Austrian Econgas. The reason behind the cuts were the fall in price of gas on the spot market through the expansion of production in the United States. Filing for arbitration with the Stockholm Arbitration Court, Poland's largest gas distributor PGNiG said it was looking to change the pricing of their long-term contract. "The steps taken by PGNiG aim to bring the contract in line with the current conditions on the European natural gas market," the Polish company said in a statement, adding, "the claim doesn't exclude a negotiated outcome or a new deal with the supplier." PGNiG appealed to the Stockholm court after talks with Gazprom which started in November last year failed. The two companies, reportedly, couldn't find a common ground on a cut in gas prices for Poland. Recznik Prasowy, of the PGNiG Communications Department, did not elaborate to Natural Gas Europe on the details, but noting "PGNiG became entitled to initiate arbitration proceedings in early May 2015 following the expiry of six months from the date of the request to renegotiate the contract's price terms."

Meanwhile, Arkadiusz Krasnodębski, the managing partner at Dentons, a Warsaw-based law firm specializing in energy and natural resources, told Natural Gas Europe "the firm was acting for Gazprom in Poland" and therefore he was not in a position to answer any questions regarding the matter. Until recently the average price Poland paid to Gazprom was, reportedly, around $550 per thousand cubic meters. It was subsequently slashed by 15 percent, but, still, is estimated to be one of the highest in Europe. Under the current contract, Russia will supply 10.2 billion cubic meters of gas to Poland yearly until 2022 with the total gas consumption by the country put at 14 billion cubic meters. Poland believes the fall in oil prices is a reason for demanding a bigger reduction, especially that the Russian gas price formula is based on the oil price, which is still on the lower end. Poland is also against the "take or pay" system which obliges customers to pay for deliveries they may not necessarily need or use.

Sekmokas, the expert, believes, in the light of the aforementioned concessions, adverse EU anti-trust ruling and new energy geopolitics, may be forced to nod to the requirements of the European Union's Third Energy Package, which foresees unbundling or separating gas transmission, distribution and supply functions. "It seems to me the Russian company is changing its tactics in Europe and will likely be less aggressive in Europe. It obviously becoming more flexible and maneuvering, but will do whatever it takes to remain the key gas supplier for Europe," the expert is convinced. He added: "I I reckon it will use other means to retain the dominance, but now not all depends only on it as the new energy geopolitics has to be considered." He insists the situation is "very favorable" for the judicial endeavors over the Gazprom gas price by Lithuania and Poland, as well as other Eastern European countries, so, in his words, it is "a matter of time" when the next plaintiff seeking to sue Gazprom appears. Sekmokas, however, said it was not "a good idea" to get the two neighbor countries' claims against the Russian company put in one. "Too many peculiarities to have the cases reviewed in a bundle," he said.

Gas resources for Europe: All talk, little gas

Natural Gas Europe, *08.06.2015*

While it is possible to run through a laundry list of potential natural gas resources for possible delivery to Europe, many opportunities are elusive, and major pipeline projects always seem to be on the way, according to Prof. Jonathan Stern, Director of Gas Research, Oxford Institute of Energy Studies.

Painting a picture of gas resources in North Africa, for example, he notes that there are plenty of reserves in the region, but can it overcome the turmoil? North Africa, he says, has witnessed failed license rounds in Algeria, or political turmoil in Libya. Egypt, he notes, is even becoming a gas importer.

“There’s plenty of reserves in all these countries – nothing to do with the existence of gas. The problem is, can this gas be developed and do we have the political and commercial conditions in these countries?” he asks, saying it is a question of huge importance for both gas and geopolitics, but is almost completely ignored in conferences and literature. Meanwhile, the potential in the Caspian Region in connection with the Southern Corridor does receive attention, he says. “Basically, what we’re looking at is Azeri gas with the increment of Shah Deniz phase II at the end of this decade. That will provide Europe with a maximum additional 10 bcm of gas – I say maximum, because it is possible, perhaps even likely, that some of that gas will not get past the Turkish market.” In connection with that, he asks if the sanctions against Iran will be lifted, and, if so, will we see Iranian gas in Europe? Prof. Stern reports that according to an Oxford Institute report from last year on the subject, “even if the sanctions are lifted, we will not see a substantial increase in Iranian exports for at least a decade, and possibly longer than that.”

He also mentions the potential of substantial gas exports from Iraq, but he says he hasn’t seen much progress. “There are tremendous security problems in that country and my question would be, even if we do see the pipeline completed, even if we do see supplies flowing, how secure will those supplies turn out to be, given the domestic economic situation and the domestic export security situation?” And what about the 2 decade-long discussions of supplies from Turkmenistan, coming across the Caspian Sea? “That, of course, depends upon on a resolution of the Caspian issues,” he says, also mentioning questions over the viability of Turkmen gas. “Essentially, what we see is a picture of little available gas before 2020,” he offers, adding that it could improve in the 2020s. “But we have no assurance that that will be the case.”

Prof. Stern observes that there has been talk of the Southern Corridor for over 15 years, but with little gas flowing through it. The talk, he says, is likely to continue. “It is conceivable that Russia’s Turkish Stream project could seek to utilize capacity in the Trans Adriatic Pipeline (TAP) pipeline – no one has raised this yet from either side, incidentally.” He says while the project may be interesting, he’s not convinced anyone will want to buy gas via Turkish Stream at the Turkish-Greek border. “But if it was possible to utilize that TAP corridor, then that would be at least a possibility of taking more gas to Italy via that route.” Regarding the East Mediterranean, Prof. Stern noted the ongoing difficulties between Israel and its neighbors in the region. “If we look at reserve numbers, could Israel provide some gas to Europe? Well, certainly it could, but the question of the politics of all of these possible linkages looms large and the most promising idea at the moment is that Israeli gas could be liquefied, delivered to the almost idle Egyptian facilities and exported from there – it might come to Europe, or it might not.”

In his view, he says that East Med gas is more likely to provide a regional economic pan-political peace dividend between Israel and its neighbors. He contends that more attention should be placed on the availability of gas from North Africa. “That availability looks like it’s going to fall before increasing again, possibly in the 2020s, but we’re very dependent upon politics and, particularly, some kind of renewal in investment and improvement in upstream terms in countries like Algeria and Libya. Speaking of Europe’s indigenous supplies of natural gas, Francis Egan, Cuadrilla Resources, mentions that his company has exploration licenses in the UK, Holland and Poland, which has given Cuadrilla an understanding of the various stages of evolution of the shale gas exploration business in Europe. Questioning supply/demand forecasts, he says it’s a fundamental fact that Europe is running out of its own indigenous gas, particularly in the UK. “Currently in the UK, we’re importing about half of our gas, and, by 2030, we will probably be importing most of our gas: 90% plus.” Not quite as severe as in the UK, he says the trend is similar in the Netherlands, considering the decline in Groningen and the curtail in production: “Moving from a net exporter of gas to a net importer of gas.”

The situation across the entire EU, according to Mr. Egan, is even worse, with the European Union importing 80% of its gas, forecast to get even worse. He contends that there are some benefits for Europe in producing its own gas. “There are clearly security of supply issues, but there are also economic and environmental issues.” Mr. Egan admitted that the economics for shale gas have yet to be determined in these early stages of the game. While Europe doesn’t have “wide open planes,” he says that it does have the infrastructure for production: a gas network that is probably the most developed in the world. Cuadrilla’s exploration sites in Lancashire in the UK, he says, are 25 meters away from a natural gas pipeline, the other 30 meters away from a distribution grid. Shortages of water for shale gas production, he explains, are not a problem in the UK. According to the British Geological Survey’s middle estimate case there is 1,330 trillion cubic feet of gas in the UK. “To put that in context, total UK annual gas demand is 3.2 tcf. So there is a lot of gas in the ground – on heating along, 100 years’ worth.”

Regarding the question of how much of it it is possible to extract, Mr. Egan explains that everyone wants the answer to that question, but no one wants to drill a well. He quips, “You can’t talk the gas out of the ground; you have to go in and drill some wells. And that is the question that needs to be answered. “We are in danger of overcomplicating the matter by worrying to death about thousands of wells and millions of cubic meters of water and tons of CO2 emissions before we’ve fully drilled 2-3 wells to determine what rate the resource will flow out and how quickly it will decline.” He points out that the shale in the UK is over a mile thick and is gas bearing throughout in contrast to thinner plays in the US. “If it can be developed at multiple intervals with horizontal drilling technology and multilateral completions, then there is the potential to develop this with a far lower surface footprint than anything seen so far in the US,” he offers. “And I strongly believe that Europe has the potential to develop that.” France, Germany and Holland, he says, also bear good potential despite their barriers to activity.

According to Mr. Egan, the industry needs to pass three tests: 1) Is there a technically recoverable resource? 2) Social license, and 3) Can we extract economically? Furthest advanced in the UK, Mr. Egan says Cuadrilla hopes to be drilling there before the end of the year and testing some wells next year. “So, to misquote Churchill, I would say that we’re approaching the end of the beginning in the UK – a very long beginning.” In the Netherlands, he says, there is a strategic environmental assessment being performed; in Poland he says there have been false starts, considering the “well documented withdrawals” from the country, but there is still opportunity there. Of the EU, he says, “I’m sure if it can be done successfully, I believe it can in the UK under the strictest UK and European Union regulations that I’ve ever seen for drilling an onshore well in the universe.” Because of the strict regulation, he says he thinks it can be done successfully virtually anywhere in Europe.

Statoil awards contract for Johan Sverdrup utility to Kvaerner, KBR

Natural Gas Europe, *08.06.2015*

Statoil signed a contract with a joint venture consisting of Kvaerner and KBR for construction of the topside for the utility and living quarters platform.

“The market has shown a strong interest in this contract, and Kvaerner and KBR have won the contract in tough international competition,” Margareth Øvrum commented. The utility and living quarters platform consists of two modules, one utility module and one accommodation module. Fabrication of the utility module will be done by subcontractors in Poland under management of Kvaerner and completed at Stord Norway.

"So far the Norwegian supplier industry has won the main Johan Sverdrup contracts. It is good to see that Statoil and the suppliers jointly are about to break the cost curve to ensure competitive force in a tough time for the whole industry," Øvrum added. The utility and living quarters platform will be connected to the processing platform at the Johan Sverdrup field centre by a gangway. "On plateau, production will account for 25% of all Norwegian oil and gas production. We have now awarded the project's second main topside construction contract, and we are on schedule to meet an ambitious field development plan with production start on Johan Sverdrup at the end of 2019" Øivind Reinertsen, senior vice president for the Johan Sverdrup field, explained.

EU needs new strategy to unlock Algeria's gas exports

Natural Gas Europe, *09.06.2015*

The current economic and geological situation could pave the way for stronger ties between Algeria and the EU Simone Tagliapietra and Georg Zachman wrote in a report published.

The two Bruegel analysts reported that Algeria's under-utilised natural gas export infrastructure would allow for additional 54 bcm of export, mainly through pipeline and the remaining through LNG facilities. 'The magnitude of the 54 bcm of unused capacity is impressive if compared, for example, to the Southern Gas Corridor: a major EU natural gas supply diversification project, which is expected to deliver only 10 bcm/y to the EU by 2020' reads the note.

Recalling the recent visit of Miguel Arias Cañete to Algiers, the two researchers also argued that the cooperation currently hinges on natural gas, but it should increasingly focus also on energy efficiency and renewable energy. 'According to BP, the country owns the tenth largest proved natural gas reserves in the world (4.5 trillion cubic meters).' Last week, Germany-based Siemens signed a €8 billion contract for high-efficiency natural gas-fired power plants and wind power installations in Egypt. 'The orders expand on the memorandums of understanding announced at the Egypt Economic Development Conference (EEDC) held in Sharm El Sheik in March 2015' Siemens wrote on its website. Another German company, E.ON, said it is investing in energy efficiency. 'As part of its co-investment activities, E.ON is acquiring a stake in the US start-up Enervee' the company said in a press release.

At the same time, after investments unveiled by Italy's ENI in Egypt, countries are increasingly paying attention to the country led by Abdel Fattah el-Sisi. 'The institutional background to reaching new levels in the trade and intercompany relations between Hungary and Egypt is now provided as a result of the work conducted over the past period, Minister of Foreign Affairs and Trade Péter Szijjártó said at the Hungarian - Egyptian business forum held in Budapest' the Hungarian government wrote.

Italy's Snam plans to unblock France-Spain gas bottleneck

Reuters, *09.06.2015*

Snam plans to more than double gas pipeline capacity between Spain and France to reduce Europe's dependence on Russian gas, Snam's chief executive said.

Spain has the potential to reduce Europe's reliance on Russian gas, as its chain of LNG terminals and its gas pipelines from Africa have a combined import capacity of about 80 bcm of gas per year, more than three times Spain's annual consumption. But with Franco-Spanish pipeline capacity at just 5 bcm/year, Spain's ample supply cannot reach the north. Last year Western Europe imported 90 bcm, almost 30 percent of its supply, from Russia.

"We need to ship gas outside Spain, but there's a bottleneck between France and Spain," Snam CEO Carlo Malacarne said, adding that Spain could export up to 20 to 25 bcm/year. Snam-owned gas group TIGF - whose grid in southern France carries 16 percent of all French gas and connects to Enagas' Spanish grid - plans to invest roughly 350 million euros in a new 8 bcm/year Midi-Catalonia (Midcat) interconnector in the eastern Pyrenees. That will more than double cross-border capacity, which now stands at 5.4 bcm/year but will grow to 7.1 bcm by the end of 2015 after an upgrade of existing pipes in the western Pyrenees. Malacarne said the entire Midcat project could cost around 1 billion euros ($1.13 billion).

Snam became a major gas player in France when a Snam-led consortium paid Total 2.4 billion euros ($2.71 billion) for TIGF in 2013. Snam now owns 40.5 percent of TIGF. Singapore's GIC sovereign wealth fund owns 31.5 percent, French utility EDF 18 percent and Credit Agricole Assurances 10 percent. Snam has not taken an investment decision yet on the Midcat, but Malacarne said he expects TIGF will present a capital expenditure plan to French regulator CRE next year. "Boosting France-Spain gas interconnections is part of the European Union priorities, so it is difficult to imagine that our plan would not be accepted," Malacarne said. He added that French institutions were lukewarm about the Spain-France connection, although they would be unable to stop it. Spanish gas industry officials privately complain about a lack of support for the project from France, which has no direct interest in solving Spain's overcapacity issues. A Spanish industry source told Reuters the issue is being discussed at government level. The two countries have been in a similar tussle about boosting electric power connections between them. After years of delay, a new cable that will double the cross-Pyrenees power capacity is set to come online this summer.

Midcat is part of Snam's project to connect southern and northern European gas networks with a backbone of two intersecting lines that resemble a huge "X". Midcat would be the western part of an axis that could ship gas to eastern Europe and would connect with Austria's Trans Austria Gasleitung (TAG) - 89 percent owned by Snam, the rest by Austrian energy firm OMV - and onward to Russia. In an alliance with Belgian gas grid operator Fluxys, Snam is also building a north-south axis that will be able to ship Algerian and Libyan gas from south Italy to the UK. Fluxys will upgrade its pipelines in Germany and Switzerland and connect with new pipes Snam will build in Italy. Snam already has pipelines with combined capacity of about 45 bcm of African gas to southern Italy via Sicily, while from 2020 the planned Trans Adriatic Pipeline (TAP) will ship gas from Azerbaijan. Ahead of TAP's opening, Snam will spend some 4 billion euros over the next years to build 400 km (248 miles) of pipelines across Italy to connect to the Fluxys pipelines and be able to ship African and Azeri gas into Northern Europe. By 2018, Snam and Fluxys want to have a bidirectional capacity of 6 bcm/year.

France's TOTAL: Gas must play a major role

Natural Gas Europe, *11.06.2015*

The CEO of French E&P Total, Patrick Pouyanne, said his company is convinced that gas must play a major role in the future energy mix.

"Our main challenge is to satisfy the growing needs of energy of all the population of the world, to act against climate change. We are strongly convinced of the fact," he stated. In fact, "Committed to better energy," is Total's slogan, according to Mr. Pouyanne, who said that all types of energy will be needed to satisfy the needs of the planet. "Fossil fuels and renewables both are complementary and should not oppose the other."

Each one, he explained, has a role to play. While renewables will develop rapidly, he said that fossil fuels represent 80% of the global energy mix. "Among these, we believe that the share of gas with its very low CO2 emissions and its flexibility should also progress to become the second, if not the first, global energy source," he said. Noting the massive development of renewables in Europe and other places, Mr. Pouyanne pointed out the large share allotted to coal rather than gas for power generation, because of the lower price of coal. "The CO2 emitted by coal is twice that of natural gas and one and a half times more than oil," he said. "To lower greenhouse gas emissions, it is urgent to promote, together with renewables, the use of natural gas as a basic energy in power production due to its low emissions and high level of flexibility."

Global carbon prices, which were implemented as an incentive, would enable the replace ment of coal by natural gas. He commented, “This would be a contribution at a lower cost for our communities to the ambitous climate objective that we all have and would represent a consensus.” By simply changing 50% of coal power station consumption to gas, he opined, would result in a savings of 2.5 billion tons of CO2 per year – 5% of the current global emission level. The importance of reducing carbon, he explained, had convinced Mr. Pouyanne to sign, along with other major hydrocarbons producers, the United Nations Charter, which calls for the setting of a fixed price for carbon, explaining the active participation of Total to the carbon initiative made public last week. “To introduce carbon price fixation mechanisms in the countries where this is not yet the case, and setting up an international framework for the better connection between all of our national systems, which are all very different.” He observed that this agreement is a sign of the awareness that the industry has taken of its responsibility. “But also the will that we have as being part of the solution. This is a major challenge for all the players of the energy sector,” he commented, offering that political commitments will follow.

For Total, he said, it is important to have the oil and gas industry committed in a very firm way, and be aware of its activities regarding climate change. “Yes, we are aware of the consequence of our activities, but also, as an industry, we can bring answers to mitigating the effects of climate change and limiting its impact on the environment is a priority for Total,” he said. This means, he explained, a strong and growing involvement in renewable energies whose technical and economic performances are promising. He named photovoltaics, biofuels. Improving the efficiency of industrial installations is also key, according to him, as well as helping customers consume less energy. One example, he named, is Total’s target of distributing 5 million solar lamps to 25 million people in Africa.

Natural gas as LNG, said Mr. Pouyanne, should be recognized as an energy for the future in which Total has a strong belief. The WGC, he said, shows a real turning point in the awareness of the role that natural gas has to play in satisfying global energy needs, “while constituting a key element in really combating climate change.” He commented “For gas, an energy of the future, contributing to these discussions on global warming, in light of the importance of gas for Total, is of essential interest.” Recalling the history of the company’s gas production in the 1950s, in locations like Algeria, Indonesia, Nigeria and Qatar, he explained that gas is an integrated activity for a company like Total, covering the whole value chain from exploration, marketing and trading, to production, liquefaction, transportation and regasification. “We are, as Total, a global reference worldwide.” Total, reported Mr. Pouyanne, is positioned as the second largest integrated global player of LNG. “In the last 10 years, gas in our production has gone from 35% to 50%. In other words, Total is a gas and oil player, a tend which is likely to continue in years to come, given that gas markets are globally growing at a rate of 2% per year – LNG at 4% per year.”

That growth of gas in Total's portfolio of assets, he said, is linked to major projects like the Yamal LNG project, as well as projects in Australia, which represent over $100 billion in investment. In his speech, Mr. Pouyanne referred to Russia, which he said possessed the most important gas reserves in the world. He stated, "Supply of Russian gas in Europe has been for many years, despite some difficulties we've had in the past, the gas line has always been there, standing for good – upstream and downstream being strongly connected. Russian gas comes to Europe via Ukraine without a single sustainable interruption, showing the resilience of our links." Gas, he said, has enticed diplomats to seek dialogue in finding pragmatic solutions to disagreements of a geopolitical nature. "Russia is a necessary and essential partner for all the global energy sector and especially for Europe," he added. "Total has been betting on the partnership with Russia and we intend to go on having this partnership maintained and developing." He lauded the efforts of France and Germany to facilitate a diplomatic solution to what he termed the "current difficulties."

Gas is an energy of the future and a point of strength in efforts to decarbonize economies, said the next speaker, Gerard Mestrallet, CEO, Engie (formerly GDF Suez), who added that defending the climate should involve gas. He said, "Our energy landscape has changed significantly over the past few years and now there are strong dynamics that are shaping the industry. There is a transition toward lower carbon production and consumption, supported by awareness of what's at stake from a health and environmental standpoint, and this phenomenon is gaining speed and extending from Europe to the rest of the world." According to Mr. Mestrallet, a sustainable and successful energy transition requires the combination of decentralization, decarbonization and digitization our the energy system, along with energy efficiency efforts. Against this backdrop, he argued gas is critical in the energy mix. Of gas' virtues, he said, "Gas contributes to reducing atmospheric emissions, as it supersedes oil and, more importantly, coal; gas emits no particles and improves the quality of the air in large cities; gas is complementary to renewable electric energies and it offsets their intermittent nature; gas provides energy efficiency, notably do to the fact that heating equipment affords greater performance; finally, gas contributes to sustainability, given the opportunities that are afforded via biomethane for collective fleets and natural gas in maritime or water way transport. "These virtues have allowed gas to take a greater and greater place in global energy demand," he continued, "notably in countries that consume the most energy and emit the most CO2 – the US and China come to mind, as they've decided to use gas in a prominent way in their mix, and at the same time have made hard-nosed, official commitments to protect the climate." He observed that gas looks to play an ever-greater role in the global energy mix.

Mr. Mestrallet announced, "As a global energy player, considering the energy sector contributes 60% of greenhouse gas emissions, Engie has decided to be fully committed to the global energy transmission, and to fighting global warming." This, he said, involves choices for which gas is at the forefront of the company's businesses. Engie, he said, offers developing countries the solutions to meet their specific needs, regarding production and LNG, or transport and storage infrastructure. The company, he said, has taken strong positions, as with the Cameron liquefaction terminal in the US, a project along with Sempra and Mitsubishi. He offered, "It will be the second American LNG export project as soon as it will be commissioned in 2018." Twelve million tons of LNG will be on the market, he said, to supply new, growing markets in Asia, the Middle East and South America. Meanwhile, he reported that the market of gas-powered vehicles is increasing by 18% globally, a trend that Engie would like to contribute to, creating a subsidiary in France dedicated to it. Of LNG fuel for maritime navigation, he said, "This is a solution in which we strongly believe when it comes to meeting more stringent environmental requirements."

Towards that, he explained that Engie had entered a global partnership with NYK and Mitsubishi for the development of a network of LNG supply services in the leading ports of the world. Of the COP 21 meeting, Mr. Mestrallet said that Engie, along with many other members of the business community, hopes there will be a clear, multilateral agreement to restrict global warming to 2 degrees C. A stable and clear agreement, he said, is better than no agreement at all, which would signal uncertainty. “The time has come to send the right signal to guide investors and consumers towards low carbon solutions, specifically towards gas instead of coal.”

Confidence in North Sea at lowest point since 2014, Norway struggles to move on with Arctic projects

Natural Gas Europe, *11.06.2015*

Confidence in the oil and gas industry decreased over the last months, after two-thirds of North Sea operators abandoned projects over low oil prices. At the same time, Norway might perform a spectacular U-turn on exploration in the Arctic after the parliament decided not to back the government’s proposal to reassess oil drilling boundaries.

‘The fall in oil price has been a contributory factor to a fall in confidence and activity levels. Contractors’ confidence in the UKCS is at its lowest point since the survey began in 2004. Only 7 per cent of contractors are more confident about their UKCS activities than they were a year ago.

Meanwhile, Reuters reported that Norway is not finding a consensus on drilling in the Arctic. “The proposal was not backed and it will now be sent back for a more thorough environmental assessment which will be done before 2020,” the leader of parliament’s energy and environment committee Ola Elvestuen of the Liberal Party told Reuters. In January, Norway reiterated its interest in maintaining high production levels, announcing the results of the Awards in Predefined Areas (APA) 2014 and a revision of the ice edge calculation that could allow companies to explore further inside the Arctic Circle. Simultaneously, Oslo also launched its 23rd licensing round.

Europe launches Euro-Mediterranean gas platform

Natural Gas Europe, *11.06.2015*

European and Jordanian officials launched a Euro-Mediterranean gas platform to increase cooperation between countries in the region.

'The platform, launched in Brussels, aims to incentivise dialogue, facilitate partnerships between stakeholders and strengthen cooperation between the Members of the Union for the Mediterranean' reads a note released. The launch follows the visit of Miguel Arias Cañete, to Algeria and Morocco in May. The platform is the first instrument to increase energy cooperation and it will be followed by similar instruments.

The other two platforms will be for regional electricity market, and renewables and energy efficiency. 'The Gas Platform is expected to strengthen security of gas supply in the region by promoting regional cooperation around gas exploration and production, by supporting the development of necessary infrastructure and by reinforcing regional gas trade exchanges, making the Mediterranean basin a major gas marketplace in the future.' European institutions did not clarify how and if the new platform will impact on the attempt of Serbia and Turkey to join the European Union. Over the last hours, Brussels has said a few words in favour of Turkey, but it did not materialise any commitment to Ankara's quest.

'The EP resolution, which was drafted this year by Mrs.Kati Piri, Dutch member of the Progressive Alliance of Socialists and Democrats, confirmed that Turkey is a strategic partner of the EU with its role in cooperation in the fields of economy, energy security and foreign policy, as already indicated in the 2014 Enlargement Strategy of the European Commission' the office of Turkey's Ministry of Foreign Affairs wrote on Wednesday, adding that the EP resolution was 'unfortunately… changed into a one-sided text far from being objective in the process of adoption by the EP Foreign Affairs Committee.' Meanwhile, European Commission Vice-President Mr Maroš Šefčovič paid a visit to Belgrade.

While Belgrade was saying that electricity prices went up 12% over the last 10 months, it also said that the US throw its political weight to encourage the EU to open the first chapters in the negotiations with Serbia. 'He stressed that after the Prime Minister's talks in Washington, the position of the US administration is clear that it supports Serbia's European path and that the United States will encourage the European Union to open the first chapters in the negotiations with Serbia' the Serbian government wrote, reporting the meeting between Prime Minister Aleksandar Vucic and Ambassador of the United States to Serbia Michael Kirby.

Norway's first LNG bunkering station is opened

Anadolu Agency, *08.06.2015*

The first ever bunkering station for LNG, in the Nordics was opened by Skangas along Norway's west coast.

The new bunkering station will fuel Norwegian shipping company's Fjord Line's cruise ferries, which are the first and largest ferries to work with single fueled LNG engines. The Fjord Line offers transportation both for passengers and commercial vehicles between Norway and the rest of Europe. The company has an environmental policy of giving importance to LNG to reduce greenhouse gas emissions. This is the first loading arm ever developed purely for bunkering.

LNG ships are normally bunkered through hose connections from either trucks or tanks. "There is a huge difference between truck filling and this new bunkering station," said Morten Larsen, the technical and maritime director of the Fjord Line. "The new station greatly reduces the time it takes every week for the Fjord Line to refuel. Less time spent refueling provides a quicker turnaround in port, and, therefore, greater efficiency for our ships," added Larsen. The LNG bunkering station is situated at the port of Risavika on Norway's west coast. With this new addition, Risavika is considered the best equipped LNG bunkering port in Europe.

Beyond oil and gas: Kazakhstan bets its future on reform

Natural Gas Europe, *08.06.2015*

Recent events in Ukraine and Russia's anti-Western rhetoric and military posture force European energy consumers to look for alternatives for Russian hydrocarbons. One of the possible suppliers of both oil and gas could be Kazakhstan, which boast the largest hydrocarbon resources in the oil-rich Caspian basin.

Kazakhstan is among the top 15 countries in the world when it comes to essential oil reserves, having 3% of the world's total oil reserves. Oil and gas areas comprise 62% of the country, and there are 172 oil fields, of which more than 80 are under development.

More than 90% of oil reserves are concentrated in the 15 largest oil fields, including the giants: Tengiz, Kashagan, Karachaganak, etc. Kazakhstan, wedged between China and Russia, is seeking economic opportunities that cannot be found in cooperation with Russia alone. The country is happy to develop its massive oil and gas reserves, but is seeking to develop industrial production and post-industrial services. Astana's calculus is pretty reasonable - according to the Kazakhstan Ministry of Oil and Gas, proven hydrocarbon reserves, both onshore and offshore, are estimated to amount to 4.8 billion tones, or more than 30 billion barrels. Not all of the reserves are fully prospected. Many experts believe that there are probably more reserves of oil and gas in fields located in the Kazakh section of the Caspian Sea, with additional 17 billion tones or 124.3 billion barrels there. Given these impressive reserves as well as the ever-increasing production volumes, in the foreseeable future, Kazakhstan is much likely to remain among top global oil producers. Astana is constructing a unified energy system across its three time zones, to fully meet electricity demand in the country. It plans to become less dependent on Russia, which is still supplying it with some electricity -- a legacy of the Soviet central planning.

The energy grid of Kazakhstan is linked to Russia since the collapse of the USSR. Implementation if this programme will bring thousands of jobs throughout the country and require more gas. Speaking of gas exports, Kazakhstan has the most energy hungry consumer in the world right next door – China. One of the most impressive results of cooperation between China and Kazakhstan is construction of a Sino-Kazakhstan oil pipeline and China – Central Asia gas pipeline, and implementation of other large energy cooperation projects. The 2,800 km long Kazakhstan oil pipeline was officially launched in 2006, and became an important energy artery for China. More projects are forthcoming. In 2013 during his official visit to the country, Chinese President Xi Jinping announced that he wants to create a vast network of railways, energy pipelines, highways, and streamlined border crossings, both westward—through the former Soviet republics—and southward, toward Pakistan, India, and the rest of Southeast Asia.

This is the tremendous New Silk Road. If implemented, it will dwarf even the largest infrastructure systems in the world built in the nineteenth and the twentieth century, including the infamous Trans-Siberian railway and pipeline systems bringing oil and natural gas from Russia to Europe. Thus, Kazakhstan is an attractive location for investment projects targeting both Russian/Eurasian Economic Union and Chinese markets. Kazakhstan's leadership understands the need to modernize. President Nursultan Nazarbaev, re-elected in April, has announced the "five reforms" before his recent presidential elections. The approach, outlined in the "100 Concrete Steps to Implement Five Institutional Reforms" was elaborated during the annual Astana Economic Forum that took place in Astana on the May 21st this year, and at which I spoke about the challenges of Eurasian integration. The five modernizations include: Formation of a modern, professional and independent public service, The modern legal system, including the transition from the five-level justice system (first, appeal, cassation, supervising and re-supervising) to a three-level (first, appeal and cassation) system, Attracting strategic investors to the country's agricultural sector, Shaping a "Nation of Common Future" by nurturing a civic, not ethnic, identity, and a viable middle class as the backbone of a successful nation and of a modern civil service, Creation of an accountable and transparent government.

The National Modernization Commission has been created in order to facilitate the implementation of these reforms. President Nazarbayev pointed out that “These are the improvement of public administration and the rule of law, promoting economic growth, strengthening the Kazakhstani (civic) identity and, finally, improving the transparency and accountability of the state.” The implementation of these reforms has already been adopted and a 100 steps action plan titled ‘Modern State for all’ has been published. Kazakhstan will remain a rapidly developing Eurasian tiger in the heart of the planet’s largest land mass, blessed with oil, gas, natural resources and a young, ambitious and well-educated population – a magnet for foreign investment.

China to face oversupply, low demand for natural gas

Anadolu Agency, *10.06.2015*

Chinese national oil companies are facing low demand and oversupply of natural gas, Wood Mackenzie said. Noting that natural gas demand growth in China fell dramatically, the global research and consulting company revised its projection for gas demand in the country, from 2020’s projection of 420 bcm down to 360 bcm, and from expectations of 640 bcm down to 560 bcm for 2023.

Gavin Thompson, Wood Mackenzie’s principal gas consultant listed these motivators as “low oil prices and high domestic gas prices, reversal of environmental policies, competition from coal and hydro, and warmer winter weather.”

High domestic prices lower the demand for gas, especially when oil can be substituted with gas due to low crude oil prices. In addition, coal and hydro power can be used as alternative energy sources while warmer winter conditions lower the demand for gas. “Structural factors include the switch from industrial production to the service sector as a driver of economic growth,” Thompson said. As a country moves away from industrial production for its economic growth, it needs less energy sources for its industrial sector. “Chinese national oil companies, NOCs, are assessing how best to optimize their diverse supply portfolios as gas demand disappoints,” Wood Mackenzie said.

Stating that Chinese NOCs signed some 66 billion cubic meters of liquefied natural gas (LNG) per year, Wood Mackenzie said new gas contracts will increase in 2015 to supply an additional 23 bcm. “As a result, there is an oversupply of contracted LNG in the market, particularly during periods of low seasonal demand. We expect China will be over-contracted by about 18 bcm from 2015 until 2017,” Thompson explained. China’s natural gas consumption was around 180 billion cubic meters in 2014. “With strong growth in contracted LNG and low LNG prices, we continue to expect that some volumes of LNG will be re-sold back into the broader market,” Thompson said, warning that even at times of higher gas demand, it is unlikely that all contracted LNG will be sold. However, if oil prices recover, this may stimulate natural gas demand in China and create more market space for LNG, Thompson concluded.

Oil supply to drop in most of Latin America by end 2015

Anadolu Agency, *11.06.2015*

By the end of 2015, oil supply is to drop in most of Latin America, to OPEC's latest report.

Production is to decrease in Colombia, Argentina and Trinidad and Tobago, each by 10,000 barrels per day, (b/d). Output from Colombia, the second highest supplier in the region, is to see the highest fall in the region, as it is expected to fall by 40,000 b/d to average 0.96 mb/d. "Colombia's private sector oil producers' association, ACP, has said it doubts the country will manage to keep output above 1 mb/d for the whole year due to insufficient investment in new production".

Argentina's supply is forecast to average 0.67 mb/d and in Trinidad and Tobago production is due to be 0.1 mb/d in 2015, a decrease of 10,000 b/d compared to last year. Meanwhile, Brazil is the only country which is anticipated to experience a rise in oil production, the report says. "Brazil is the main driver of this growth in 2015," the report shows. Oil supply is to be 3.1 mb/d in the country, 200,000 b/d higher than 2014. "On a quarterly basis, Latin America's supply in 2015 is expected to stand at 5.10 mb/d for Q3 and 4.99 mb/d for Q4," the report estimates.

US oil stocks fall for sixth consecutive week

Anadolu Agency, *10.06.2015*

Oil stocks in the U.S. fell for the sixth consecutive week, while the country's crude oil imports decreased and production remained almost unchanged, the U.S.' Energy Information Administration, EIA, data revealed.

Commercial crude oil inventories in the country fell by 6.8 million barrels, or 1.4 percent, to reach 470.6 million barrels for the week ending June 5, from 477.4 million barrels for the week ending May 29, the EIA said. This is the sixth week in a row that oil stocks have fallen in the U.S., after the country experienced 16 consecutive weeks of increases in inventories.

Meanwhile, strategic petroleum reserves in the country remained unchanged at 692.3 million barrels per day for the week ending June 5. As the U.S.' crude oil inventories fall, this may increase expectations in the market that the glut of oil supply worldwide may decline, thus putting an upward pressure on oil prices. Crude oil imports of the world's biggest economy and oil consumer fell by an average of 750,000 barrels a day to reach 6.62 million barrels per day for the week ending June 5, from 7.37 million barrels a day the week before. "Over the last four weeks, crude oil imports averaged about 7.0 million barrels per day, 2.3% below the same four-week period last year," EIA noted. Domestic oil production in the U.S. rose slightly, by a modest 24,000 barrels a day on average in the same period to reach 9.61 million barrels per day, from 9.59 million barrels a day for the week ending May 29.

EIA said in its Short-Term Energy Outlook that U.S. crude oil production is expected to start declining in the second half of the year until the end of third quarter next year. The U.S. administration projects crude oil production in the U.S. to decline from the current average of 9.58 to 9.39 million barrels a day on average in the third quarter, and to 9.33 million barrels per day on average in the fourth quarter of the year. Moreover, EIA expects crude oil output to continue its decline next year by falling to 9.2 million barrels a day on average in the first quarter of 2016, before slightly rising to 9.22 million barrels per day on average in the second quarter of 2016. Production of crude oil is forecast to dive to 9.17 million barrels a day on average in the third quarter of 2016. Meanwhile, BP's Statistical Review of World Energy 2015, published Wednesday, revealed that the U.S. surpassed Saudi Arabia in 2014 to become the top oil producer in the world.

US led world in oil, gas production, consumption in 2014

Anadolu Agency, *10.06.2015*

The U.S. was the biggest oil and natural gas producer and consumer in the world in 2014, BP's Statistical Review of World Energy 2015 shows.

The country surpassed Saudi Arabia to become the top oil producer in the world by producing 11.6 million barrels of oil per day in 2014, while the kingdom came in the second place with 11,5 million barrels a day on average, and Russia came in third with 10.8 million barrels a day. The U.S. has increased its oil production by 15 percent, from 10.1 million barrels a day in 2014 to 11.6 million barrels per day in 2015. Saudi Arabia led the world in oil production from 2011.

The U.S. has continued to lead the world as the largest oil consumer as well. The country consumed 19.5 million barrels a day on average in 2014, while it was followed by China, consuming 11 million barrels a day, and Japan, consuming 4.3 million barrels per day on average. While the U.S.' consumption rose 0.5 percent in 2014 compared to the previous year, China's rose 3.3 percent, but Japan's consumption fell 5.2 percent. The U.S. was also led the world as a natural gas producer and consumer last year. The country produced a total of 728 billion cubic meters in 2014, while it was followed by Russia, producing 579 billion cubic meters, and Qatar, producing 177 billion cubic meters.

Compared to 2013, the U.S. natural gas production rose 6.1 percent in 2014, but Russia's gas output fell 4.3 percent. Qatar's natural gas output rose 0.4 percent in 2014 from a year ago. In natural gas consumption, the U.S. came first with 759 billion cubic meters, as Russia came in second with 408 billion cubic meters and China was third with 185.5 billion cubic meters. Since its shale revolution in 2008, the U.S. increased its oil and gas production significantly.Oil production in the country rose from about 5 million barrels a day on average in 2009 to 9.58 million barrels per day in the second quarter of 2015. According to the U.S.' Energy Information Administration, gross withdrawals of natural gas totaled 26 trillion cubic feet (736 billion cubic meters) in 2009, while this amount rose to almost 32 trillion cubic feet (906 billion cubic meters) in 2014. BP noted in its statistical review that oil production figures include crude oil, shale oil, oil sands and NGLs (natural gas liquids), while natural gas production numbers include gas produced for Gas-to-Liquids transformation.

Natural gas in the US: a "brave new world"

Natural Gas Europe, *10.06.2015*

In their appearance at Flame in Amsterdam, the Netherlands, speakers from an industry association, research institute and a midstream player provided an overview of happenings in the natural gas industry in the United States, and what such developments mean for Europe.

Recalling that the last time he attended Flame in Amsterdam was about 9 years ago, Richard McMahon, Vice President, Energy Supply and Finance, Edison Electric Institute, said that at that time there was talk about the US importing gas, building regas facilities. He quipped, "The world has changed. It's a brave new world."

For electric utilities and power generation in the US, he said that the shale gas revolution there has been a great development, “as we are driving demand for gas in the US.” One advantage that America currently has in its fleet, he explained, is the ability to substitute between natural gas and coal; that could change going forward. He reported that there are 60-70 gigawatts of coal plants that will eventually go offline, limiting the price elasticity demand for gas and coal at present. “When the gas price is at $6 or above,” he explained, “the substitution starts to go in favor of coal.” Because of the oncoming constraints without those coal plants, he said more gas storage and pipelines will be necessary. Meanwhile, he reports a tremendous reduction in carbon emissions due to fuel switching. According to Mr. McMahon, daily electric demand for gas in the US currently runs at 22 BCF/day. “It’s a huge demand that’s growing,” he said. “Annual demand is over 8 TCF.” He added that industrial load is also growing in the US.

In addition to gas coming on, wind and solar are also making increasing contributions to generation, he said, some of the investment due to incentive schemes. Last year, he said, the industry made investments exceeding $100 billion, and significant investments have been made in the last 5-6 years. He said he expects this to continue for another 3-4 years. “The low natural gas prices that have resulted from all this supply, has really helped to cushion the impact of that on our ultimate customers – that’s been a huge benefit,” said Mr. McMahon. While much of the initial investment was made on generation, he said, now it is starting to shift to transmission and distribution. “Most of the impacts of low gas prices,” he contended, “have been very positive.” Meanwhile, Mr. McMahon reported that there are about five liquefaction plants under construction, while 15 were in the permitting phase. Public opposition, he said, is likely to play a big role in whether the facilities are built, having witnessed protest at a Federal Energy Regulatory Commission meeting. Gas, he argues, is a facilitator of renewables, not a competitor

Angelina LaRose, Natural Gas Markets Team Leader, US Energy Information Administration (EIA), gave a preview of her organization’s annual Energy Outlook 2015. In a diagram of the shale oil and gas plays in the US, she pointed out the importance of the Marcellus shale in northeast, the US’ most productive shale play. “A lot of what we’re seeing in terms of the market reacting to the growth in production, it really can be encapsulated by the growth in production in the Marcellus, just to balance it out,” she said. The most productive liquid play, she said, is in the Eagleford in southern Texas, where there’s a lot of associated gas tied to the production of liquids. Right now, she adds, shale makes up about 55% of total US gas production, something which began decades ago in the Barnett shale as part of the “30-year overnight success story.” She recalls, “Working with this technology has been going on for quite some time, and applying the technologies to other areas outside the Barnett in Texas has resulted in shale making up about 55% of current production levels.”

Today, she said, the Marcellus shale is the most productive of the shale plays – about 20% of US production levels. “Someone commented recently, that if Marcellus was a country unto itself – if there was a Republic of Marcellus – it would be the third largest natural gas producer in the world, following Russia and the US.” Additionally, she said, the area around the Marcellus used to be a traditional importer of natural gas. Today, she explained, gas consumption in the region is fairly stable. “This is in contrast to the growth in production in the northeast, which has more than tripled since 2008.” Ms. LaRose said this growth in production is offsetting net inflows of natural gas into the region, “quite dramatically.” “There have been days in the summer as well as in the shoulder seasons, where the US is actually a net exporter of gas into Canada, which several years ago we hadn’t heard of,” she offers.

In terms of pricing, she notes that Henry Hub is at present relatively low, and has been around $3-4/mm Btu over the last several years. She said that the difference between Henry Hub and regional prices in the US can often be quite large, which can be attributed to transmission constraints in a pipeline. “That’s exactly what we’re seeing in the northeast right now.” Prices in New York City and Boston, for example, can spike quite high during peak demand days during the winter because of limited pipeline capacity for bringing gas into the region. That, she said, is in contrast to the Marcellus, which she adds also has it’s own constraints. “It’s not about getting gas into the region, it’s about getting gas out of the region. Most of the time, not only are Marcellus prices the lowest in the country – lower than Henry Hub, clearly – they’re also trading, in the past 6 months, several days close to $1/mm btu.” While some of the Marcellus gas is making its way up to the northeast, according to Ms. LaRose it’s not making it there in peak demand days. “That’s why we’re seeing a lot of pipeline projects,” she notes. She explained that there are challenges associated with expanding this pipeline capacity in New England. “These pipeline companies aren’t just focusing on sending the gas into the northeast,” she said. “They’re also looking at moving the gas west, south.” She reports that there have been several large reversal projects, one of which has recently come online last summer. “It’s moving gas westward on the Rockies express pipeline, which was an enormous and expensive pipeline project that was designed to bring gas from the Rockies as far east as Ohio; unfortunately, as it got to Ohio it was just when the Marcellus started developing, so it was a bit of ill timing for the company, but now they’re using reverse-flow on that pipe to bring Utica and Marcellus gas into Midwestern markets,” explained Ms. LaRose.

Regarding how shale will affect the market 25 years into the future, according to EIA estimates which show the US becoming an exporter of natural gas in the next couple of years. “We do have growth in consumption: 22% from 2013-2040. But this growth in consumption is being outpaced by nearly 50% growth in production over that same time period.” According to production type, she said into the future it will look similar to last year, with shale exhibiting the largest growth, followed by tight gas. The Marcellus, she adds, will remain the most productive shale play: “It has about 150 TCF of cumulative production. It’s almost twice the size of the next largest shale play in terms of production. We have the Haynesville coming in the projection period at about 81 TCF, followed by the Eagleford, where a lot of gas is being produced in association with oil.” Consumption in the US, she said, has risen with increased supply and more competitive prices. “Consumption is widely dispersed across the economy in the US. We have all sectors growing with the exception of the residential sector whose decrease in natural gas consumption is due to energy efficiency.

The largest growth area for consumption, said Ms. LaRose, are the industrial (growing by 2 TCF) and power sectors. “Most of the growth that we’re seeing in the industrial sector occurs particularly through 2025, due to two reasons: sustained, relatively low natural gas prices going up to that period, as well as rising industrial shipments.” Of the industrial groups, she said some are not only using natural gas as part of the manufacturing process, but also as a feedstock. Chemicals, she offers, is set to grow by 2-3%/year from 2013-2025. She added, “Sixty percent of the energy used in that industry is for feedstocks.” In all of the EIA forecasts, she said, the US remains both an importer and exporter of natural gas, “But imports are falling and exports are increasing. In the EIA’s reference case, imports to the US fall by over 40%, in contrast to exports in the form of piped gas to Mexico as well as LNG exports. LNG exports are calculated as 0.2 BCF/day from the lower 48 states; a project in Alaska is also set to come online, she said.

Ms. LaRose offered that regarding LNG exports, the organization takes the domestic supply price into consideration, adding liquefaction and transport costs. “We compare that to a representative, somewhat generic European, as well as Asian, competing gas price.” The high oil and gas resource case, she said, is driven by a domestic supply price that is extremely low, which is enticing for LNG exports, she said. “For the lower price case, since the competing price in Asia and Europe we’re assuming is linked to the oil price to some degree, and since it’s that much lower, we only have very limited LNG exports coming out of the US, as in our analysis the construction costs and utilization of those facilities are just are not present.” In the EIA’s Annual Energy Outlook 2015, she said, “Across all cases prices are increasing, as the US continues to develop more and more expensive resources to support the level of consumption and exports that we’re seeing within our projections.” Ramzi Mroueh, Vice President, Origination, Cheniere International, also provide his company’s perspectives. As noted in his presentation, By the end of 2015, Cheniere will be building 40 million tons/annum of LNG capacity, due online by 2020.

In the last 15 years or so another important trend has emerged, said Mr. Mroueh: LNG markets are much more liquid and flexible. In view of the last “supply wave” from Qatar, whose contracts from two suppliers do not offer much flexibility, he argues that the Australian wave should offer much more flexibility, in the hands many more players. He continued, “When the US LNG comes it’s going to bring a totally flexible product in the hands of a very large number of players, so that’s going to create the Atlantic basin as a very liquid, very efficient, deep market.” Where that LNG will end up is a question, he said, likely to be determined by a number of indices responding to market signals and depending on prices. Considering Europe has a very liquid market as well, and an abundance of infrastructure, Mr. Mroueh offered, “That means that Europe can keep playing the role of the market of last resort for LNG; on the other hand, Europe does import long-term baseload LNG and that will continue as well.”

Europe’s infrastructure and having a deep, liquid LNG market on its doorstep should create security of supply for the continent, he said, but at a price. “Whenever Europe needs to attract that LNG, it will have to compete with varied and flexible markets.” For example, he said that Middle Eastern LNG buyers have no other choice. Mentioning the destination flexibility in US LNG contracts, he explained that buyers of US LNG are actually underwriting the construction of liquefaction facilities, but not other infrastructure, so it is much more flexible in terms of cancellation rights. Behind the LNG facility, he said, is a deep and liquid gas market that will also facilitate LNG trade.

Mr. Mroueh said the typical pricing formula is Henry Hub plus 10-20% for losses and liquefaction, plus a liquefaction fee of $3-4, and then shipping, which should cost less than $2. “So the resulting price for the European buyer should be somewhere between $8 and $10,” he explained, adding that two-thirds of that price is fixed, so one-third of the price is exposed to market volatility. If the prices go up, he explained, a huge amount of reserves will be unlocked, production will come on, and then the prices will come back down, as seen from the last very cold winter. He summarized, “The US is going to become a major player in the LNG industry. The oncoming supply picture is going to have a profound change in how LNG is traded.” Cheniere, he said, is proud in the role it is playing to develop the industry and expects more to come.

OPEC output: Brent oil price dip 2.4% with strong dollar

Anadolu Agency, *11.06.2015*

Brent crude oil price decreased 2.4 percent in the last two days as the value of the U.S. dollar rose against other major currencies and OPEC revealed its production rose in May.

The price of the global benchmark fell to as low as $64.71 per barrel after it reached its daily peak at $66.33 per barrel. The value of the U.S. dollar increased against Chinese Yuan, Japanese Yen and Euro, thus lowering the purchasing power of countries that import high levels of crude oil and lowering their demand. The decline in Brent crude price begun with OPEC saying the cartel’s oil production increased by 24,000 barrels per day to reach 30.98 million barrels a day in May.

OPEC refused to cut its oil production once again at its biannual meeting on June 5 despite the falling oil prices. The oil cartel decided to maintain its output quota in its previous meeting on Nov. 27, 2014 as well, and did not trim production despite the falling prices. The glut of oil supply is one of the main reasons behind the decline in oil prices, which fell almost 45 percent in the last 12 months.

Announcements & Reports

► *Monthly Oil Market Report*

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

► *BP Statistical Review of World Energy June 2015*

Source : BP
Weblink : http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf

► *Drilling Productivity Report*

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

► *This Week in Petroleum*

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

► *Natural Gas Weekly Update*

Source : EIA
Weblink : http://www.eia.gov/naturalgas/weekly/

Upcoming Events

► *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

Supported by PETFORM

► Abu Dhabi International Petroleum Exhibition & Conference

Date : 10 – 13 November 2015
Place : Abu Dhabi - United Arab Emirates
Website : http://www.adipec.com/

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The Abu Dhabi International Petroleum Exhibition & Conference

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► CIS Oil and Gas Transportation Congress *(in Turkey)*

Date : 11 – 12 November 2015
Place : Istanbul - Turkey
Website : http://www.theenergyexchange.co.uk/event/cis-oil-and-gas-transportation-congress-2014/attend

17 th Annual
CIS OIL AND GAS TRANSPORTATION CONGRESS