Oil & Gas Bulletin

▸ *15.04.2016*

Gazprom confirms deal with Turkish private companies

AA Energy Terminal, *14.04.2016*

Gazprom Export and six Turkish private companies agreed on a natural gas price which will be valid for 2016, said Gazprom. Gazprom said that Bosphorus Gaz, Enerco Enerji, Bati Hatti, Kibar Enerji, Avrasya Gaz and Shell Enerji agreed with Gazprom after ‘constructive’ conversations.

The Russian company said that natural gas supply continues in accordance with current contracts. Elena Burmistrova, General Director of Gazprom export LLC said that, “We are pleased to have a deal with our Turkish trade partners. We expect to continue our cooperation in Turkish natural gas market.”

Earlier it was reported that Russia’s Gazprom, who was in discussions with six Turkish private companies on Jan. 29, unilaterally cancelled the 10.25 percent discount applied on natural gas supplies from Gazprom from Jan. 1 this year. At the end of February, Gazprom also reduced daily natural gas supplies to Turkey by around 50 percent from Feb. 10 along the western line.

Turkey’s Energy Ministry sources told Anadolu Agency that Gazprom invoiced the January gas exports to Turkish private companies at a 10.25 percent higher rate than the previously agreed discounted prices, effectively cancelling the discount. Turkey, which is the second biggest consumer of Russian gas after Germany, imports around 30 billion cubic meters of gas from Russia annually via two pipelines; the Blue Stream and the western line. The private sector in Turkey imports 10 billion cubic meters (bcm) of natural gas per year, representing over 30 percent of Russia’s gas exports to Turkey.

Out of 48 bcm, 38 bcm was imported by the state-owned crude oil and natural gas pipeline and trading company, BOTAS. Gazprom was due to enforce the 10.25 percent discount with BOTAS; however the company confirmed that this has never been applied.

Saudi Arabia, Turkey form team to enhance trade ties

AA Energy Terminal, *14.04.2016*

Saudi Arabia and Turkey have agreed to set up a team to strengthen bilateral trade ties, Saudi trade and industry minister announced. Addressing the opening of the Turkey-Saudi Arabia Business Forum, al-Rabiah said:

“We have agreed on establishing a working team. “The team, which will consist of high-level officials, will discuss all cooperation opportunities between the two countries and negotiate to increase the trade volume between the two countries.”Al-Rabiah and Turkish Economy Minister Mustafa Elitas jointly opened the forum, which will focus on trade and economic cooperation between the two countries.

At the forum, business people from both countries will explore investment opportunities in renewable energy, electricity, mining, petrochemicals, finance and banking sectors. Also, investments in contracting, construction, housing and real-estate projects will be discussed.

“We see that the official visits between two countries have increased. This is significant evidence that shows development of relations between the two countries is highly valued,” the Saudi minister said. Al-Rabiah also spoke about opportunities in the tourism sector between the two countries. “Especially, the number of tourists coming to Turkey from Saudi Arabia has shown a dramatic increase; 16 flights daily are being carried out between the two countries and this is a very significant number. Formerly, it was not possible even to imagine these numbers,” he said.

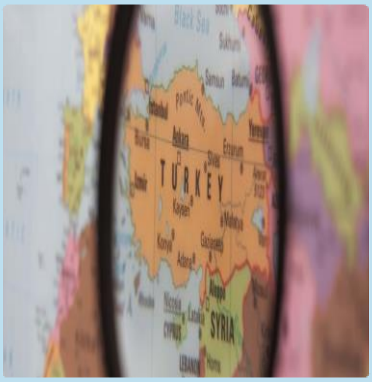
Elitas said Turkey sees Saudi Arabia as one of the largest trade partners in the Gulf region and the world. He noted that the bilateral trade volume with Saudi Arabia in 2015 was far from the desired levels and called for a free-trade agreement between Gulf countries and Turkey, which he said would boost investments and trade among Gulf countries, especially with Saudi Arabia.

Last year, bilateral trade between the two countries was around $6.5 billion, including $3.5 billion imports from Turkey, according to Turkish Economy Ministry. Turkey mainly exports electrical machinery and equipment, carpets, mats, mineral fuels and oils, while imports from Saudi Arabia include plastic and articles made of it, organic chemicals, aluminum and articles made of it, mineral fuels and oils.

Saudi Arabia’s King Salman bin Abdulaziz visited Ankara Tuesday during his first official visit to Turkey. Turkish President Recep Tayyip Erdogan visited Saudi Arabia in December 2015 during which Ankara and Riyadh discussed bilateral issues as well as regional matters, particularly the conflict in Syria.

What to expect from Turkey's normalization with Israel

Hurriyet Daily News, *06.04.2016*



Once again, uncertainty has prevailed after optimism regarding reconciliation talks between Israel and Turkey, with İbrahim Kalın, the spokesman for Turkish President Recep Tayyip Erdoğan, saying on April 12 that the parties "are not yet at the stage of drafting and sealing an agreement."

Before a meeting in London, the two sides were reportedly close to finalizing a deal, having agreed upon the amount of compensation to be paid by Israel for the victims of the Mavi Marmara - despite major hurdles such as Israel's demand that Hamas' headquarters in Turkey be shut down and the recent Turkish demand to send a power-generating ship to Gaza.

Though neither Turkey nor Israel have abandoned the negotiations, it may take longer than expected for them to reach an agreement (if indeed both are still willing to restore bilateral relations).

An announcement by the Israeli Prime Minister's Office that said "Israel would gladly exchange ambassadors if Turkey was willing to take the first step," reveals that a third option might also be on the table for the two neighbors to resume diplomatic ties without fully resolving their conflicts.

When making predictions about the Middle East, betting on a pessimist outcome always pays off. But those who prefer to remain on the safe side and comfortably envision no deal at all between Israel and Turkey ignore the fact that regional geopolitics have been pushing the two closer to each other for quite some time, meaning that normalization will take place sooner or later.

Turkey and Israel have shared geopolitical interests in the region, such as cooperation against the Islamic State of Iraq and the Levant (ISIL), balancing the rise of Iran, restoring stability in Syria and Iraq, and fostering energy security and cooperation in the Mediterranean.

While regional developments are bringing Ankara and Tel Aviv closer, domestic factors such as the negative view of Israel in Turkish public opinion due to the Palestinian issue continue to drive a wedge between them. Anti-Israeli attitudes, which are often fused with anti-Semitism and manifest themselves as hate speech, are very widespread in the Turkish media.

From a broader perspective, however, normalization with Israel is in fact a part of a long-awaited reset in Turkish foreign policy in terms of repairing broken ties with neighbors, overcoming the country's regional isolation, and realigning with the Western alliance in the post-Arab Spring context. Aside from that, the souring of relations with Russia over the downing of the SU-24 Russian jet in November 2015 has made the diversification of energy resources a more pressing issue for Turkey, pushing it toward seeking reconciliation with Tel Aviv.

For a middle-sized power like Turkey, building smart alliances is a sine qua non for maintaining security and increasing influence in international diplomacy. Israel and Turkey, two non-Arab countries, are likely to benefit from enhancing dialogue and cooperation amid the chaos in the region. However, Turkey's embracing of the Palestinian conflict to the point where it is almost a domestic issue, and its promotion of Hamas more than any other Arab country in the region, hinders negotiations with Israel. Besides, both countries are also seeking to "claim victory" in the talks, which obstructs tradeoffs and eliminates flexibility in the bargaining process.

Having faced several obstacles in the foreign policy realm for the last couple of years, the stakes are higher for Turkey to reach an agreement if Israel does not meet its demands, given that Ankara has a conservative domestic constituency that is highly sensitive about the suffering of Palestinians.

Although normalization with Israel does not provide a magical formula to soothe Turkey's long-standing problems, it could be a constructive step in terms of providing mediation for resolving the Palestinian issue and fighting anti-Semitism in Turkish society. The outcome of the negotiations in the upcoming weeks will indicate whether geopolitical interests or domestic politics prevail.

SGC to save Turkey from gas dependence on Russia

Trend News Agency, *14.04.2016*

The SGC project will save Turkey from gas dependence on Russia, said Stephen Blank, senior fellow at the American Foreign Policy Council. He made the remarks addressing an event titled 'Syria and the South Caucasus: Emerging Threats to Turkish and NATO Security'.

Blank said 60 percent of gas is being supplied to Turkey from Russia, so it is important to support the SGC project in order to reduce Turkey's gas dependence on Russia. The Southern Gas Corridor is one of the priority energy projects for the EU. It envisages the transportation of gas from the Caspian Sea to the European countries through Georgia and Turkey.

At an initial phase, the gas to be produced as part of the Stage 2 of development of Azerbaijan's Shah Deniz field is considered as the main source for the Southern Gas Corridor projects. Other sources can also connect to this project at a later stage.

As part of the Stage 2 of the Shah Deniz development, the gas will be exported to Turkey and European markets by expansion of the South Caucasus Pipeline and the construction of Trans-Anatolian Natural Gas Pipeline and Trans-Adriatic Pipeline.

Israel and Turkey close to restoring ties

Financial Times, *08.04.2016*

Turkey announced that it was on the verge of reaching an agreement with Israel to restore ties after diplomats from both sides met in London.

"The teams made progress toward finalising the agreement and closing the gaps, and agreed that the deal would be finalised in the next meeting which will be convened very soon," the Turkish foreign ministry said in a statement. The two countries had an acrimonious split in 2010, when Israeli commandos raided a ship carrying supplies to Gaza, which was under blockade, killing 10 Turkish activists. The Ankara government withdrew its ambassador soon after.

Turkey has since demanded a formal apology for the deaths of its citizens, compensation for their families, and an end to the Israeli economic blockade of Gaza as preconditions for normalisation. Israeli prime minister Benjamin Netanyahu apologised to his Turkish counterpart, Recep Tayyip Erdogan, in a phone call in 2013, but disagreements over the compensation and the Gaza blockade have held up a deal so far.

Neither side has signalled what a prospective deal agreement might entail. A Turkish foreign ministry official contacted on Friday declined to provide further comment. Last week, Mr Erdogan met Jewish leaders on the sidelines of a nuclear security summit in Washington. One factor seen as driving the talks is energy. Amid an ongoing row with Russia, on which it depends for more than half of its natural gas imports, Turkey appears more eager than ever to find new suppliers, including Israel.

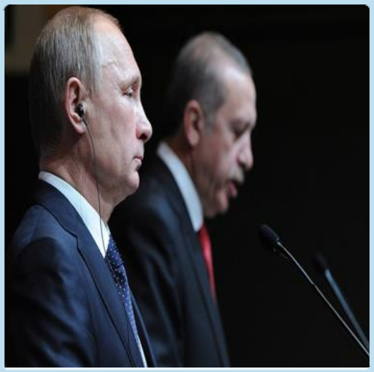
Earlier this week, the head of Turkish energy company Turcas Petrol announced that he and others were looking at establishing a consortium to bring Israeli offshore gas to Europe via Turkey. "Until now, at least 15 companies have contacted us to say they wanted to take part in a consortium," Batu Aksoy said in an interview with a Turkish newspaper. "If the will and the political environment is in place, the gas may reach Turkey by 2021."

Despite frayed diplomatic ties, trade between Turkey and Israel has expanded. In 2015, combined imports and exports reached a value of $4.4bn, up from $3.4bn in 2010. Tourism numbers have not fully recovered, however. About 225,000 Israeli tourists reached Turkey last year, down from a high of nearly 560,000 in 2008. The year after the flotilla raid, tourist numbers plummeted to under 80,000.

Following a wave of terror attacks in Turkish cities, 2016 may mark a new low. Last month, the Tel Aviv government warned against travel to Turkey after three Israelis died in a suicide bombing on Istanbul's busiest shopping street. It also advised those of its citizens currently in Turkey to "depart as soon as possible". An Iranian national was also killed in the attack, which Turkish authorities have blamed on Isis.

Stability in S.Caucasus important for Turkey, regional countries

Azernews, *15.04.2016*



The stability in South Caucasus region is important not only for Turkey, but also for other countries. Tugay Tuncer, Deputy Chief of Turkey's mission to the U.S., made the remark as part of an event titled 'Syria and the South Caucasus: Emerging Threats to Turkish and NATO Security', held in Washington D.C..

Turkey is greatly concerned over the recent large-scale attacks and ceasefire violations by Armenia towards neighboring Azerbaijan along the line of contact in Nagorno-Karabakh, as well as in Nakhchivan, which caused military and civilian casualties, he stressed.

Tuncer believes that the OSCE Minsk Group, which has been the sole negotiator in the long lasting Armenia-Azerbaijan conflict since 1994, had many unsuccessful attempts at finding the solution to the conflict. "We expect the international community, especially the Minsk Group Co-chairs to take responsibility and urge Armenia to put an end to armed provocations," the Turkish diplomat said, adding that the current status quo is unacceptable anymore.

Turkey is fully committed to continue developing good relations based on mutual respect with all countries in the South Caucasus, Tuncer further noted. He said Azerbaijan, Georgia and Turkey have many big projects like Baku-Tbilisi-Ceyhan oil pipeline, Baku-Tbilisi-Erzurum gas pipeline, Baku-Tbilisi-Kars railway project, TANAP gas pipeline project.

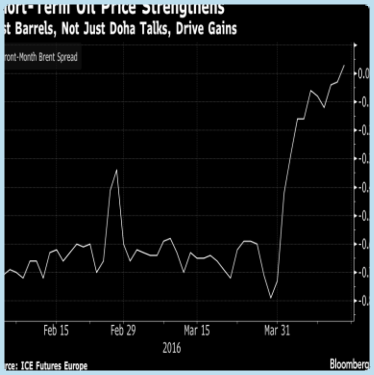
Tuncer believes that Armenia misses opportunities for cooperation in this region, but Turkey hopes that the country will see the benefits of this cooperation sooner or later. Armenia's aggressive policy has resulted in its isolation from region's important countries: Turkey has closed its border after Armenia occupied Azerbaijan's internationally recognized territories, while Azerbaijan responded with the same actions after Yerevan's naked aggression.

The conflict between the two South Caucasus countries began in 1988 when Armenia made territorial claims against Azerbaijan. As a result of the ensuing war, in 1992 Armenian armed forces occupied 20 percent of Azerbaijan, including the Nagorno-Karabakh region and seven surrounding districts. The 1994 ceasefire agreement was followed by peace negotiations.

The OSCE Minsk Group acted as the only mediator in resolution of the conflict, proceeding talks based on the renewed Madrid principles. The statements promising a sincere contribution to the peaceful resolution of the conflict have become frequent, but declarative in essence. Armenia has not yet implemented four UN Security Council resolutions on withdrawal of its armed forces from the Nagorno-Karabakh and the surrounding districts.

Key oil market indicator shows there's more to rally than freeze

Bloomberg, *15.04.2016*



OPEC and Russia might like to take all the credit for oil's recovery with their plan to freeze production. While much of the 30 percent rally in Brent crude futures over the past two months has stemmed from the producers' dialogue, a diminishing contango shows that markets are also feeling the loss of supplies from a number of areas, from the North Sea to Nigeria and Iraq.

The front-month Brent contract, June, is trading at a premium to the subsequent month for the first time since January, a condition known as backwardation that typically signals short-term supplies are being strained by demand.

It encourages refiners to process barrels straight away, rather than compound any glut by piling them into storage. "Brent is flirting with backwardation because of supply outages in Nigeria and North Sea field maintenance," said Harry Tchilinguirian, head of commodity markets strategy at BNP Paribas SA in London. "At best, the Doha meeting is aiming to maintain the status quo in supplies. But these outages are ultimately more important, as they effect a change in the oil balance."

The flattening of the prompt Brent spread is the most dramatic expression of a trend across oil markets. Even in the U.S., where crude stockpiles are 140 million barrels above average, the year-ahead contango has shrunk markedly as the nation's production from shale fields falters under the weight of sub-$50 prices.

The Brent market has been in contango for most of the past two years, as booming U.S. shale production triggered a global surplus that the Organization of Petroleum Exporting Countries decided not to tackle.

North Sea oilfield halts are scheduled to occur at the same time refineries in the Atlantic basin typically bolster operating rates to meet summer gasoline demand. ConocoPhillips said it plans 'significant' maintenance at both Ekofisk and J-Area oil fields without specifying dates. The Ula, Valhall and Tambar fields will halt for summer work coinciding with Ekofisk, BP Plc said.

Nigeria is producing the least crude since 2009, at about 1.7 million barrels a day, because of attacks on a pipeline carrying its Forcados crude grade, according to the International Energy Agency. Iraq's production has been curbed by about 200,000 a barrels a day since January, averaging 4.2 million a day last month, as a result of disruptions on the export pipeline running from the Kurdish region to Turkey, the IEA said. The narrowing spreads may reflect not just these transient disruptions, but also that the overall re-balancing of the market is in progress as lower prices take their toll on production around the world, according to Citigroup Inc.

“You can point to the tightness in Brent spreads and say it’s because of field outages or the Iraq pipeline blow-up -- you can sort of make excuses,” said Seth Kleinman, head of European energy research at Citigroup in London said by phone. “But this is supposed to be the max bearish point for the market and it doesn’t look bad. The story of supply faltering is starting to play out.”

Still, with much of the strength stemming from temporary outages, it may not be long before Brent spreads weaken again, according to Goldman Sachs Group Inc. and Barclays Plc. The “recent flattening of the Brent forward curve is only transitory,” Goldman’s head of commodities research, Jeff Currie, said in a report.

“This backwardation in the market is largely the result of these unplanned outages tightening balances,” and effectively eliminating the surplus estimates for the second quarter, Miswin Mahesh, an analyst at Barclays Plc in London, said by phone. “If these unplanned outages were to be resolved, it could soften market balances again.”

Cabinet approves Turkey-Georgia energy deal

Daily Sabah, *10.04.2016*

An agreement between the Turkish and Georgian government on cooperation in the field of economy that was signed has now been approved by the Cabinet, taking full effect after being published in the Official Gazette.

Covering cooperative agreements on energy between Turkey and Georgia, the agreement was signed by former Energy and Natural Resources Minister Yıldız and Georgian Minister of Energy Kaladze. The decision will launch the construction of electric power transmission lines as well as sharing experience regarding the renovation of the structures of intelligent, electric power transmission network technologies.

According to the agreement, in case of an emergency regarding the need for power, an “energy working group” will be established in order to provide electricity and share the experiences that Turkey had during its membership in the European Network of Transmission System Operators for Electricity (ENTSO-E).

Turkmenistan diversifies its gas exports to reduce reliance on China

Oilprice, *11.04.2016*

In January 2016, the Russian media reported that Russia's gas giant, Gazprom, had discontinued all purchases of natural gas from Turkmenistan and was not planning to resume imports any time soon.

This information was later confirmed, containing some revelatory details about Gazprom and Turkmengas. Gazprom had previously sought to alter the contractual price of natural gas it had been buying from the Central Asian country, given that its own gas deliveries to Europe, whose price is tethered to the price of crude oil, have been significantly discounted since the middle of 2014.

According to media reports, the 2010 contract between Gazprom and Turkmengas settled on a price of $240 per thousand cubic meters, but the Russian gas firm had already attempted to modify the previous arrangement as early as 2008.

In January of last year, Gazprom said it would no longer pay the 2010 price for gas imports from Turkmenistan, because it was incurring losses stemming from a growing discrepancy between what it owed to its suppliers and what it was paid by its primary clients in Europe. This unilateral move led, in June, to Turkmengas hurling public accusations at the Russian gas giant in the government press.

The conflict took on a new turn in July 2015 when Gazprom lodged a lawsuit with the International Court of Arbitration in Stockholm. The Russian company asked the Court to review the price with a view to imposing a lower tariff on the Turkmenistani side.

It has not been reported since then whether the case was dropped following the open-ended stoppage of imports, but the truth is that Turkmenistan has effectively lost its second-largest customer, behind the China National Petroleum Corporation (CNPC).

Relations between Gazprom and Turkmengas have never been easy. In April 2009, a major explosion occurred at the Central Asia–Center gas pipeline, which was built in Soviet times and has since been used by Russia to buy gas from Turkmenistan. A few days earlier, Turkmenistan's President Gurbanguly Berdimuhamedov was visiting Moscow where he was supposed to sign an intergovernmental agreement with the Vladimir Putin administration.

The proposed accord regarded the Russian-backed construction of the East–West pipeline aiming to pump gas from southeastern Turkmenistan to the Caspian shore in the country's west. However, the Turkmenistani leader refused to add his signature because of Russia's insistence on an interconnection with its own pipeline infrastructure.

Back in Ashgabat, Berdimuhamedov announced an international tender to collect bids for pipeline engineering, although the authorities had previously planned to pick a Russian government contractor. The flow of gas in the pipeline linking Turkmenistan to Russia was restored only in January 2010. At the time, government officials in Ashgabat openly speculated that Gazprom could have been behind the incident since the explosion was likely caused by a sudden drop in pressure, presumably orchestrated by Russian engineers.

Yet, another reason for Moscow's growing dissatisfaction with Turkmenistani energy politics has been Ashgabat's rapid rapprochement with China. In December 2009, the Central Asia–China gas pipeline was commissioned, delivering natural gas from Turkmenistan and later, starting in August 2010, neighboring Uzbekistan through Kazakhstan over to China's Xinjiang Province (Xinhua, December 22, 2009; Centrasia.ru, Newsru.com, April 10, 2009).

The current market turmoil has created a once in a generation opportunity for savvy energy investors. Whilst the mainstream media prints scare stories of oil prices falling through the floor smart investors are setting up their next winning oil plays. As per the CNPC data, China imported a total of 121 billion cubic meters (bcm) of natural gas from Turkmenistan between the launch of the pipeline, in late 2009, and November 2015.

Meanwhile, gas purchases by Gazprom declined from 42.6 bcm in 2007, when Russia was still Turkmenistan's largest energy partner, to less than 4 bcm last year. In early 2015, a senior Gazprom representative, Alexander Medvedev, warned that imports from Central Asia might ease altogether, with Turkmenistan being the first local supplier to feel the pinch—to be followed shortly by Uzbekistan.

Therefore, China has quickly replaced Russia as the main buyer of Turkmenistani gas. In 2015, Turkmengas accounted for over 81 percent of all gas exports to China by pipeline and for almost 44 percent of aggregate piped and liquefied natural gas (LNG) exports, BP's Statistical Review of World Energy shows.

The government of President Berdymukhamedov is currently actively pursuing two export diversification options in order to avoid the overreliance on China as a source of export revenue. The Trans-Caspian pipeline was first proposed in the 1990s and aims to supply Turkmenistani gas across the Caspian to Azerbaijan, where it could be fed into the sprawling export infrastructure consisting of three back-to-back pipelines, of which two—the Trans-Anatolian Pipeline (TANAP) in Turkey and the Trans-Adriatic Pipeline (TAP) in Greece, Albania and Italy—have yet to be built.

The project is strongly supported by Azerbaijan, Turkey and the European Union, which wants to diminish its structural dependence on Gazprom, especially in light of a drastic deterioration in Russian-EU relations following the former's annexation of Crimea in March 2014. The major difficulty is that both Russia and Iran oppose the construction of an underwater pipeline in the Caspian before the legal status of the sea is fully ascertained, and this could still take years to materialize.

The second option being pursued by Ashgabat is the Turkmenistan–Afghanistan–Pakistan–India (TAPI) pipeline, whose total throughput capacity should reach 33 bcm a year by the time its construction ends—sometime between 2019 and 2020, if all goes according to plan.

Turkmenistan broke ground for TAPI in December 2015, following years of uncertainty during which no foreign oil and gas company, such as the U.S. based ExxonMobil and Chevron or France's Total, had agreed to join the project because of Ashgabat's reluctance to allow production sharing at its lucrative onshore deposits.

Another sizeable challenge is the security situation in both Afghanistan and Pakistan, where the Taliban and other radical groups have been stepping up attacks on local governments and the remainder of Western coalition forces. While Turkmenistan is likely to continue the work to diversify its hydrocarbon sales, it will also have to look beyond the pure export agenda and seek to modernize its economy, which certainly requires a fair dose of democratization and market liberalization.

Court jams spanner in Israel's gasworks

Global Sources, *07.04.2016*

The energy potential of the East Mediterranean is enormous – more than 35 trillion cubic feet of natural gas have been found, most of it in Israel's offshore waters. Much more could be found in the area if the US Geological Survey's estimate of 122 trillion cubic feet of gas and several billion barrels of oil is right.

However, in Israel it is not the physical exploration and discovery of resources that are posing the challenge, but legalities, politics and a lack of regulatory laws. Chief Editor Gary Lakes asked Israeli energy experts what comes next. Everything was set.

The Israeli government had found a way around the regulatory obstacles holding back development of the giant Leviathan gas project. Operator Noble Energy could expect to see Leviathan producing gas by 2019, pending the successful conclusion of gas export deals with Egypt and Jordan.

Israel would have another huge gas source for domestic supply, and maybe there would even be an export pipeline to Turkey down the road. The Israeli treasury could anticipate a new source of revenue and new investment in a fledgling energy sector.

But a decision by Israel's High Court tossed a new spanner into efforts to develop and export Leviathan gas. In its ruling, the High Court approved overall the Natural Gas Regulatory Framework Agreement concluded late last year between the government of Benjamin Netanyahu and the Leviathan partners, but found the Stability Clause within the deal unconstitutional because it commits future governments to uphold that agreement by not introducing any new regulations, taxes or export restrictions that would impact the cost or operations of the $6 billion development project for a period of 10 years. "The bottom line is that the court said the entire regulatory framework requires legislation in the Knesset," Shiri Shaham, a partner and head of the energy department at YigalArnon & Company in Tel Aviv, told Global Sources Magazine.

“The Knesset needs to legislate the entire arrangement,” she said. “The court said the framework agreement is valid for one year, but if by then, if the matter is not sorted out properly, it will expire.” The companies involved in Leviathan, Noble Energy, Israel’s Delek Group and Ratio Oil Exploration, have been poised to make a final investment decision for a couple years, but until the regulatory issues are sorted, the commercial deals needed to set the project in motion are frozen.

“There is hope that they can sort this out within a couple months, it depends on which way the government goes,” Shaham said. “Whether they go to legislation or whether they go for changes in the framework agreement itself – removing the stability clause in a manner that does not require legislation.” “The legal question is whether this government is authorized to bind the discretion of future governments, and the court came to the decision that it is only the Knesset that can do so. It is a constitutional issue,” she said.

Discovered in 2010, Leviathan was one of a string of seven offshore gas discoveries made in the East Mediterranean by US explorer Noble Energy in the course of a few years. The field holds an estimated 22 trillion cubic feet (tcf) of natural gas, if not more, making it the largest gas discovery so far in the East Mediterranean – with the exception of last year’s deep water discovery of Egypt’s Zohr field where the gas resource is estimated at 15-30 tcf.

The Tamar field, with 10 tcf, was discovered in 2009 and rushed into operation in March 2013 in order to supply Israel’s domestic gas demand after Egypt halted gas deliveries in 2012. It accounts for 40% of Israel’s power generation.

From the beginning the development of Israeli gas resources has been controversial, and not just among environmentalists, but also within the energy sector. Yet once Israel grasped the fact that it was sitting on a bonanza, Israeli politicians realized the country’s royalty system would not generate much revenue for the state, so a new tax system was devised and installed, much to the chagrin of the partners.

The enormity of the gas resources also created questions about how much of the gas should be saved for Israel’s future domestic use and how much, if any, should be exported. With more than 30 tcf (850 billion cubic meters) of gas resources, the Israeli Knesset decided that only 40% of this could be exported – another slap upside the head for the operator and friends.

Noble pressed ahead with seeking a strategic partner for Leviathan and drew Australia’s LNG giant Woodside Petroleum into the picture. But the lack of a clear regulatory framework for Israel’s hydrocarbon sector caused Woodside to back out of a partnership at the last minute.

Then, in December 2014, because Noble and Delek were the only companies to have found natural gas offshore Israel and their partnership was in fact the only gas producer supplying Israel, Israel’s Anti-Trust Authority revoked an earlier agreement with them and declared that the partnership constituted a monopoly.

It ruled the partners must therefore divest their shares in their offshore licenses and those partnerships be broken up, moving the goal post once more.The monopoly fiasco was about the last straw for Noble.

The Houston-based company had invested hundreds of millions of dollars in offshore Israel and had taken the political risk of working in a part of the Middle East that no other energy company would. After that, Noble said apart from work that was already underway for Tamar, it would make no future investment in Israel until all regulatory issues were resolved. There were also reports that the company's office in Cyprus was preparing a case to present for international arbitration.

Following the High Court's decision last month, Noble CEO David Stover said in a company statement: "As we have stated before, we will vigorously defend our rights related to our assets to protect shareholder value. It is now up to the government of Israel to deliver a solution which at least meets the terms of the Framework [agreement], and to do so quickly."

The ruling "represents another risk to Leviathan timing," Stover said. "Development of a project of this magnitude, where large investments are to be made over multiple years, requires Israel to provide a stable investment climate."

"They will come up with a solution that will satisfy the companies," Amit Mor, CEO of Israel's Eco-Energy, told GSM, but he added that the real issue facing Israel is an export market for Leviathan that would allow for its development. Without an export market, the chance of Leviathan coming on-stream, and thus also being available for the Israeli market, are slim without government financial support.

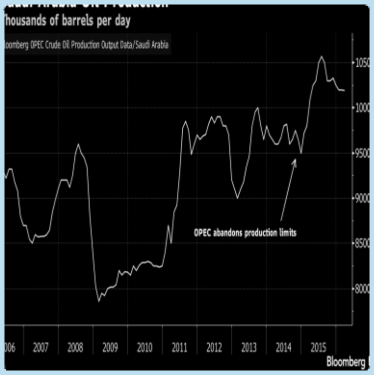
The High Court's ruling may prove to be for the better, he said, "because it will force the government to address an issue that would come to the table later on." Financial support and guarantees are required to move Leviathan forward, he said.

If a deal to supply gas to Jordan materializes, that could allow for the small-scale development of Leviathan, Mor said, but plans to supply gas from Leviathan and Tamar to idle LNG plants in Egypt for re-export may fall through because the price of Israeli gas is too high compared to what LNG is now selling for on the spot market – which in recent days has been under $5.00 per million BTU. Israeli gas cannot be exported for a price less than what it sells for domestically, and that is around $5.60 per million BTU.

Yet the situation may not be all that drastic and there may be little need to rush. Delaying Leviathan may work in Israel's favor. Low oil prices have impacted gas prices, but gas prices are unlikely to stay at their current position forever, especially as the world looks towards low carbon economies. And a lot of interest in East Mediterranean gas has been expressed by Europe – if it can be brought to market.

Noble Energy in talks to trim stake in Tamar gas field –media

Reuters, *10.04.2016*



Noble Energy is in talks with Israeli institutions to sell an 11 percent stake in Israel's Tamar natural gas field for at least $1 billion due to cash flow needs, Israeli media reported.

The Calcalist and TheMarker, two financial newspapers, said Noble is negotiating with Clal Insurance, Harel Insurance and Finance and Menora Mivtachim but did not cite sources or further details of the talks. A Noble spokeswoman in Tel Aviv declined to comment. Noble holds a 36 percent stake and Israeli conglomerate Delek Group holds 31 percent and Isramco Negev 29 percent in the Tamar gas field off Israel's Mediterranean coast.

It contains estimated reserves of nearly 11 trillion cubic feet. Tamar started production in 2013. Noble in February said it would "monetize" assets - including Tamar - to cope with a slump in oil prices that is eroding cash flows. A more-than 70 percent fall in oil prices since mid-2014 has prompted oil producers to prune portfolios and use proceeds from asset sales to boost liquidity.

Noble and Delek also control the nearby and much larger Leviathan field, which is still undeveloped. Their hold over most of Israel's natural gas reserves has drawn criticism from public advocacy groups and opposition lawmakers. As part of a deal signed in December and approved by Israel's government, Noble was due sell an 11 percent stake in Tamar within six years.

The deal was challenged legally, and last month Israel's Supreme Court last month barred the government from giving a 10-year guarantee to the companies in order to develop Leviathan. Noble called the court's decision "disappointing" and said it risked causing a delay in the $5 billion-$6 billion project to develop the gas field.

Iran's masterplan to ramp up energy exports

Oilprice, *07.04.2016*

Iran, which possesses the second-largest natural gas reserves in the world, has recently announced its intention to dramatically increase its energy production. It is also positioning itself to increase its energy exports, a long-stated goal of its post-sanctions economic program.

It was announced by Hassan Rouhani that the South Pars natural gas field, Iran's portion of the enormous Persian Gulf field it shares with Qatar, will be fully developed and in operation by March 2018. The 24-phase project has just surpassed stage 15 and 16, which together will add 50 mcm per day of gas and 80,000 barrels per day of condensate.

Last year production from South Pars in total increased by 15 percent to 130 billion cubic meters (bcm). Production from the field could add as much as $4.5 billion in revenue for the Iranian government, which has indicated that getting South Pars fully on-line is a top priority.

The Iranian portion of the South Pars field is roughly 3,700 square and represents the largest accessible source for new gas production. Much of this gas is intended for export in liquid form: Iran has made no secret of its hope to rival Qatar as a major LNG exporter. In late 2015 it announced plans to build five LNG export plans in the next three years.

But as the U.S. and Australia have recently discovered, LNG is currently a questionable investment. The market remains soft, energy prices are low while new supply comes on line. That is likely to change in the near future, but investment in LNG is hugely expensive and Iran already faces substantial challenges: upgrading its existing oil and gas infrastructure is expected to cost $200 billion.

Experts have scoffed at Iranian claims to increase production. Recent Iranian plans to begin exporting LNG to Europe and Asia within two years' time have been met with skepticism. Iran itself has no LNG export capacity. But its neighbor and energy partner, the Sultanate of Oman, has LNG capacity to spare: around 1.5 million tonnes, out of a total capacity of 10.4 million tonnes per year. Plans set down to construct a pipeline from Iran to Oman in 2014 have been ongoing, with a lasting agreement reached last December.

In late March, Oman's minister of oil and gas announced talks were in still in progress to hammer out remaining details. The 400km pipeline will stretch from Hormuzegan province in Iran to Sohar in Oman and carry gas both for Omani domestic consumption and export. Iran is bound by its 2014 agreement to supply Oman with natural gas, a 25-year deal valued at $60 billion. The pipeline once completed will carry 1 billion cubic feet per day, a deal which Iran's oil minister Bijan Zanganeh has valued at $1.5-$2 billion.

Oman has agreed to liquefy 1.5 million tonnes of Iranian gas for export. The pipeline is to be constructed by Korea Gas Corporation (KOGAS). Reports indicate that KOGAS may sign a memo of understanding with Iran and Oman before June 2016 for a project valued at $1.5 billion.

The scheme would allow Iran to increase its natural gas production and enter into the LNG market before completing its own LNG trains. It also serves Tehran’s long-term goal of expanding its influence in the Persian Gulf. Ties between the two countries will likely grow stronger, with one Iranian official predicting bilateral trade to reach $4 billion in five years.

The current market turmoil has created a once in a generation opportunity for savvy energy investors. Whilst the mainstream media prints scare stories of oil prices falling through the floor smart investors are setting up their next winning oil plays.

Meanwhile, the long-contemplated pipeline from Iran’s southern oil fields to Pakistan is moving closer to becoming reality. Originally planned in the 1990s and occasionally referred to as “the peace pipeline,” this project has gone through multiple rounds of negotiation, with both sides hesitant to commit to the costs of building the nearly-2000 km. long pipeline.

Since 2010, Pakistan has been under significant pressure from both the U.S. and Saudi Arabia not to carry out the project. The pipeline agreement was ratified by Pakistan in 2013, and there has been considerable speculation on whether the project will act as Pakistan’s energy lifeline.

Pakistan suffers from regular energy black-outs and is in desperate need of greater energy imports. It also seeks a revival in its trade with Iran, which fell from $1.32 billion in 2009 to $432 in 2011. If and when it is completed, the pipeline will provide about 3,000 MW of electricity. At the moment Pakistan receives only about 75 MW of power from Iran.

When sanctions on Iran fell in January 2016, progress on the project was set to continue. In late March, Rouhani visited Pakistan and declared that Iran had finished its portion of the massive pipeline, calling on Pakistan to complete its share. Pakistan and Iran have signed an agreement to increase bilateral trade to $5 billion by 2021.

While Pakistan desires Iranian energy, it hopes to export textiles and agricultural products. Work on the Pakistani side of the pipeline was held up over concerns regarding sanctions against Iran, but since early March work in Pakistan has begun again in earnest. India, which dropped out of the pipeline plan in 2009 over cost and security concerns, is also in talks with Iran: plans are forming to build a $4.5 billion undersea pipeline.

Like the pipeline agreement with Oman, the completion of the long-awaited peace pipeline to Pakistan could mark an increase in Iran’s regional profile and indicate that it is delivering on its promises of increasing its energy production and reclaiming its former status as a major energy exporter.

Will Iran manage to construct a floating LNG facility

Oilprice, *11.04.2016*

Iran is exploring options to construct a FLNG facility, which it plans to use for exporting natural gas to Europe. The National Iranian Oil Company is in talks with an unnamed Norwegian company to build the facility at the Iranian ports, according to Ali Kardor, Vice President of investment and finance at NOIC.

Though the NOIC official did not name the Norwegian company, sources told Natural Gas Europe that Norway's Golar LNG is possibly negotiating the deal. Golar is likely to send a ship to study the project and undertake similar projects at other Iranian ports and build the infrastructure to commence gas exports by 2017.

The FLNG facility is a new technology where the whole operation of production, liquefaction, storage and transfer of the natural gas is done at sea by a floating platform located offshore. The whole facility is built in one-quarter of the area needed for conventional LNG projects, while still maintaining high safety standards. The technology has numerous environmental and economic advantages. It avoids the expensive construction of large pipelines and other onshore infrastructure, and it also provides access to several unviable offshore projects.

The gas from the natural gas field is transferred to the FLNG, where it is liquefied at -162? C, thereby compressing the volume by 600 times. The liquefied gas is then stored in the hull of the FLNG and transferred to carrier ships, which take them to their desired destination.

By constructing FLNG facilities, Iran is laying down a long-term plan, wherein, once the facility is commissioned, it will only need to arrange for carrier ships without worrying about any pipeline-related disruptions—pipelines that are often a target of rebels and terrorists. It will also have the flexibility to export the liquefied gas to various places instead of being bound by the fixed pipeline territories.

The current market turmoil has created a once in a generation opportunity for savvy energy investors. Whilst the mainstream media prints scare stories of oil prices falling through the floor smart investors are setting up their next winning oil plays.

Iran had to scrap three LNG Projects—Iran LNG, Pars LNG and Persian LNG due to issues associated with the US-led sanctions, reports presstv.ir. Iran has been planning the FLNG platform for a while. The first hints about it were given back in October 2015 by NOIC chief Rokneddin Javadi. Similarly, NOIC Managing Director Alireza Kameli had indicated that Golar will most likely build the FLNG setup, which will be operational within two years of the date of the agreement. Back in February, Golar CEO Gary Smith had discussed two projects, one in West Africa and the other in the Middle East; however, he had not divulged any further details.

Nevertheless, investors should wait for a confirmation of the deal, because earlier reports of talks with France and Belgium for erecting the FLNG facility did not materialise. However, one thing is certain: Iran is exploring the FLNG route aggressively to start exporting as early as 2017 or 2018. If Iran manages to ink a deal, it could expand at a fast pace, meeting their goal of becoming one of the leading LNG suppliers in the world. After all, it has the second largest proven natural gas resource in the world after Russia.

NIOC, Wintershall sign MoU on Iranian oilfields

Press TV, *13.04.2016*

The Islamic Republic of Iran and Germany's largest internationally active crude oil and natural gas producer, Wintershall, have signed a memorandum of understanding (MoU) on a number of oilfields in Iran's west.

The National Iranian Oil Company (NIOC) and BASF's Wintershall oil and gas exploration subsidiary signed the document on research over four oilfields in western Iran, IRNA reported. The official news agency added that Roknoddin Javadi, head of the NIOC, and Mario Mehren, director of Wintershall, struck the deal in the Iranian capital, Tehran,.

Based on the MoU, the two sides will exchange relevant information on the oilfields and the German giant will afterwards begin research over the fields within the next month. Foreign media have also echoed the news of the Tuesday agreement, with reports quoting the Germany-based firm as saying in a statement that “in order to prepare for possible further activities in the region, Wintershall recently signed an MOU with NIOC about a potential future cooperation.”

The reports stopped short of elaborating on the details of the MoU over ‘confidentiality.’ Meanwhile, IRNA noted that BASF itself has already drawn plans to participate in Iran's petrochemicals sector. It said German companies are set to invest some 12 billion dollars in Iran's petrochemicals sector.

Back in September, Nils Schmid, minister of finance and economic affairs of Germany's Baden-Württemberg State, said German companies were willing to work with Iran's energy sector and take part in the implementation of the country's economic, industrial and energy projects. Schmid also lauded efforts by Iranian companies in the past years to improve energy productivity, expressing hope about the continuation of relations with the Iranian government and companies active in the fields of economy, industry and energy.

Gazprom: Three key challenges facing Russia's energy giant

Russia Direct, *12.04.2016*

As a sign of shifting trends in global oil and gas markets, Gazprom, the state-run energy giant, recently lost its status as Russia's most valuable company in terms of market capitalization. That distinction now belongs to Rosneft, Russia's largest oil producer.

In early trading on Apr. 11, Rosneft shares rose 4.8 percent in London, boosting the value of Russia's largest oil producer to $52 billion. Gazprom gained 0.3 percent, raising its market capitalization to $51 billion. The market capitalization of Rosneft is now higher than that of Gazprom for the first time since Gazprom's shares began trading in 2006.

Indeed, Gazprom has been under considerable stress lately. Its export revenues fell by 23 percent in 2015 due to volume reduction and currency volatility. Cash flow has turned negative as natural gas prices in Europe remain below $200 per 1,000 cubic meters and access to international finance markets has been limited by U.S. sanctions that were introduced in September 2014.

Faced with the vigorous growth of domestic competitors and a myriad of external challenges, Gazprom's prospects and the health of its wide-ranging strategic ambitions are increasingly being called into question.

Challenge #1: Domestic competition

Gazprom's gas production reached a record low of 418.47 billion cubic meters (bcm) – roughly 65 percent of aggregate Russian production – in 2015, with the first months of 2016 signaling a continuation of its production decline.

However, in no way does this trend represent a downgrade of Gazprom's production capabilities, as its spare capacity hovers around 150 bcm per year and might even grow in the upcoming decade. Rather, the problem lies in the complex and multi-layered challenges emanating from the current state of the European and global gas markets, as well as from slowing domestic consumption in Russia.

Current economic hardships notwithstanding, production plant modernizations and the adoption of energy-efficient technologies have paved the way to lower gas consumption per unit. Gazprom's domestic market share is under considerable pressure, as it has seen a steady annual decline of 2 percent between 2008 and 2015 (from 82.2 percent in 2008 to 65 percent in 2015) against the background of other producers' expansion. These alternative producers currently account for 35 percent of the aggregate production.

NOVATEK, Russia’s largest independent natural gas producer, leads the pack with an annual production of 51.9 bcm, predominantly from the Yamalo-Nenets Autonomous District in Siberia. Other gas producers include Rosneft (42.3 bcm in 2015), LUKOIL (18.8 bcm in 2015), Gazprom Neft (12.5 bcm in 2015) and Surgutneftegaz (9.6 bcm in 2015).

Since only Gazprom has the legal right to export natural gas by pipeline, these companies had to wrest away domestic market share within Russia, taking advantage of the peculiarities of Russian regulations, namely Gazprom’s inability to sell gas at a discount. As a consequence, these gas producers managed to lure away a plethora of attractive clients, while Gazprom is, in many cases, forced to deal with the least profitable sectors of the economy.

Challenge #2: LNG revolution

Apart from domestic concerns, numerous external challenges lie ahead for Gazprom. The new liquefied natural gas (LNG) revolution might upset Gazprom’s plans, too. According to the International Energy Agency (IEA), LNG export capacities will grow 40 percent worldwide by 2020, driven mostly by Australia and the United States. Regular U.S. exports to Europe will not materialize until 2018, when most of the new capacities were scheduled to be put into operation.

In the same manner that Saudi Arabia’s exports have been threatened by a powerful shale revolution in the United States, Russia’s gas market share in Europe might be jeopardized by U.S. LNG imports, all the more so given the current fraught political atmosphere between Russia and the West.

However, the net back costs of Russian gas are significantly lower than those of American or Australian LNG. According to IHS, a consultancy company headquartered in Colorado, U.S., Gazprom’s costs of production, including export taxes and transit tariffs, are still lower than $100 per 1,000 cubic meters. With the help of preferential tax rates this might be brought even lower.

Thus, in theory the emergence of overseas LNG should prompt Russia to attempt to block it from gaining share in the European market by lowering prices, thus rendering rival production economically impractical.

Challenge #3: Western sanctions and low oil prices

Sanctions continue to complicate matters for Gazprom, effectively blocking it from the U.S. credit market and placing strict limits on its acquisitions of offshore, deep-water and unconventional shale gas technologies.

Although it was oil production that had been put under sanctions by the U.S. government, the overall ban on export of goods, services and technology is applied to Gazprom, too, since most gas fields contain some form of oil or condensate. For instance, Washington has specifically targeted the Yuzhno-Kirinskoye gas field, earmarked for the Sakhalin-3 project, alleging it also has oil resources. As most of Russia’s large banks remain barred from long-term dollar-denominated credit lending, Gazprom must look for financing elsewhere. Luckily, Chinese banks are stepping in to fill the void created by Western banks.

However, the impact of low oil prices dwarfs that of Western sanctions, to the extent that Gazprom has demonstrated a 1 billion-ruble loss in the third quarter of 2015 (around $15 million at current exchange rate). Although Gazprom has enough reserves to keep the company's operations safe and sound for at least three more years, it is the oil price and the Russian currency rate that will ultimately shape its market behavior.

Despite these challenges, Gazprom has a chance to capitalize on full-fledged resource depletion in European countries. For example, Norway, one of EU's traditional gas suppliers, saw its gas output and exports peak in 2015. Its export volumes are likely to drop to 105-110 bcm per year in the next five years, followed by a precipitous fall to half its current level in the following decade.

The Netherlands, home to the Slochteren gas field, the largest natural gas field in Europe, is confronted with an even steeper decline in output. Its production, currently at 27 bcm per year (a third of its output compared to its peak in the 1970s), will be gradually phased out in the next two decades in the face of thorough reservoir depletion.

The Dutch gas grid operator Gasunie is already building a conversion facility to process Russian and Norwegian gas in order to safeguard the country's transition from domestic production to exports. British gas production peaked in 2000 and will struggle to reach double-digit bcm levels in the long term.

The inevitable nature of an increasing reliance on gas imports constitutes the underlying rationale behind the European Commission's drive against Gazprom. It is control over prices and markets, not an ultimate shutting down of the Russian monopoly, that appears to be the quintessential aim of the EU's anti-trust probe into Gazprom's alleged abuse of dominance in Central and Eastern European countries.

Russia exported 159 bcm of natural gas to Europe in 2015 and, despite political tensions, is expected to continue supplying 150-160 bcm annually through 2020. Annual volumes might be contingent on climate conditions: for example, the winter season in 2015 turned out to be the mildest since records began, pulling down the continent's gas needs.

Gazprom's numerous European pipeline projects are dependent on the political will on both sides. To date, it seems only the pipeline project Nord Stream 2 has backing solid enough to withstand the ire of the European Commission, acting on behalf of Central and Eastern European countries loath to see their transit income brought to naught.

Turkish Stream, once deemed the most likely to be realized, will not materialize as long as Turkish President Recep Tayyip Erdogan remains in power. Ukraine remains the largest impediment to the smoothing of relations between Gazprom and the European Union.

The Russian monopoly's plan to reduce Ukrainian transit to a minimum by 2019 as a result of a long-standing gas price dispute and Kiev's regular payment arrears have led to an unprecedented freeze between Gazprom and Naftogaz, the Ukrainian state-run gas company. Since it was Ukrainian Prime Minister Arseniy Yatsenyuk government's decision to avoid Russian gas imports as long as it is possible, combined with a 50 percent transit fee increase for 2016, Gazprom might find it easier to push forward the Nord Stream 2 agenda.

Considering the abovementioned factors, a certain normalization of relations with Europe, even at the cost of concessions, might be valuable to Gazprom as its much-debated pivot to Asia looks increasingly risky. Gazprom's 30-year contract with the China National Petroleum Corporation (CNPC), stipulating an annual gas supply of 38 bcm, remains the biggest contract in the company's history, representing a huge step towards cementing its share in what is currently the most attractive gas market.

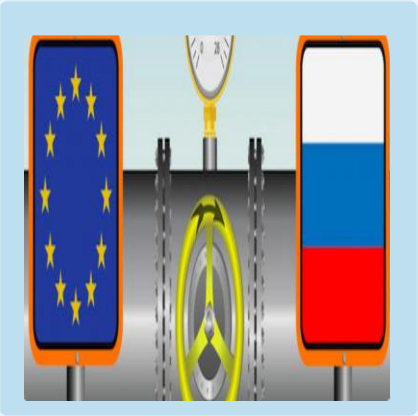
However, the $55 billion deal comes with an oil price linkage that might render production economically questionable in the current conditions. Gazprom has been in talks to conclude an additional deal that would see it supply Western Siberian gas to China, so further deliberations will be necessary to revalidate the oil price link.

Eventually, keeping in mind that a slow yet firm increase in oil prices is inevitable, Gazprom might stick to its traditional pricing scheme, all the more so that it is not until 2019 that the Power of Siberia pipeline will be launched. As China is bound to become the world's leading gas consumer by 2040, Gazprom's Asian pivot makes economic sense. According to IEA estimates, global gas demand will increase to 5.1 trillion cubic meters, leaving plenty of market opportunities for Gazprom, the spare production capacity of which will likely rise even further to 200 bcm per year in the next decade.

The three main factors in Gazprom's long-term development strategy – secure at least a 30 percent European market share, stave off a LNG revolution by lowering prices, consolidate its positions in Asia – are not antithetical and, given a certain degree of flexibility and responsiveness, remain completely feasible.

Rosneft surpasses Gazprom as Russia's most valuable company

Bloomberg, *11.04.2016*



Rosneft became Russia's most valuable company as its market capitalization exceeded that of Gazprom for the first time since its shares began trading in 2006.

Rosneft stock rose 4.2 percent in London by 3:40 p.m., boosting the value of Russia's largest oil producer to $51.7 billion. Gazprom gained 1.2 percent, raising its market capitalization to $51.5 billion. Rosneft advanced 2.5 percent while the gas producer was up 0.7 percent. Both have been at the center of Russia's economy since President Vladimir Putin used the country's oil and gas wealth to drive growth from the chaos of the Soviet Union's collapse.

Crude producer Rosneft has narrowed Gazprom’s lead from more than $250 billion in 2008 as it expanded through acquisitions, while the gas company has faced rising competition at home and tumbling prices abroad. “Rosneft is growing its free cash flow and should do better in a stronger oil-price environment,” Ildar Davletshin, an energy analyst at Renaissance Capital, said by e-mail. “Gazprom’s free cash flow is on the way down and unlikely to reverse soon.”

Oil prices have rebounded after falling to a 12-year low earlier this year amid signs a global glut is starting to ease. Saudi Arabia, Russia and other major producers are due to meet April 17 in Doha to discuss capping output to support the market. Any increase in prices boosts Rosneft’s ability to pay down debt from acquisitions including its $55 billion purchase of TNK-BP, BP Plc’s joint venture in Russia.

The company’s free cash flow rose to 657 billion rubles ($9.9 billion) last year from 596 billion rubles in 2014, excluding the effect of contract prepayments, Rosneft said in a financial statement on its website. “The company will continue to build up free cash flow and increase the efficiency of capital spending,” its press service said in an e-mailed statement. “In the long-term plan, the company has colossal potential for further growth in capitalization.”

Gazprom, which hasn’t yet reported 2015 results, saw free cash flow decline to 230 billion rubles in the first nine months of the year from 370 billion rubles a year earlier, Davletshin said. Gazprom’s total hydrocarbon output still dwarfs Rosneft’s. The gas producer pumps about 8 million barrels of oil equivalent a day compared with Rosneft’s 5 million barrels, yet the lowest European gas prices in a decade have diminished its bargaining power in the region.

The market isn’t persuaded that Gazprom needs to go ahead with “enormous capital investments” in new pipelines to Europe even though the company is “obsessed with the idea of bypassing Ukraine,” Aton LLC analyst Alexander Kornilov said by e-mail. Liquefied natural gas shipments from North America and the Middle East to Europe will present further competition, Kornilov said.

On the Russian stock market, Gazprom has a free float -- or volume of publicly available shares -- about four times larger than Rosneft’s, according to data compiled by Bloomberg. Rosneft’s “thin” float means significant new investments can produce a more noticeable price move, according to Artem Konchin, an oil and gas analyst at Otkritie Financial Corp. in Moscow. “Any meaningful new interest can disproportionately affect the share price,” he said by e-mail.

Oil indexation, prices and EU markets

Natural Gas Europe, *15.04.2016*

French energy company Engie this week followed Uniper in getting out of a chunk, if not all, of its oil indexation clauses in its contracts with Gazprom. Long and tortuous though the negotiation process is, the battle that led to these victories must have started some time after the oil price collapse in the summer of 2014.

Now with oil around $40/barrel, the difference between spot and term prices has been squeezed, reducing the amount of potential savings, in the short term at least. Nevertheless, Engie and Uniper clearly believed the fight was worth having and narrow differences make for easier compromises.

Now the two sides, buyer and seller, will have to make do without the safety-net the contracts offered: high gas demand translates into high gas prices for the customers, while indexation to low oil prices would have deprived Gazprom of the upside of a temporary supply glitch or a prolonged cold winter. But both are Gazprom’s partners in the Nord Stream 2 pipeline project. Given the opposition to the project, that might count for something if spot prices do indeed go north.

The steady chipping away of the once-sacred principle of oil indexation now leaves very little of it left, in Europe at least; although it is still used in LNG contracts in Asia. That means that it is possible, come the day that oil bounces back, that prices in Europe will start to rise too when the arbitrage opens up.

It might though be a mistake to cheer these renegotiations as a welcome victory for the market. By linking the gas price not to oil or to electricity but to gas, the principles of a market are being followed, but given the environment in which much of it will be used, it will be competing in one of the most distorted markets Europe has: electricity.

A report by the European Commission this week pointed out the wide range of capacity mechanisms on offer and the lack of any kind of systematic approach to the problem facing governments. Most of them overpaid for the capacity and the report is part of an inquiry to help shape a more rational future – as gas now faces.

“European consumers and companies should not have to face black-outs, and capacity mechanisms can help to reduce this risk,” said EU competition commissioner Margrethe Vestager: “At the same time, consumers should not overpay for electricity and competition should not be undermined.” The results of the enquiry will feed into legislative proposals on a revised electricity market design due later in 2016.

The problem is magnified when considered from a pan-EU perspective: actions taken by one government to solve a capacity shortage can destroy investments in neighbouring countries, as Dong Netherlands learned to its cost a few years ago.

The European Union's energy commissioner Miguel Arias Canete told the European Electricity Forum in Florence March 3 that capacity mechanisms vary from country to country with no consideration of what is happening next door. "Prices need to steer investment to the right location. For this they need to reflect physical limitations in the transmission system rather than political borders," he said.

He said also there should be no constraints on pricing, although this dogma has so far fallen on deaf ears, particularly in central and eastern Europe, where consumers have been protected from the market and foreign investors have gone home frustrated.

There may be more news on oil prices after the weekend, when the dust settles on Doha. The mere prospect of the meeting has been given as a reason for the stronger oil price this week, even though commitments to act in concert on output limits are weak and enforcement of those commitments weaker still. Attending will be a host of nations, many not actually members of Opec.

In addition, oil production in North America was lower than forecast in March as shale producers continue to take a pounding. Generally there is great uncertainty about the direction of prices even in the short term.

LNG prices from the US are looking fundamentally weak, however. Working natural gas inventories ended the winter heating season at a record high, according to the US Energy Information Administration. With 2,478bn ft^3 still put away, representing a major cash-flow issue, they marginally exceeded the previous end-of-March record high of 2,473bn ft^3, set in 2012.

In its April 14 report, the EIA said: "Inventory withdrawals during the traditional heating season – November through March – were relatively limited this year because of winter weather that was the warmest on record and continued high levels of domestic natural gas production." Nymex gas closed at $2.04/mn Btu on April 13, down almost half a dollar on the same day the year before.

Doha oil summit to fail trimming oversupply in market

AA Energy Terminal, *15.04.2016*

The upcoming oil producers meeting this Sunday in Doha is not expected to produce a positive outcome in ridding the glut of supply in the global crude market, experts told.

After months of talks, the world's top two crude producers, Saudi Arabia and Russia, will finally meet in Qatari capital on Sunday, and will be joined by a dozen of other oil producing countries, to discuss freezing individual output levels in order to increase low oil prices. Freezing oil production levels, however, are not expected to trim the oversupply in the global oil market, and would not elevate the plummeted prices in the long-run, according to experts.

"Freezing output at current high levels would simply maintain the excess supply that is now in place and, as such, would not be a game-changer," Thomas Pugh, a commodities economist at London-based Capital Economics said.

T. Homer Bonitsis, associate professor of finance at Martin Tuchman School of Management in New Jersey Institute of Technology said "a 'Doha Accord' by OPEC and non-OPEC oil producers would be dead on arrival ... such a freeze would not alleviate the current oil glut." "The market will quickly understand that the agreement cannot be effectively implemented, given the large number of countries and their divergent interests," he added.

For small and medium-sized producers, the aim is to have higher oil prices since their revenues are highly dependent on oil sales. Although this is also true for the economies of Saudi Arabia and Russia, the two countries are also concerned about losing their share in the global market.

The Kingdom had refused in OPEC's last three biannual meetings to cut its output to protect its market share -- a move which was in contrast to its past actions where it had carried the burden of the entire cartel by cutting its individual production alone.

"Saudi Arabia's refusal to be the swing producer was in part to defend its market share, but more to punish Iran and Russia for their involvement in the Middle East regional conflicts, in addition to forcing marginal producers, mainly onshore North America and deep-water out of business," said Fadel Gheit, managing director and senior energy strategist at New York-based financial services and investment firm Oppenheimer & Co. Inc.

The Saudi strategy since OPEC's November 2014 meeting was to let prices sink, so high-cost U.S. shale producers would be driven out of the market, and the absence of their output would trim oversupply in time to push prices higher.

However, U.S. oil producers proved to be resilient against low prices, as domestic crude production in the country fell only by 600,000 barrels a day to just below nine million barrels per day -- a level still high compared to the pre-2008 shale oil revolution era when U.S. oil output had averaged five million barrels a day.

“Shale production is here to stay, but will remain below the 2015 peak until production costs decline further. Technology could accelerate this process and OPEC must incorporate shale production in their calculations ... Saudi Arabia realized that several other large producers will not back down,” Gheit said.

And those calculations are crucial for Saudi survival. Gheit stressed that the Kingdom is running a budget deficit of more than $100 billion every year due to low oil prices. “Although its [Saudi] foreign reserves can bridge the budget gap for four to five more years, a prolonged oil price war could destabilize several countries in the Middle East and result in regime changes,” he explained. Bonitsis said OPEC is not relevant today in setting oil prices.

“Non-OPEC production is too significant. In particular, the U.S. is a major oil producer,” he added. With the assumption that the talks will be concluded successfully, the global oil market has been pricing in the Doha meeting for weeks, as Brent crude reached its peak this year at almost $45 per barrel -- a level which was last seen in December 2015, before prices sunk to their lowest level in 13 years in January this year below $30 a barrel.

However, the recent upward trend in prices can be misleading, since the producers on Sunday are expected at best to pledge a production freeze and not production cuts. “A favorable communique out of Doha this weekend could cause a positive spike in the price of oil, but such a movement should be savored quickly -- it will evaporate in a nano-second,” Bonitsis said.

“For as long as global economic growth is anemic, it will be a tenuous endeavor for the oil market to recover. Indeed, there should be concerns that a failed ‘Doha Summit’ could send oil prices significantly down,” he warned.

Bonitsis highlighted the low global crude demand due to the slowdown around the world - another major factor for the price slump, and added that economic growth is needed to raise the prices. “Only robust economic growth in Asia and Europe will ameliorate the global oversupply of oil and hence lead to reasonable stable petroleum prices. In the absent of this, volatile low prices will continue to be the norm,” he said.

Gheit emphasized that Saudi Arabia hopes global oil demand will recover, which could balance supply and demand in the market, but this would take time. He also pointed to other factors that play a role in prices. “Oil prices are driven by perception and speculation, global economic activity, the strength of the [U.S.] dollar relative to other currencies, and geopolitics,” he said. “We believe the sustainable oil price is close to $60 per barrel,” Gheit concluded.

Research: LNG industry needs fresh approach

AA Energy Terminal, *05.04.2016*

Forecasting Asian LNG demand growth is a risky enterprise these days and the upstream industry needs to veer towards caution and reconsider its marketing approach, argues a new paper by the Oxford Institute of Energy Studies, titled Asian LNG Demand: Key Drivers and Outlook.

The major markets of Japan and China in particular are problematic, over the next decade, as the author, Howard Rogers, sees these countries as having the widest ranges of possible growth. This matters because LNG is becoming more and more flexible and what is not taken up in one part of the world will lower prices elsewhere.

"With some 170bn m^3/yr of new LNG supply due to come on-stream prior to 2020, the uncertainty over the future Asian LNG demand trajectory is a fundamental component impacting the global 'LNG-connected system'," he says.

Part of today's oversupply results from the strong market signals generated by the aftermath of the Fukushima tsunami which led to the closure of Japan's nuclear fleet and the resulting rise in demand for alternative fuel for power generation.

Gas met some of this demand and spot prices rose; but Japan's energy demand has since been stagnating along with the manufacturing sector and the labour force is shrinking. The nuclear plants could stay off, or could be returned to service. So far progress has been very slow with just a few back online.

Despite the economic slow-down, China's gas demand is likely to grow for a variety of reasons, including in the interests of public health and the commitments the country made to the COP21 process to decarbonise the atmosphere.

But this gas could come by pipeline too, from central Asia and Russia, as well as from domestic production of shale and conventional gas reserves. The UK major BP signed an upstream shale gas production sharing agreement in China at the end of March, for example.

Elsewhere government policy, such as regulating the gas price or restricting the use of coal in power generation, will be key in determining the outcome in many countries. Rather than enforcing the use of gas, governments might instead make assumptions about the growth of renewables and efficiency gains as alternative ways to lower carbon emissions. Other unknowns are the results of exploration activity which could dampen demand for LNG imports and unsound national economies, although floating regasification plants can minimise the seller's financial risk.

Published to coincide with the start of a major LNG conference in Perth April 12, the report, which examines the mature markets of Asia as well as the new entrants, says that producers need to sell their output as a solution to their customers' environmental commitments. It also says they need to make strenuous efforts in cost reduction through competition in the liquefaction equipment sector if gas is to extend its foothold at the expense of other, now cheaper, fuels.

Canadian oil exports to US reach highest level on record

AA Energy Terminal, *13.04.2016*

Canadian crude oil exports to the U.S. reached theır highest level on record in 2015, although the U.S.' crude oil imports have been in decline during the last decade, according to the Energy Information Administration (EIA). Crude oil imports of the U.S. averaged 7.4 mbpd in 2015, which was 27 percent less than the peak level of 10.1 mbpd in 2005.

However, imports from Canada, the biggest crude oil supplier of the U.S. since 2004, reached its highest level ever last year with 3.2 mbpd. While this was 10 percent up from the previous year, it also constituted 43 percent of all U.S. crude oil imports in 2015.

The EIA noted that the main reason behind the U.S.' rising oil imports from Canada, despite its overall decline in crude imports, is the heavy, sour crude oil that its northern neighbor produces. Despite the American shale oil revolution in 2008, which saw a surge in light, tight oil, many refineries in the U.S. still process the type of oil that Canada has.

Meanwhile, Canada "has few alternative outlets for the heavy crude produced in Alberta, where most of Canada's proved oil reserves are located," according to the EIA. "Canada is expected to continue to provide a large share of U.S. oil imports for the foreseeable future, especially given the expansion of pipeline and rail shipping capacities to transport Canadian oil," the EIA added. Other top crude suppliers to the U.S. are Saudi Arabia, Venezuela, and Mexico, according to the administration.

Announcements & Reports

► *2016 World LNG Report*

Source : IGU
Weblink : http://www.igu.org/publications/2016-world-lng-report

► *MOMR April 2016*

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

► *Natural Gas Weekly Update*

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

► *This Week in Petroleum*

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

Upcoming Events

► *22nd International Energy& Environment Fair and Conference*

Date : 27 – 29 April 2016
Place : İstanbul, Turkey
Website : www.icci.com.tr

► *Smart Energy Analytics 2016*

Date : 04 – 05 May 2016
Place : London, United Kingdom
Website : www.wplgroup.com/aci/

► *Flame – Europe's Leading Natural Gas & LNG Conference*

Date : 09 – 12 May 2016
Place : Amsterdam, Netherlands
Website : www.flame-event.com

► *Global Oil & Gas Turkey*

Date : 16 – 17 May 2016
Place : Istanbul, Turkey
Website : http://www.oilgas-events.com/TUROGE-Conference

► *6th International Conference & Workshop REMOO 2016*

Date : 18 – 20 May 2016
Place : Budva, Montenegro
Website : http://remoo.eu/html/general_information.html

► *Turkmenistan Gas Congress*

Date : 19 – 21 May 2016
Place : Turkmenbashi, Turkmenistan
Website : http://www.oilgas-events.com/

► *Pipeline Technology Conference*

Date : 23 – 25 May 2016
Place : Berlin, Germany
Website : www.pipeline-conference.com

► *Caspian Oil & Gas*

Date : 01 – 04 June 2016
Place : Baku, Azerbaijan
Website : www.caspianoilgas.az/2016/

► *Yamal Oil & Gas*

Date : 08 – 09 June 2016
Place : Salekhard, Russia
Website : www.yamaloilandgas.com/en/programmerequest/

► *7th International Energy Forum*

Date : 10 June 2016
Place : Istanbul, Turkey
Website : www.iicec.sabanciunic.edu

► *Energy Systems Conference 2016*

Date : 14 - 15 June 2016
Place : London, UK
Website : www.energysystemsconference.com

► World National Oil Companies Congress

Date : 15 - 16 June 2016
Place : London, UK
Website : http://www.terrapinn.com

► ERRA Summer School: Introduction to Energy Regulation

Date : 20 - 24 June 2016
Place : Budapest, Hungary
Website : http://erranet.org

► 9th SE Europe Energy Dialogue

Date : 29 – 30 June 2016
Place : Thessaloniki, Greece
Website : www.iene.eu

► Global Oil & Gas - Black Sea and Mediterranean

Date : 22 – 23 September 2016
Place : Athens, Greece
Website : www.iene.eu

► 23rd World Energy Congress

Date : 09 - 13 October 2016
Place : Istanbul, Turkey
Website : http://wec2016istanbul.org.tr/

► 15th ERRA Energy Investment & Regulation Conference

Date : 17 - 18 October 2016
Place : Budapest, Hungary
Website : http://erranet.org/InvestmentConferences/2016

► 21st IENE National Conference "Energy and Development 2016"

Date : 24 - 25 October 2016
Place : Athens, Greece
Website : www.iene.eu

► European Autumn Gas Conference 2016

Date : 15 – 17 November 2016
Place : Hague, Netherlands
Website : http://www.theeagc.com/

► *5th Cyprus Energy Symposium*

Date : 29 - 30 November 2016
Place : Nicosia, Cyprus
Website : www.iene.eu