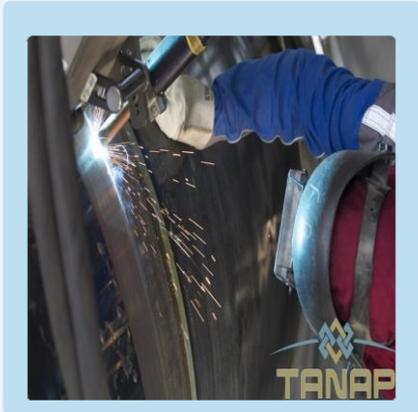


## TANAP saves \$2.5 bln aided by plunging oil prices

AA Energy Terminal, 04.04.2016



The slump in global oil prices and low commodity prices give the Trans Anatolian Natural Gas Pipeline (TANAP) project an opportunity to shrink its budget and save up to \$2.5 billion, TANAP General Manager Saltuk Duzyol told Anadolu Agency.

Initially, the investment budget for TANAP was estimated as \$11.7 billion, Duzyol said and added, "With the help of low oil prices, we reduced our budget to \$9.2 billion." Global crude oil prices decreased from their highest level of \$115 per barrel in June 2014 to as low as \$28 on Jan 18, 2016. Currently Brent oil prices are fluctuating at around \$45 per barrel.

Diesel and steel are the most valuable constituents in the construction of TANAP and are in correlation with global oil prices, he added. "With the drop in the global price of oil, commodities and diesel retail oil prices also experienced a decrease, which is to the project's benefit as expenses are reduced," Duzyol explained.

The Southern Gas Corridor, which plans to carry Azeri gas all the way to Italy, is critical for Europe's future energy demand and to lower its dependence on Russian gas. Turkey's portion of TANAP will become the longest section of this corridor. Duzyol also noted that \$4.5 billion worth of tenders have been completed and their contracts signed.

He added that so far, 480 kilometers of the pipes, each with 56 inches in diameter, have been welded, out of which 80 percent have been completed by Turkish contractors. The project is planned to be operational in 2018 with an initial capacity to carry 16 billion cubic meters (bcm) of Azeri gas through Georgia to Turkey.

While 6 bcm will be for Turkey's domestic gas consumption, the rest is destined for transfer to Greece, Albania, and Italy and further into Europe. TANAP's total capacity is planned to increase to 23 bcm by 2023 and to 31 bcm by 2026. Azeri energy giant Socar holds a 58 percent share interest in TANAP while Turkey's BOTAS has a 30 percent share and BP owns a 12 percent stake.

## Turcas eyes gas investments in Iran

Natural Gas Europe, 03.05.2016



Turcas Petrol CEO Batu Aksoy says the Turkish-listed energy company is eyeing gas, petrochemicals, and renewable energy targets in Iran.

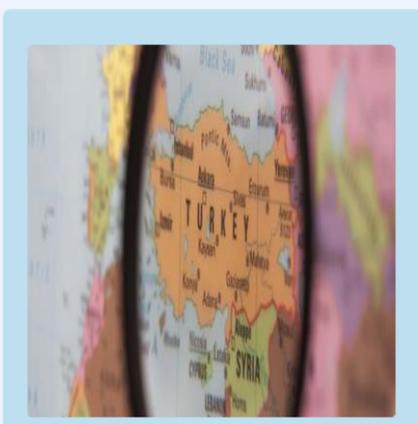
“Our aim is to become regional leader in the region, both on natural gas and oil. Currently, we’re holding talks with companies in Iran for investment,” Aksoy said on the sidelines of the annual shareholders meeting of the company in Istanbul. “We want to invest in Iran with a local partner. Also we may consider a joint venture with a multinational energy company,” he said. Gas and petrochemicals will be the priorities for investment in Iran, he noted.

“We may consider acquisitions natural gas or petrochemicals assets in Iran, as well as buying semi-finished projects for the investment,” he said. However Turcas Petrol has assets over \$2bn according to its financial statements.

Future acquisitions will be financed with internal resources, Aksoy said, adding that the firm has a solid financial position. The company has had 50/50 fuel retailing joint venture since 2007 with Anglo-Dutch oil giant Royal Dutch Shell, called Shell & Turcas Petrol (STAŞ), plus a power generation joint venture with Germany’s RWE.

## Azerbaijan, Turkey can boost trade, minister says

Azernews, 28.04.2016



Azerbaijan and Turkey, have a great potential to increase their bilateral trade turnover to \$15 billion. This was stated by Turkey’s Economy Minister Mustafa Elitas.

“The trade turnover between Azerbaijan and Turkey increased eight times and stood at \$5.1 billion in 2002-2014, but it slightly dropped due to the global financial crisis in 2015 as compared to the previous years,” he told. According to the State Customs Committee, trade turnover between the two countries amounted to \$1.476 billion in 2015. Turkey’s export to Azerbaijan stood at \$1.9 billion in 2015, while the country’s import from Azerbaijan totaled \$1.6 billion.



Turkey primarily exports iron and steel products, various finished products, electronics, furniture, plastic products to Azerbaijan. “Natural gas accounts for 85 percent of Turkey’s import from Azerbaijan,” he said, adding that aside from the natural gas, Turkey imports non-ferrous metals, chemical industry products, plastic products from Azerbaijan.

Elitas believes that Azerbaijan’s important role in the region, the high-level relations between Baku and Ankara make it possible to even more develop the economic and trade relations between our countries.

He said one of the most important missions of Turkish companies is to contribute to the development of Azerbaijan’s economy. Turkey’s investments in Azerbaijan reached \$7.5 billion by late 2014, while the volume of investments made by Azerbaijan in Turkey’s economy stood at \$4.2 billion.

The Turkish minister believes that these figures mirrors the level of relations between the two countries. “But Baku and Ankara should even more develop the bilateral relations,” he added. Azerbaijan-Turkey enjoyed strong relations for centuries due to a common culture and history and the mutual intelligibility of the Turkish and Azerbaijani languages.

Turkey was the first country in the world to recognize Azerbaijan’s independence in 1991 and has been a staunch supporter of Azerbaijan in its efforts to preserve its territorial integrity and realize the economic potential that arises from its rich natural resources in the Caspian Sea.

Azerbaijan and Turkey have good and developing economic ties, especially in terms of huge energy projects envisaging the transportation of Azerbaijan’s hydrocarbon resources to the European and world markets through the Turkish territory. Today, Azerbaijan and Turkey are the beneficiaries of all the major projects in the region, in particular the Southern Gas Corridor, which comprises TANAP and TAP projects, as well as the Baku-Tbilisi-Kars railway.

The partnership between Turkey and Azerbaijan has become a driving force forming policy and economy of the region. The two countries complete each other. The political weight of Ankara is supported by the economic projects implemented at the initiative of Azerbaijan. This unity allows Baku and Ankara to respond all modern challenges. Azerbaijan’s investments in the Turkish economy will reach \$17 billion to \$20 billion by 2020. Currently, this figure exceeds \$6 billion.

Elitas believes that the crisis in relations between Russia and Turkey increases the relevance of the Trans-Caspian international transport corridor for cargo transportation through Azerbaijan to markets in Central Asia. He said the Trans-Caspian transport corridor should become a priority when transporting cargoes.

Turkey held meetings with the representatives of Azerbaijan, Kazakhstan and Turkmenistan on effective use of the Trans-Caspian transport corridor. Customs procedures were simplified for effective use of the corridor, and it was agreed to reduce customs duties, transit quotas for Turkish trucks were increased. The Trans-Caspian route connects China with Europe via the territory of Kazakhstan, Azerbaijan and Georgia. This is a multimodal corridor which uses railway, maritime and road transport for transportation of goods. The Trans-Caspian route enjoys an opportunity to become attractive and profitable for consignors from European countries.

This route will transport approximately 300,000-400,000 containers by 2020. This route is attracting the attention of the transport and logistics communities of China, Turkey, Ukraine and European countries, which are looking for new routes of supply of their products to foreign markets.

Being the cheapest and most profitable corridor for freight traffic, the Trans-Caspian route is expected not to have an alternative in the coming decade. The growing interest in transport infrastructures via Azerbaijan helps the country to become a major transport hub in the region. Earlier, Azerbaijan Railways reported that Germany and Lithuania have expressed interest in joining the Trans-Caspian route. Once fully operated, the transport route will have a positive impact on Azerbaijan's economy.

## US, EU support Southern Gas Corridor

Natural Gas Europe, 26.04.2016



**US-EU Energy Council reiterated its strong support for the opening of the Southern Gas Corridor, including the construction of the TAP, said in the US-EU Energy Council.**

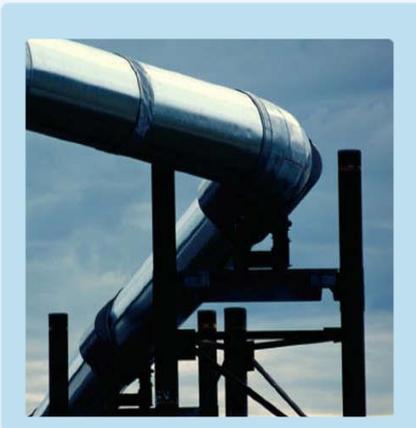
**Council underscored the importance of the Greece-Bulgaria Interconnector and the construction of LNG terminals, in Croatia, as well as in Greece if there is market demand, said. Southern Gas Corridor is among the European Union's priority energy projects, which aims at the diversification of the EU gas supply sources and routes. The project envisages transportation of 10 bcm of Azerbaijani gas from the Caspian Sea region to Europe through Georgia and Turkey.**

At the initial stage, 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. As part of the Stage 2 of the Shah Deniz development, the gas will be exported to Turkey and European markets by expanding the South Caucasus Pipeline and the construction of the Trans-Anatolian Natural Gas Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP). TAP project envisages transportation of gas from the Stage 2 of development of Azerbaijan's Shah Deniz gas and condensate field to the EU countries.

The 870-kilometer pipeline will be connected to the Trans Anatolian Pipeline (TANAP) on the Turkish-Greek border, run through Greece, Albania and the Adriatic Sea, before coming ashore in Italy's south. TAP's initial capacity will be 10 billion cubic meters of gas a year, expandable to 20 billion cubic meters. The construction of TAP will start in May 2016.

# Iran viewing different options for gas exports to Europe

Azernews, 05.05.2016



Iran prefers to export LNG to the distant markets due to financial and security reasons but favors gas pipelines for transporting its gas to the neighboring countries, press secretary of the Iranian Petroleum Ministry, told.

Iran is currently considering both options, said the spokesman by adding Iran's plans to purchase vessels for LNG transportation. Meanwhile, the importance of Iran's hydrocarbon reserves in Europe's energy mix and its role in increasing Europe's energy security were also emphasized by the Federica Mogherini, the EU's High Representative for Foreign Affairs and Security Policy.

Iran's gas may contribute significantly to the diversification policy of the EU currently being pursued in its energy markets. Previously, planning director of the national Iranian gas company Hassan Torbati Montazeri said that Iran will build network of pipelines with a total length of five thousand kilometers in its territory during the next five years. However, the Islamic Republic needs \$15 billion investment for it.

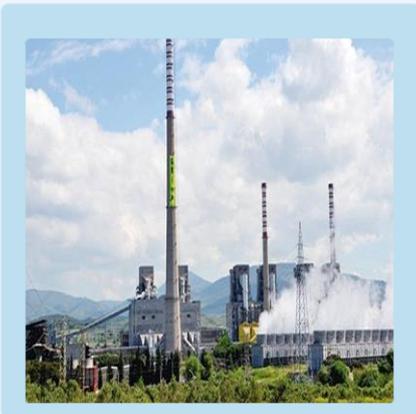
The country set a goal to export its natural gas to the EU in near future after the sanctions imposed by the Western countries were lifted. Nevertheless, the country lacks necessary export infrastructure to realize gas sales. Currently, there is no transit gas pipeline connecting Iran with the EU.

Iran has several pipeline options. It may build a gas pipeline through Turkey. Even, some experts suggest Iran to use the Southern Gas Corridor and build a connection pipeline to TANAP instead of building a separate pipeline. By joining TANAP, Iran is sure to strengthen Azerbaijan's regional position as a transit country. This will not only bring economic benefits, but also political dividends that will be much more significant. Iran also considers building gas pipeline to Oman where it can use the already existing LNG facilities to transport its gas to the global markets. Moreover, the country sees Kuwait and UAE as potential buyers of its natural gas supplies as well. In addition, Iran may build its own LNG facilities within two years, but this time frame seems unlikely.

Over past few months, Iranian officials have stressed numerously that they are negotiating with international companies about both renting and building the floating liquefied natural gas vessels. The country signed an agreement on building FLNG with a domestic company. Although, some of the sanctions related to the nuclear policy of Iran have been lifted, some of them still remain in place. Iran's purchase of U.S. technologies is prohibited currently. Overall, Iran's estimated gas reserves amount to 33.8 trillion cubic meters at the present. It owns 18.2 percent of the world's total proven reserves.

# Turkey to introduce incentives, environmental exemptions for coal-fired power plants

Hurriyet Daily News, 04.05.2016



The government is set to reintroduce a number of incentives and environmental exemptions, which had been canceled by the Constitutional Court over ecological concerns, for coal-fired power plants.

The draft law will pave the way for all privatized coal-fired power plants to be exempted from environmental regulations until 2020, according to sector players. These power plants will also be able to benefit from renewable energy incentives when any power shortage emerges, they added. Chamber of Environmental Engineers head Baran Bozođlu is critical of the move, describing it as a “threat to public health.”

“If this draft is approved and becomes law, there will be no need for any coal-fired power plants to install filtration systems or to dispose of their waste properly,” Bozođlu said. “Coal-fired power plants are outdated and threaten public health and the environment,” he added.

The government had earlier introduced an exception for coal-fired power plants until 2021 in making ecologically-friendly investments through a temporary article added to the Electricity Market Law in 2013. But this regulation was canceled by the Constitutional Court in 2014 after a joint application by the main opposition Republican People’s Party (CHP) and environmental groups, noting that the article was against people’s right to live in a healthy environment.

The Turkish government has vowed to increase its coal-fired power generation in the coming period in a bid to reduce Turkey’s dependence on imported resources. In line with the government’s plans, 90 coal-fired power plant projects are underway with the aim of adding 18,500 MW installed power capacity by 2023.

# Turkish energy minister calls for environmentalist groups to protest Armenian nuclear plant

Hurriyet Daily News, 29.04.2016



Energy Minister Berat Albayrak has said environmentalist groups should protest an old nuclear power plant in Armenia if they really want to protest nuclear energy, in response to activist groups and scientists who have opposed Turkey's efforts to build a nuclear plant at Akkuyu.

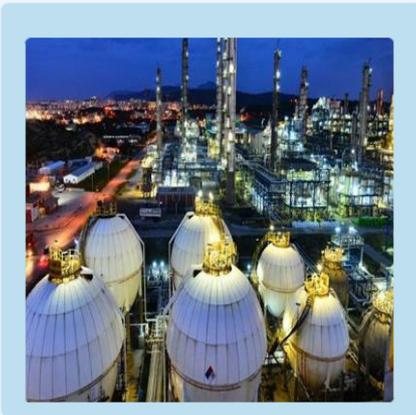
He noted nuclear energy is one of the most significant and safer energy resources adding it is unthinkable for Turkey to quit nuclear investments. "Some circles have been opposed to nuclear energy. If they have well-intentioned environmental concerns, they can turn their faces to the Mersamor Plant in Armenia, creates a serious threat for the world.

I am saying to them: 'If you spend your energy to protest the power plant in Armenia, you will serve to your country more.' This technology, aged 40 years or older, creates huge risks for Armenia, for us, actually for the whole world," he said. He also said there are huge regional differences in Turkey's power generation and consumption, vowing to increase electricity production in the Marmara region.

"While the Marmara region consumes some 35 percent of the total output, it cannot produce that much energy and the electricity produced in Anatolia is transmitted to the region. We have been developing a country-wide project in a bid to close regional differences in electricity supply and demand," he said. Albayrak also noted that they will increase production through a number new investments in local and coal reserves.

# Petkim's net profit soars almost 200 pct in first quarter

Reuters, 29.04.2016



Turkish Petkim has announced its net profit increased by 195 percent in the first quarter to 146.47 million Turkish Liras compared to the same period of 2015, mainly due to a dramatic rise in domestic demand amid parity fluctuations and continuing restructuring works in Asian producers, which has temporarily decreased their output.

Petkim, a majority of whose stakes are owned by SOCAR, revealed that its sales increased by 18 percent to 1.1 billion liras in the first three months of the year compared to the same period of 2015, in a written statement to the Public Disclosure Platform (KAP).

The company's capacity use rate was announced 92.7 percent in the mentioned period. The figure was 87 percent last year. "Many Asian petrochemicals manufacturers, which face serious profitability problems due to high raw material costs, have been in an intensive maintenance process.

Local producers flocked to cargoes which can be immediately delivered in the first quarter of 2016 amid several fluctuations in foreign exchanges and continuing uncertainties in global petrochemicals industry. This was one of the leading developments in the domestic market," said the company.

# Erdogan: Turkey needs to use more coal, water resources to meet its soaring energy demand

The Journal of Turkish Weekly, 26.04.2016



President Recep Tayyip Erdoğan has said Turkey needs to use its coal and water resources more effectively as the country is unlikely to meet its rising energy demand through just renewable resources.

“It is not possible for Turkey to meet its soaring energy demand by just solar or wind power. We need to use our coal and water resources much more effectively,” he said April 24 at the opening ceremony of Enerjisa’s Tufanbeyli Coal-Fired Plant in the southern province of Adana. Anti-coal, anti-hydro power and anti-nuclear power protests from environmentalist groups “should not mislead anyone,” he said.

“Do not listen to them. We need to do what is needed,” he said. Erdoğan said more than half of the \$63 billion trade deficit was due to the country’s huge energy bill last year. “Among all OECD countries, Turkey has seen the highest rise in energy demand. We will need to make around \$110 billion in investments in energy in the next decade, according to estimates,” he said.

Erdoğan also said he was against the use of imported coal reserves as such transactions negatively impacted Turkey’s current account gap. “We have local coal reserves. Rather than using, for example, five-point imported coal, we can use 10-point local reserves, thus pushing down the current account deficit. This step must be taken,” Erdoğan said. The president also said there were 444 active nuclear power plants in 135 countries around the world, with 62 more on the way. Turkey is building or plans to construct three nuclear plants.



# Israel minister sees solutions to gas impasse, Turkey rift

Bloomberg, 05.05.2016



Israel will soon submit to Noble Energy Inc. and Delek Group Ltd. a proposal meant to unblock stalled development of the Leviathan natural gas field and allow exports to Egypt and Turkey, Energy Minister Yuval Steinitz said.

The proposal would be a “softer” version of the government’s offer to promise the energy explorers regulatory stability for 10 years, which Israel’s highest court struck down in March, Steinitz said. “We are seeking to reach a solution soon, in a matter of weeks, no more than a couple of months,” he said. “I think we are very close and if both sides show flexibility, we can move forward.” He declined to go into details.

The absence of a regulatory framework has held up the development of Leviathan, Israel’s largest gas reserve, discovered in 2010, and hindered production at the smaller Tamar field. It also has blocked export deals and antagonized investors, making it harder for Texas-based Noble and units of Israel’s Delek to secure financing at a time when energy prices have tumbled.

Delek Group gained 1.3 percent at 4:55 p.m. in Tel Aviv. A company spokeswoman didn’t immediately return a request for comment and a Noble spokeswoman declined to comment on government discussions.

Steinitz is leading a team of government officials trying to work around the court’s objection to the so-called stability clause, which it said exceeded the government’s authority. The government proposal that’s shaping up would provide Noble and Delek with some measure of stability, but not as much as the original commitment, Steinitz indicated.

“We will probably see some kind of softer stability commitment, but still significant,” he said. “I want to give them something which is softer but still substantial, which according to our experts has a reasonable chance not to be rejected by the court once again.”

Steinitz said the gas explorers may end up with a better deal as the government weighed incentives -- including debt guarantees and financial compensation -- for any damages resulting from regulatory changes. Asked whether those options were still on the table, he said he didn’t want to go into specifics. Government legal advisers think such offers would be struck down by the court, according to a Finance Ministry official who wasn’t authorized to comment on record and spoke on condition of anonymity. Although the drop in crude oil prices has cut into global spending on oil and gas projects, Israel is betting Noble and Delek will move forward with Leviathan because gas prices in Israel and elsewhere in the region remain relatively high, Steinitz said. A possible breakthrough in Israel’s reconciliation talks with Turkey may also open up a large export market, he added.

“The prices they will get in Jordan, Egypt, and hopefully in Turkey -- because we are very close to resuming a diplomatic relationship with Turkey -- are high,” he said. “Turkey is a huge market for gas,” with forecasts predicting consumption there will almost double in seven years, he said.

While Israel and Turkey remain divided over a few issues, they are likely to reach a deal soon, said Steinitz, who is close to Prime Minister Benjamin Netanyahu, whose office is leading the talks. He declined to elaborate, but noted signs of progress toward rapprochement: Turkey didn’t object to Israel opening an office at the headquarters of the North Atlantic Treaty Organization, and Steinitz himself recently met with Erdogan, according to domestic and foreign news reports.

“We have bridged 80 to 90 percent of the gaps,” he said. “They need our gas, and we need this market. I think we will reach a resolution with Turkey in weeks -- but even if it takes months, gas projects take years.”

## South Korea, Iran eye oil and gas deals

UPI, 02.05.2016



South Korea and Iran signed off on more than a dozen proposals, including those tied to oil and gas, as Iran’s president touts the value of foreign investments.

Iranian Oil Minister Zangeneh met with his South Korean counterparts to sign a memorandum of understanding on enhanced cooperation in the oil and gas sector. The signing came as South Korean President Geun-Hye met with Iranian President Rouhani. Iran’s president said the visit shows his country is open for business as sanctions pressures ease in response to last year’s nuclear agreement brokered with the five permanent members of the U.N. Security Council.

“Our economy will not get well unless we are able to attract investment,” he said. The International Monetary Fund said the Iranian economy is expected to grow by about 4 percent this year and is outperforming its peers. The IMF said members of the Gulf Cooperation Council, a group that includes members of the Organization of Petroleum Exporting Countries like Saudi Arabia and Kuwait, should see economic growth slow from 3.75 percent last year.

Among the proposals signed in Tehran were consideration for cross-country natural gas pipeline projects. Apart from oil, Iran holds some of the largest natural gas deposits in the world in the offshore South Pars complex. With few resources of its own, the U.S. Energy Information Administration ranks South Korea near the top in terms of needed imports of natural gas. According to Iranian media, South Korea has more than tripled its imports of Iranian oil and gas.

# Iran seeks to overtake Qatar in gas production

Oilprice, 04.05.2016



Iran will overtake Qatar in gas production by this time next year as Iran's expands its operations in the Persian Gulf's South Pars field, according to authorities in Tehran. By March 2017, officials in Teheran say, Iran will have earned the number one position in this field, outdoing the Qataris in production.

The massive South Pars natural gas field in the Persian Gulf is shared by Iran and Qatar, and is the world's largest gas field, with an estimated 1,800 trillion cubic feet (51 trillion cubic meters) of natural gas and some 50 billion barrels (7.9 billion cubic meters) of natural gas condensates.

Right now, Iran's portion of the field provides the country with about 50 percent of its domestic gas needs. Since 20 March this year (the first month of the Iranian calendar year), over 1.338 million tons of gas-condensate have been exported from South Pars. According to Iranian figures, Qatar produces around 177 billion cubic meters of gas from this field, while Iran currently produces around 132 billion cubic meters from its portion.

However, Iran's got five new phase developments in the works here, and once they become operational, production will either equal or exceed Qatar's, and that is expected to happen by the Spring of next year. So far, Iran has invested \$50.5 billion into the development of phases 12 to 24 of South Pars, with five new phases of the gas field set to become operational by March 2017. One of the phases already implemented includes four platforms--each containing five 4,000-meter wells and 900-meter deep horizontal digs.

Iran has lagged behind Qatar from the beginning. While Qatar started drilling in South Pars in the early 1980s, Iran only launched operations here in the 2000s. Overall, Iran expects gas condensates output from South Pars gas field will reach one million barrels per day.

# Energy across the Mediterranean: A call for realism

Bruegel, 30.04.2016



Political instability in the southern Mediterranean countries have highlighted the unsustainability of their economic models. Widespread economic discontent, and in particular very high youth unemployment, underpinned the Arab Spring uprisings.

As the refugee crisis shows, this is also Europe's problem and Euro-Mediterranean economic cooperation needs to be reviewed. Energy is a key part of the cooperation framework. Trade links between southern Mediterranean countries (SMCs) are very limited and they trade mainly with the European Union.

Energy represents more than half of SMC exports to the EU. While the regional energy relationships were developed on a bilateral basis, the EU's Mediterranean energy policy has followed a regional approach, aimed at harmonising energy policies and regulatory frameworks in the region on the path to a Euro-Mediterranean energy market.

This approach has proved unproductive and should change. The EU should pursue bilateral energy policies through public-private partnerships involving the European Bank for Reconstruction and Development (EBRD), EU companies and selected SMCs. This would allow support to be provided for sustainable energy in partner countries, improving their economic stability and safeguarding the EU's gas security of supply. It might also represent a business opportunity for EU energy firms in the context of the sluggish EU energy outlook.

Euro-Mediterranean energy cooperation is on the European Union's agenda in the context of creating an EU Energy Union and of revising the EU Neighbourhood Policy (ENP). While until 2014 the EU's relationship with the southern Mediterranean countries (SMCs) was mainly seen as an issue for France, Italy and Spain (and to some extent the United Kingdom), the migration crisis and energy security concerns during the Ukraine crisis have underlined that developments in SMCs are relevant for the EU as a whole.

Defining the strategy at EU level is logical because the interests of member states are quite well aligned and they will achieve significant economic and political leverage if they act together. An aim of EU energy policy is "to develop access to alternative gas suppliers, including [...] from the Mediterranean" (European Commission, 2015).

The intention is to reduce the reliance on existing suppliers. In terms of foreign and neighbourhood policy, the EU's primary objective is to stabilise the region in order to reduce the migration pressure and reverse the spread of radical Islam. Despite the significant changes that have taken place in the southern Mediterranean, the EU has been slow to adapt its energy and neighbourhood policies.

The EU's policies towards the region continue to be grounded on a multilateral approach, underpinned by the vision of integrating the regional energy markets into a sort of unique Euro-Mediterranean energy community.

The multilateral approach is highlighted in the intergovernmental Union for the Mediterranean (UfM) initiative. The High Representative of the Union for Foreign Affairs stressed in 2015 that the role of the UfM should be enhanced for “supporting cooperation between southern neighbours”.

Accordingly, it was decided in 2015<sup>4</sup> to create three energy cooperation platforms: the UfM Gas Platform, UfM Regional Electricity Market Platform and the UfM Renewable Energy and Energy Efficiency Platform (which will start up during 2016). The aim of these platforms is to facilitate “partnerships based on mutual trust and transparency between UfM member states as well as with the relevant energy stakeholders in the region”.

Even though increased regional energy cooperation certainly has economic and political merits, the prospects for these new initiatives are at best limited, for at least five reasons: Real energy cooperation in the region has always been, and continues to be, bilateral rather than multilateral or regional.

Previously tried regional energy initiatives did not deliver. The level of intra-regional trade in the southern Mediterranean is among the lowest in the world. This not because of a lack of economic complementarity, but rather because of a lack of political trust among the SMCs. The geopolitical situation has massively deteriorated in recent years, further limiting the potential for regional cooperation.

The EU viewed energy cooperation as a core pillar of its neighbourhood policy that ‘offered’ individual SMCs a complex policy package to increase cooperation. The whole package was perceived by the SMCs as ‘second class membership’ – and the SMCs thus never took ownership of the entire approach.

In this context, the EU should rethink its energy policy towards the southern Mediterranean, particularly on renewable energy and energy efficiency, for at least two reasons: Political stability in the southern Mediterranean is of paramount importance for the EU, and in the longer term, there is no political stability without economic development. But the economic development of the region is jeopardised by unsustainable energy sectors, characterised by growing demand and rising costs at a time when investment and production are declining.

Energy in the SMCs is a challenge, but also a great opportunity. Energy demand in the region is growing strongly and there is also significant energy production potential. This represents a business opportunity for European energy companies, and should be particularly welcome given the sluggish energy outlook within Europe. Supporting the sustainable energy transition in SMCs might thus also be an avenue for the European energy industry to expand into an emerging market that is also on the radar of others, such as China and Russia. The expansion opportunity should be welcomed by European electric utilities, companies specialised in manufacturing renewable energy and energy efficiency solutions and also by European oil and gas companies that are willing to diversify their portfolios in the framework of the broader global energy transition.



Furthermore, the SMCs could be a stepping stone to engage in other parts of Africa, where there is also a growing need for reliable and clean energy. The Euro-Mediterranean energy relationship dates back to the 1970s, when work started on the first large-scale energy infrastructure project – a gas pipeline connecting Algeria to Italy via Tunisia. Since then, more than 7,000 kilometres of gas pipelines have been laid across the region, to connect Algeria with Spain and Italy, Libya with Italy, and Egypt with Israel, Jordan, Lebanon and Syria.

Large-scale oil and liquefied natural gas (LNG) infrastructure has been constructed all around the Mediterranean, as have some electricity interconnections. Successful projects, especially in the gas sector, have been built on bilateral state-to-state and company-to-company relationships between producers in the SMCs and importers in the north.

The Euro-Mediterranean energy relationship has never switched from this bilateral approach to a more regional approach, although some large-scale regional energy projects have been attempted over the last two decades, particularly in the renewable energy sector.

In 2003 the Trans-Mediterranean Renewable Energy Cooperation (TREC) initiative was started, with the aim of unlocking the renewable energy potential of the region through cooperation “as if there were no borders”. Between 2007 and 2009, this initiative evolved into the Desertec project, which was specifically focused on tapping into the potential of North African and Middle Eastern deserts to supply clean power (solar and wind) to those regions and to Europe. Desertec was politically backed by the EU11, and also gathered support from European companies and banks. However, Desertec failed to deliver. By 2014, 47 of the 50 initial Desertec shareholders had left the consortium, de facto marking the end of the project.

The Mediterranean Solar Plan (MSP) initiative suffered the same fate. Started in 2008 as a UfM flagship initiative, this project also aimed to export solar and wind power to Europe. The MSP was supported by the European Commission, which also promoted cooperation between this project and Desertec. In 2013, the UfM secretariat elaborated a new MSP master plan. However, the UfM energy ministers ultimately did not endorse the master plan, de facto dissolving the MSP project.

Desertec and the MSP both failed because of lack of realism. On the commercial side, the business model based on the export to the EU of solar and wind electricity produced in SMCs was simply not viable because of: i) high electricity generation costs; ii) lack of electricity interconnections between SMCs and between the northern and southern Mediterranean shores; and iii) the lack of a clear need on the EU side for additional renewable energy capacity.

Politically, both initiatives proved unrealistic because they sought to take an unviable one-size-fits-all approach in the region, and because they did not properly take into account the essential priority for the SMCs: to ensure they could meet their own future energy demand, not the EU's. On top of these weaknesses, the combined effect of the economic crisis and of the uprisings in Arab countries delivered the coup de grace to the projects. A key pillar of the EU's energy policy in the neighbourhood was to promote the take-up of EU energy policy principles, in particular liberalisation, and EU energy legislation. In the Balkans and eastern Europe, participation in the Energy Community committed countries to adopt the *acquis communautaire* into their national energy legislation. This was supposed to create a stable legal environment, which would be conducive to the much-needed private investment.

The partner countries also used their Energy Community membership as a signal that they are interested in EU accession. Without a prospect of accession, SMCs were not asked for, and did not offer, full harmonisation with EU energy rules. Nevertheless, the Action Plans that are a backbone of European Neighbourhood Policy foresee gradual convergence towards European rules.

In 2003, for example, a ‘Memorandum of Understanding for the progressive integration of electricity markets of Algeria, Morocco and Tunisia and in the EU electricity internal market’ was signed. The creation of Mediterranean associations of regulators and transmission system operators in 2007 and 2012 also somewhat followed the blueprint of EU internal market integration. But, apart from sharing best practices, the implications have been limited. It is thus time to question whether the export of EU energy rules to the SMCs serves the purposes of either side.

Also from a wider perspective the regionalist approach had no concrete impact on the evolution of energy cooperation in the region. The history of EU grants to energy projects in SMCs and EU exports of solar and wind technologies to SMCs (Figure 3) indicates the lack of concrete impact in the context of either ENP or the UfM.

While the regional approach did not deliver in the past, it has become close to impossible today. The civil war in Syria, the implosion of Libya, the controversial political situation in Egypt, the uncertain political outlook in Algeria and rise of radical Islam indicate an increasing level of geopolitical fragmentation on the southern shore of the Mediterranean. A homogeneous region does not exist.

How could the Euro-Mediterranean energy relationship be better structured? Structuring cooperation starts with identifying common goals. We identify three main aims for Euro-Mediterranean energy cooperation: Supporting the SMCs in meeting their energy challenges for the sake of stability and growth; Supporting a transition to sustainable energy in SMCs for climate change mitigation and also for macroeconomic sustainability; ensuring the sustainability of current gas exports from SMCs to the EU.

First, it should be noted that the key energy challenge for SMCs will be to meet their own rapidly growing energy demand in a secure and competitive way. As Figure 4 shows, the total final energy consumption of SMCs has continuously grown over the last few decades. Up to 2000, this growth occurred at an even greater pace than China. Between 2000 and 2013, the SMCs maintained their growth rate at a level of about 3.4 percent, compared to 0 percent in OECD Europe.

Energy demand in SMCs will continue to grow in the future, mainly in response to population and GDP growth. The challenge of rising energy demand will have to be tackled in a sustainable manner by SMCs, not primarily to mitigate climate change but to ensure macroeconomic stability.

Between 2008 and 2014 the net energy exports of SMCs dropped – despite similar oil prices in both years – by more than 30 percent in US dollar terms. The decline in net exports represents about 3 percent of the current GDP of SMCs. Consequently, for SMCs simply burning more fossil fuels does not seem to be a sustainable, long-run answer. At the same time countries including Egypt, Algeria, Libya and Lebanon devote about 10 percent of their GDP to energy subsidies. In 2015, energy subsidies constituted a burden of \$35 billion on Egypt’s public finances, and this number could quickly rise if oil prices increase again.

In 2013 – before oil prices dropped by 65 percent – subsidies in Egypt were \$45 billion (Coady et al, 2015). Thus, fossil fuel subsidy schemes in several SMCs will have to be reformed<sup>17</sup> to reduce wasteful energy consumption and to improve fiscal sustainability.

Eliminating energy subsidies will improve the competitiveness of renewable energy and energy efficient solutions. This will be crucial not only to meet the SMCs' growing energy demand, but also to maintain gas exports to Europe. Egypt recently showed how a traditional gas exporter could suddenly turn into an importer because of rapidly growing domestic demand. In order to continue to supply their gas to Europe, Algeria, Libya and Egypt (which might again become an exporter in the future), will have to tap into their renewable energy and energy efficiency potentials.

Maintaining gas exports would be beneficial for the countries because it would ensure a stable stream of revenues that could be used for investment in renewables and efficiency. It would also be beneficial for the EU because it would guarantee the stability of imports from the southern Mediterranean region, which are an important element of the EU's gas security-of-supply architecture.

Given the fragmentation of the regional energy landscape in the southern Mediterranean, there is no sensible one-size-fits-all approach for structuring cooperation. Rather than the new UfM Renewable Energy and Energy Efficiency Platform, solid bilateral partnerships between the EU and selected countries in the region are needed to reinvigorate the Euro-Mediterranean energy relationship.

This also means that not all the countries need to be engaged in such an exercise. For instance, given their current geopolitical situations, neither Syria nor Libya could easily be involved. Meanwhile, Israel is not in need of EU support and there is limited scope for special cooperation. For the other seven SMCs, barriers preventing the development of renewable energy and energy efficiency projects differ greatly, so a tailored approach should be adopted instead of a region-wide, one-size-fits-all, approach.

The Energy Union Communication proposed the establishment of 'Strategic Energy Partnerships' (European Commission, 2015) to enhance energy cooperation with key producing and transit countries, and in the southern Mediterranean this exercise is already being carried out with Algeria.

However, such an approach might not be effective in SMCs, as it might be, for instance, with Turkey, where a strategic partnership might allow the EU and Turkey to use their complementary leverages in potential gas-supplying regions and transit countries to enable new projects (Tagliapietra and Zachmann, 2015). In short, such clear-cut cases seem to be less evident in SMCs. Furthermore, this approach entails the risk of over-politicising the process.

In practice, bringing the top policymakers from both sides around a table to discuss energy cooperation might entail a level of abstraction that is not useful for the development of concrete projects. Moreover, this kind of approach might even jeopardise the energy discussion because of interference from other political dossiers on the table. From our perspective, a better approach to support the sustainable energy transition of SMCs would be to focus the cooperation on the rising financial player in the region: the European Bank for Reconstruction and Development (EBRD). The EBRD could establish new 'Sustainable Energy Funds' with selected SMCs.



This mechanism would be a public-private partnership (PPP) involving the bank, the government of the selected country, international energy companies operating in the country and institutional investors willing to make a long-term investment. The scheme would work as follows:

The EBRD would provide risk-mitigation and credit-enhancement tools to cover the country risk faced by international energy companies and institutional investors. This risk might change over time, as the political situation in a country evolves.

Reducing the risk can enable the country to attract more investment because of lower interest rates, in effect providing an investment insurance mechanism; International energy companies and institutional investors would take on the commercial risk, to ensure the commercial viability of the projects proposed; The government of the selected country would contribute by legally committing to maintain stable regulatory conditions for the given project. Should they fail to do so, the banks will discontinue lending – and the EU will exercise some political and economic leverage to ensure repayment of existing obligations.

This PPP mechanism should be able to provide a solid response to the evidence that investors might jump into the SMCs' sustainable energy sector only if a proper risk-adjusted return is considered as guaranteed. Considering its experience in transition countries and reputation, the EBRD seems to be the institution best placed to promote these new 'Sustainable Energy Funds'.

After almost two decades of unproductive regional cooperation attempts, the EU should reshape its energy cooperation efforts in the Mediterranean through new bilateral approaches. In concrete terms, we propose the establishment of Sustainable Energy Funds with selected SMCs. This would allow support to be provided to sustainable energy projects in partner countries, making them more economically stable and safeguarding the EU's gas security of supply. This might also represent a significant business opportunity for the EU energy industry, especially in the context of the sluggish EU energy outlook.

# Putin plays “energy chess” with Netanyahu

Global Research, 04.05.2016



Israeli Prime Minister Benjamin Netanyahu flew to Moscow for closed door talks with Russian President Vladimir Putin. The media reported that the talks were over the situation in Syria, a theme where Moscow has made certain a regular hotline dialogue exists to avoid potential military clashes.

It seems, however, that the two discussed quite another issue—potential Russian involvement in developing Israel’s giant offshore Leviathan gas field. Were the two to strike a deal, the geopolitical implications could be enormous for Putin and Russia’s strategic role in the Middle East as well as for the future of the US influence in the region.

Israeli press reported the Netanyahu-Putin talks as being about “coordination between forces in skies above war-torn country, status of Golan Heights...” According to Russian state media reports, however, in addition, Netanyahu and Putin discussed the potential role of Russia’s state-owned Gazprom, the world’s largest natural gas producer and marketer, as a possible stakeholder in Israel’s Leviathan natural gas field. Russian involvement in the stalled Israeli gas development would reduce financial risk for Israeli offshore gas operations and increase the gas fields’ security, as Russian allies like Hezbollah in Lebanon or Iran would not dare target Russian joint ventures.

If the Russian reports are accurate, it could portend a major new step in Putin energy geopolitics in the Middle East, one which could give Washington a major defeat in her increasingly inept moves to control the world’s center of oil and gas.

Many outside observers might be surprised that Putin would be in such a dialogue with Netanyahu, a longstanding US ally. There are many factors behind it. One is the leverage Russia’s President has through the presence of more than one million ethnic Russians in Israel, including a cabinet member in Netanyahu’s government. More importantly, since the Obama Administration went ahead, over vehement Netanyahu protests, to sign the nuclear deal with Iran in 2015, relations between Washington and Tel Aviv have chilled to put it mildly.

The situation is being skillfully mined by Putin and Russia. Washington wants to force a political reconciliation between Netanyahu and Turkey’s Erdogan, including a deal in which Turkey would become a major buyer of Israeli offshore gas, making major purchase agreements from Leviathan. For Washington that would reduce Turkish dependency, today more than 60%, on imports of Russian gas. In return Israel would agree to sell Turkey advanced Israeli military equipment with Washington approval.

However bilateral talks between Turkey and Israel are reportedly stalled over numerous differences. This opens a door for Russia to enter. Putin invited Israeli President, Reuven Rivlin, to Moscow for talks following Russia’s surprise decision to pull some of its forces back from Syria.



Significantly, the visit was sanctioned by Netanyahu, who often is at personal odds with his President. One purpose was clearly to lay ground for the latest Netanyahu Moscow visit. What is emerging is a complex realpolitik negotiation between Putin and Netanyahu of the highest geopolitical stakes for the entire Middle East and beyond. The elements as they now appear include possible Gazprom partnership and investment in the development and marketing of natural gas from Israel's giant offshore Leviathan gas find.

It includes some kind of arrangement between Russia and Israel to guarantee Israeli security from attacks by the Teheran-backed Hezbollah from forces in the Syrian Golan Heights. And it includes a deal in which Israel would walk away from Washington's desired gas and arms sales to Erdogan's Turkey, a deal which would weaken Gazprom and any Russian leverage over Turkey.

First Leviathan. In late 2010 Israel announced discovery of a massive "super-giant" gas field offshore in what it declares is its Exclusive Economic Zone (EEZ). It's located in what geologists call the Levant or Levantine Basin. The find is some 84 miles west of the Haifa port and three miles deep.

They named it Leviathan after the Biblical sea monster. Three Israeli energy companies, led by Delek Energy, in cooperation with the Houston Texas Noble Energy announced initial estimates that the field contained 16 trillion cubic feet of gas—making it the world's biggest deep-water gas find in a decade. For the first time since creation of the Israeli state in 1948, the country would be self-sufficient in energy and even in a position to become a major gas exporter.

If we flash forward some five or more years to the present, the world and Israel's entree as a major energy geopolitical player appear far different. The world prices for oil and natural gas have collapsed dramatically since late 2014 with little sign of serious recovery.

Internal Israeli politics have furthermore blocked the regulatory approval for development of Leviathan. On March 28, Israel's High Court blocked the Netanyahu government's proposal to freeze regulation changes in the natural gas industry, threatening to delay the development of offshore fields.

The court objected to a proposed "stability" clause, which would have prevented major regulatory changes for 10 years. Lack of an approved government framework has delayed development of Leviathan. Noble and their Israeli partners, Delek Group Ltd. are the two major stakeholders in Leviathan.

What has changed as well since Russia's earlier foray into Leviathan 2012 is the fact that Netanyahu and the Obama Administration are barely on speaking terms over Iran and numerous other issues. As well, the world oil and gas market is in a depression and Israel could urgently need significant outside investors to develop Leviathan.

As well today the Houston, Texas company, Noble Energy, is feeling the negative impact of the energy price collapse of the past two years in the midst of the worst oil industry depression in years and is discussing sales of its stake in various international projects to weather the storm. In October 2015, Israeli sources reported that Vladimir Putin had reformulated a proposal for Gazprom participation in Israel's nascent offshore gas development.



According to comments of senior Israeli journalist, Ehud Yaari, Putin had expressed renewed Russian interest in Gazprom's entering into the Israeli natural gas sector by taking a joint venture share of the huge and costly Leviathan project.

Yaari, considered very well-informed in Israeli Middle East politics, also stated that Israeli Prime Minister, Benjamin Netanyahu, who opposed a previous deal 2012 with Gazprom, is now reconsidering his 2012 position.

In 2012 Gazprom had submitted the highest bid to buy a 30% stake in Leviathan. Noble Energy's Israeli partners in Leviathan, led by Delek Energy, then had decided to bring in a strategic partner because they lack the financial wherewithal, know-how, and connections to fully exploit the reservoir's potential as quickly as possible.

Cost of developing the gas discovery alone, including building a natural gas liquefaction (LNG) plant, was estimated at \$10-15 billion. At that time there was a split among the owners of the Leviathan bloc. Israeli billionaire Yitzhak Tshuva's Delek Group were enthusiastic about doing a deal with Gazprom, given their geopolitical power and marketing ability globally. The US-based Noble Energy was opposed, most likely at the urging of Washington. Gazprom lost that one.

In October 2015, a month after initiation of Russia's military intervention in Syria, Yaari told the Sydney-based newspaper, The Australian, that Putin had recently told Netanyahu, in return for a Leviathan deal, "We will make sure there will be no provocation against the [Israeli] gas fields by Hezbollah or Hamas." Given Russia's recent military role in Syria, that was clearly no empty promise.

Another component of a possible Grand Bargain on energy and security guarantees between Russia and Israel would involve an agreement for Israel to end US-backed negotiations with Turkey's Erdogan in favor of Gazprom investment into Leviathan and Russian security guarantees to Israeli offshore energy projects.

In early March this year, US Vice President Joe Biden, who has an uncanny knack to show up in areas where Washington's neo-conservatives want special concessions or agreements, showed up in Tel Aviv for a meeting with Netanyahu. In closed door talks between the two, according to Israel's leading daily, Haaretz, Biden pressured Netanyahu to strike a deal with Erdogan that would see Israel's Leviathan gas going to Turkey to replace Gazprom gas. Biden also pressed for Israeli advanced weapons sales to NATO-member Turkey.

Since then, secret talks have been ongoing between Israel and Turkey with no tangible success. Israeli Defense Minister, Moshe Ya'alon, speaking on behalf of the Israeli military establishment told Israeli media several times in recent weeks that the IDF demands, as precondition for any detente between Israel and Turkey that Erdogan shut the Hamas command post in Turkey from which Israel claims terror activities against Israel were ordered.

Turkey has not agreed. The Israeli military establishment reportedly prefers maintaining military cooperation with Russia over that of any deal with Erdogan. Clearly not by coincidence, only days after the Biden talks with Netanyahu, Putin extended his invitation, not to Netanyahu directly, but more diplomatically, with Israeli President Rivlin.

Rivlin was invited to Moscow on the ceremonial pretext of the 25th anniversary of the restoration of diplomatic ties between the two countries. He acted clearly as a discreet back-channel to prepare the most recent Moscow Putin-Netanyahu talks involving among other items, Gazprom stakes in Leviathan and the future of the Israeli-occupied Golan Heights where a suspiciously well-connected US energy company, Genie Energy, whose advisory board includes names such as Dick Cheney and Lord Rothschild, claims to have discovered, via their Israeli subsidiary, a huge new oil find.

Recent efforts by Netanyahu to get US President Obama to back a permanent Israeli occupation of the Golan Heights reportedly fell on deaf ears. Likely Netanyahu had in the back of his mind during his talks with Obama the reports of large oil discoveries by the Israeli subsidiary of the US-based Genie Energy.

In his Moscow talks, President Rivlin asked Putin to help reestablish the United Nations Disengagement Observer Force presence on the Golan Heights between Israel and Syria, noting that Israel is concerned to make sure Hezbollah and other Iranian-backed groups are not able to use the chaos within war-torn Syria and a power vacuum on the Golan Heights to set up a base near the border for attacks against Israel. The recent fighting forced the UN to withdraw.

What is clear is that the ultimate geopolitical stakes for all sides—Moscow, Tel Aviv, Ankara, Washington, for US energy companies, Israeli energy companies and Russia's Gazprom—are enormous. To be monitored...

## Gazprom to engage in price war with US

Natural Gas Europe, 05.05.2016



**US LNG will come to Europe even if the price of gas at hubs in the destination markets goes as low as \$3.30/mn Btu, triggering a commercial conflict with Russian export monopoly Gazprom, Societe Generale senior gas and LNG analyst Thierry Bros told NGE.**

**Some analysis has argued that the combined cost of gas procurement and liquefaction in the US and shipping and regasification in Europe will keep US LNG out of Europe as it would sell for less than the cost of delivery. But Bros says that liquefaction and regasification are sunk costs for the seller and so they do not play a part in the calculation.**

The cost of shipping and the Henry Hub price are what matters, he said, in the week that Cheniere was nearing the end of its commissioning phase with half a dozen or more cargoes sold to meet mostly Brazilian and Argentine demand.

Only one of the cargoes has so far gone to Europe and that was to the illiquid market of Portugal. Cheniere had not commented on its commissioning process by time of press. Henry Hub front month is around \$2/mn Btu.

But capacity holders at Sabine Pass pay Cheniere, which sources and transports the gas to the terminal on their behalf, an additional 15%; and shipping across the Atlantic may cost another \$1/mn Btu.

To retain market share in a flattish demand growth environment, Bros said, Gazprom will need to 'spend' about \$250mn each month as it lowers its price to compete with this new rival. The weak rouble means that there will still be a margin, he said.

If this price drop does happen, then Norway will be caught in the crossfire, as its production is more expensive than Gazprom's. Further, Gazprom has already developed the giant Bovanenkovo field in the Yamal Peninsula, where output has been curtailed as export markets and Gazprom's own domestic demand have not required the additional gas.

This means it is in a position to bring more cheap gas to market at little additional cost beyond transport. For Norway, however, adding more production capacity entails more capital expenditure, he said. Cheniere's second train could start up around August, bringing more LNG to an already well-supplied gas market.

Gazprom reported the average production cost of natural gas in 2015 at roubles 1,643/000 m<sup>3</sup>, or \$0.84/mn Btu. According to East European Gas Analysis, whose calculations were published by NGE earlier in May, the profitability of Gazprom's exports to Europe fell from 35% in 2013 to 13% in 2015 as the wholesale price fell. Gazprom's own costs – production, transport, transit and taxes – all fell but not as sharply as the market which fell from an average \$11.9/mn Btu in 2013 to an average \$7.50/mn Btu in 2015.

## Expert: German MEP's view critical for Nord Stream II

AA Energy Terminal, 05.05.2016



The views of German MEP Manfred Weber, as head of the largest party in the European Parliament (EP) and a senior politician whose party is allied to Chancellor Merkel's party in the EP, carries political weight in Germany and the EU over the Nord Stream II gas project, said co-director of the Center for Energy Science and Policy at George Mason University

Manfred Weber, chairman of the center-right European People's party from Germany wrote a letter to Sigmar Gabriel, Germany's economy and energy minister, and Miguel Arias Canete, EU energy commissioner last week stating his opposition to the Nord Stream II gas pipeline project.



Weber said the project does not comply with the EU's energy security policy and could increase the EU's energy dependence on Russia. Richard Kauzlarich from George Mason University said the Nord Stream II has always been a political rather than a commercial project and is designed to divert existing gas flows to Europe through Ukraine as a means for Russia to economically punish Ukraine.

"Weber seems to recognize this. It is unclear how the European Commission will rule on the Nord Stream II," Kauzlarich noted. Weber said the project does not comply with the EU's energy security policy and could increase the EU's energy dependence on Russia.

George Vlad Niculescu, head of research at the European Geopolitical Forum, a Brussels-based think tank said that Weber's statement should be seen within the wider context of the ongoing debate within European institutions regarding the compatibility of the Nord Stream II with the Third Energy Package of the EU.

The Third Energy Package concerns the possibility of gas pipelines flowing through a number of countries with permission for third countries and/or parties to use a determined share of the pipeline's capacity.

"In that vein, one should also take into account the recent statement by Maros Sefcovic, vice-president of the European Commission in charge of the Energy Union: 'This project is polarizing EU member states. I've never seen a project that was heralded as a purely commercial one so intensely politically debated, not only by the ministers of energy, but also by the ministers of foreign affairs and by the heads of state and government, and we never received so many letters from the highest representatives of our member states,'" Niculescu said.

Niculescu said that supporters of Nord Stream II basically argue that this project should not be subject to the Third Energy Package because it will not cross EU territory, but will run mainly through international waters in the Baltic Sea. "Mr. Weber, as other opponents against the project, argued that it was critical to resist that potential loophole and for Brussels to insist the project comply with the Third Energy Package," he said.

"The project should also be denied of any European financial support. However, beyond this apparently technical/policy implementation intra-EU debate, there is a high geopolitical stake behind the controversy currently surrounding the Nord Stream II project. That is Ukraine, and the prospects of future relations between Russia and the West," he said and added that it is evident that the Nord Stream II would strike a fatal blow for the transit of Russian gas via Ukraine - which is a significant source of cash for the cash-strapped government in Kiev.

"The supporters of a European [as opposed to Eurasian] Ukraine would definitely not want to see the Nord Stream II operational ever. On the other hand, those who see Ukraine as a neutral partner of both the EU and the Eurasian Economic Union (EEU), or who do not care much about the independence of Ukraine against their interests for doing good business with Russia, support the Nord Stream II," he stressed. The Nord Stream II project was announced on June 18, when global energy giant Royal Dutch Shell, Russia's Gazprom, Germany's E.ON and BASF, along with Austrian OMV signed a memorandum of understanding for the construction of the project, which plans to construct two additional lines to the original Nord Stream.

Russia's Gazprom owns 51 percent of the shares in the \$10 billion project that plans to deliver gas with a capacity of 55 billion cubic meters beneath the Baltic Sea through a 1,200 kilometer-route to Germany. The project plans to bring gas to France, the U.K., the Netherlands and Denmark.

Marco Giuli, a policy analyst from the Brussels-based European Policy Centre said the EP should put its political weight behind the EU Commission in opposition to the expansion of the Nord Stream II project. "The voice of MEP Weber, a prominent member of the German Chancellor's sister-party CSU, is particularly relevant as it exposes different views existing within the German political establishment regarding the project, and regarding EU-Russia relations in general," he said.

According to Giuli, the EU Commission, and in particular Vice-President Sefcovic in charge of the Energy Union, have been adamant in their opposition to the Nord Stream II, however their influence remains limited.

"There are significant doubts concerning the effectiveness of the Third Energy Package to stop the project. As such, the letter seems more geared at leveraging Angela Merkel's cautiousness about a re-engagement with Russia. Clearly, Germany is the key country for the Nord Stream to move forward, and domestic politics is now entering the picture," Giuli said.

## Russian natural-gas project gets funding from China

WSJ, 29.04.2016



A \$27 billion natural-gas project in the Russian Arctic has secured the billions in financing it needed from Chinese banks, a hard-fought victory over Western sanctions that tightens Russia's energy relations with China.

China has proved more reluctant than Russian officials hoped to provide large-scale investment to soften the economic blow of Russia's standoff with the West. But, the Yamal LNG project said it had signed two loan deals with Chinese state banks in euros and yuan worth some \$12 billion, enough to complete the project that is scheduled to ship its first liquefied natural gas next year.

"For the Russian leadership, it's a political deal to demonstrate that it can work despite the sanctions regime," said Mikhail Krutikhin, an analyst at RusEnergy consultancy in Moscow. The Yamal LNG project had emerged as a test for the Kremlin's ability to endure Western sanctions over its interventions in Ukraine. The U.S. and the European Union have targeted Russian government officials, tycoons and companies, cutting them off from access to dollars and in many cases Western finance altogether.



But negotiations dragged on for months, despite repeated statements from Novatek executives that a deal was around the corner. The Kremlin stepped in with a bailout of 150 billion rubles (\$2.3 billion) to keep the project on track, and Novatek and its partners had to pump more of their own money than they had intended.

Russian President Vladimir Putin has made Yamal LNG central to his country's efforts to boost gas sales to Asia and reduce Russia's reliance on sales of gas to Europe amid souring ties with the West. Moscow committed billions in loans, tax breaks and government subsidies to the project.

Yamal LNG is led by OAO Novatek, which is co-owned by a longtime acquaintance of Mr. Putin, tycoon Gennady Timchenko. Both say their acquaintance has no bearing on the company's activities. The loans come ahead of a visit by Mr. Putin to his Chinese counterpart Xi Jinping in June.

The deals are "an investment in relations between the two presidents," said Alexander Gabuev, chair of the Russia in Asia-Pacific program at Carnegie Moscow Center, a think tank. "The loans are targeted at the inner circle to show respect to Putin, that China cares and can help," he said.

Still, the drawn-out talks reflected Chinese reluctance to invest in Russia given the Western sanctions and the low prices for commodities that are the backbone of the Russian economy, analysts say. "Chinese banks are afraid of spoiling relations with U.S. partners," said Mr. Krutikhin. The two Chinese banks that will provide the loans—the Export-Import Bank of China and the China Development Bank—are less connected to the global financial market and are used as pocket banks by the government for political deals, Mr. Gabuev said.

Russia has sought deals in Asia in recent years to reduce its dependence on the West for financing and sales of oil and gas that make up around 40% of the federal budget. India's state oil company last month increased its stake in a prized Siberian oil field run by Russian state-controlled energy giant OAO Rosneft. An executive from Chinese National Petroleum Corp. said earlier this month the company was interested in acquiring a minority stake in Rosneft that the Kremlin has put on the block.

China is already invested in Yamal LNG, which will ship gas eastward around Russia's Arctic seaboard to China and other Asian countries for half the year, and via Europe for the other half. CNPC has a 20% stake in the project, while the Silk Road Fund, a Chinese sovereign wealth fund, has a 9.9% stake. France's Total SA owns 20% of the project, and Novatek has 50.1%.

"The Russians have been quite surprised at how long it's taken to get the finance through. They expected they would get more support from the Chinese. But it's not surprising the Chinese came through in the end—the Chinese have equity in the project," said James Henderson, an analyst at the Oxford Institute of Energy Studies. Yamal LNG is scheduled to start shipping gas in 2017. The first of three planned LNG trains is 65% complete and work is on schedule, Yamal LNG's Chief Executive said. Even with the financing secured, the project faces headwinds from LNG prices. Shipping the gas to markets over huge distances is big challenge, with icebreaker tankers needed to cut through icy waters of the Arctic. The project benefits from low production costs, as the gas fields and liquefaction plant are onshore, and the cold of the Arctic helps chill the gas into liquid form for shipment.

# Europe quietly breaks free from Russian gas

Atlantic Sentinel, 05.05.2016



Europe's supposed dependence on Russian natural gas is still frequently cited within the context of East-West relations. But this is an outdated view, argue the Brookings Institutions' Tim Boersma and Michael E. O'Hanlon. The two write EU efforts to wean the bloc off its dependence on Russia, set in motion after the latter occupied and annexed the Crimean Peninsula from Ukraine, are paying off.

Russia still provides a third of Europe's gas. But the continent has quietly turned the tables on its supplier in several ways, from expanding storage capacity to investing in alternative energy.

"One might say that Europe has escalation dominance over Russia," Boersma and O'Hanlon argue; "the latter needs to export to Europe more than Europe need Russian hydrocarbons." Perhaps the two most important developments are liquified natural gas and regulations that enhance the flexibility of gas transits.

The former owes something to the United States, which recently lifted a forty-year ban on oil and gas exports. The first ship carrying American liquified natural gas arrived in Portugal last month. But the latter is entirely because Europe stood up to Gazprom, Russia's gas monopoly, and won. Competition rules enforced by the European Commission now ban Gazprom, or any company, from insisting on destination clauses in its contracts, meaning that the gas Russia sells to Germany can be resold to less Russia-friendly countries in Central and Eastern Europe.

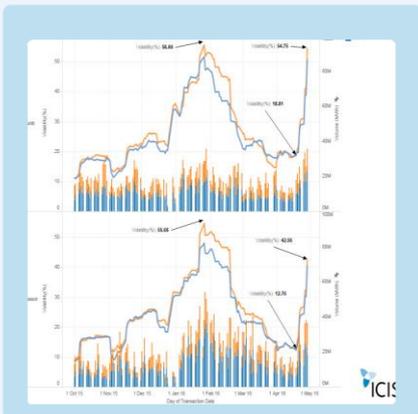
Indeed, last year, Boersma and O'Hanlon report, Germany reexported thirty billion cubic meters of gas this way. "That volume exceeds the annual consumption of every European state with the exceptions of Germany, Italy, France and Britain."

Another EU regulation, which makes it illegal for companies to bar others from using their pipelines, convinced Russia to cancel the €50 billion South Stream project. It may yet doom a proposed extension of the Nord Stream pipeline under the Baltic Sea as well. Russia has no choice but to live with these restrictions, Anca Elena Mihalache, an energy researcher, has argued in a report for the crowdsourced consultancy Wikistrat.

Europe is still 90 percent of Russia's gas market. The faster-growing economies of East Asia may appear to provide an alternative, but this is still largely theoretical, Mihalache writes. Russia doesn't have the pipeline infrastructure in place to switch from west to east yet and China drives a hard bargain. Eventually, Mihalache argues, it would be in Russia's interest to reopen its energy sector to outside investment to attract capital, gain access to Western technology and avoid market barriers like the EU's antimonopoly regulations. But that's not the direction Vladimir Putin's Russia is taking.

# Volatility and volumes soar at European hubs in late April

ICIS, 03.05.2016



A hectic fortnight across Europe’s natural gas markets saw volatility on key contracts jump as many as 36 percentage points in just eight trading sessions and gave an unexpected boost to traded volumes at the start of the summer.

Between 18-26 April the price of key curve contracts at Europe’s most liquid hubs posted their biggest weekly gains since September 2014, as a number of factors came together at once. Over-the-counter traded volumes at the NBP and TTF rose 6% month on month and 39% year on year to a combined 2,051TWh total. The trigger, if not the leading cause of the spike, was unexpected strength in the oil market.

Crude prices gained value in the weeks leading up to a 17 April meeting between global oil producers, on the risk that an agreement to reduce output may be reached. However, even when global producers failed to reach such an agreement, the price of oil futures continued to rise, sparking a short squeeze on the European gas curve.

“Stop-loss orders are being triggered all over the market,” one trader said at the time. The price of oil retains a physical link to forward gas contracts at the TTF in particular, where contracts are traded to hedge and optimise the offtake of gas tied to long-term oil-linked supply contracts. In addition, oil’s efficacy as a sentimental driver has been particularly strong in recent months as the commodity has slumped to, and rebounded from, 12-year lows earlier in 2016.

As well as having to grapple with a rising oil price, traders were also faced with the threat of an unexpected drop in temperatures. The five-day outlook published by WSI grew progressively severe throughout the week, with temperatures as much as 6°C below the norm forecast by Friday 22 April.

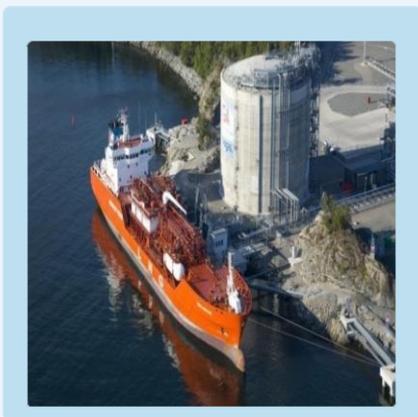
Between 18-27 April, weather-driven demand for Dutch gas surged to 149 million cubic metres (mcm)/day, representing 126% of the three-year average for the month of April, with a similar spike in consumption in Britain and elsewhere. In the first week of April, European gas prices fell sharply to new historic lows, which some market sources believe played into the rebound that followed.

The TTF May ‘16 contract hit €11.113/MWh, representing the lowest price for the Dutch front-month contract since 19 March 2010. Other contracts further out on the curve fell to lows not seen since the end of the last decade. “We hit lows not seen since 2009, so I guess many guys had this in mind and we have seen a move of panic, as everyone has cut their short positions at the same time,” a trader said. European prices finally corrected down on 28 April, but some traders expect further volatility through the summer, with gas fundamentals still indisputably bearish but with traders now more reluctant to sell so aggressively in the wake of such a sharp price hike.

“We will be in a range, with some spikes like this week, at least until the LNG arrival,” one of the traders predicted, with reference to looming LNG oversupply as Australian and US liquefaction capacity continues to ramp up. “The hardest situation would be another oil rally, with bearish fundamentals on gas, because this will make decisions difficult for traders and make them nervous like they have been this week.”

## Russia’s rivalry with US gas in Europe will be costly

AA Energy Terminal, 29.04.2016



Russia will incur an expensive bill in keeping out U.S. LNG out of Europe where Russia is the dominant supplier, an Atlantic Council expert said.

This week saw the first shipment of U.S. domestically produced liquefied natural gas (LNG) to Europe, although the amount was only a small fraction of what Russia sells to Europe every year. “It would cost Gazprom a lot of money to keep out the U.S. LNG,” Bud Coote, resident senior fellow at the Global Energy Center of Atlantic Council said at the ‘U.S. LNG Exports and European Energy Security Conference’ in Washington D.C.

The LNG shipment is the U.S.’ first step in entering the European gas market. “I’d say in the next two years there’s not going to be a whole lot of U.S. LNG to compete with Russian gas,” Coote said, but added that it will affect the price of Russian gas in Europe. “In Europe, you don’t get the lowest price for Russian pipeline gas ... It will cost [Russian gas company] Gazprom a lot of money to have a large amount of its gas [in Europe], while keeping out a relatively small amount of the U.S. LNG,” he explained. Coote noted that it will be interesting to see how Gazprom will react to the increasing availability of U.S. LNG in Europe, and whether it will try to outcompete the U.S. in the European market by lowering its gas pipeline prices.

Andrew Walker, vice president of strategy at Cheniere Energy, the American company that exported the U.S.’ first LNG to Europe, said the U.S. will be a “price setter” for the future in the global gas market. Walker emphasized the cost-competitiveness in the supplies of U.S. natural gas, and said “low-cost gas and low-cost infrastructure is a hard combination to beat” -- a statement which could inflame Russia’s Gazprom which sells gas to Europe at a higher price.

“The U.S. has an abundance of supply, and a lot of cheap gas with its shale revolution. And you can build LNG export infrastructure in the U.S. cheaper than anywhere else. It has cost three times more in Australia,” he added. “That will be a real change in the LNG industry. We are heading towards a more commoditized nature in global gas markets,” he said. He emphasized that the U.S. is making LNG attractive to customers again, in the face of low gas prices around the world, through its competitiveness in offering natural gas with cheaper prices.

# US oil production posts biggest weekly decline this year

AA Energy Terminal, 05.05.2016



U.S. oil production has posted its biggest weekly decline in 2016, the U.S.' EIA data showed. Domestic oil production decreased by 113,000 bpd to reach 8.83 million bpd for the week, from 8.94 million bpd the previous week.

The recent decline also marked the eighth straight week that oil production has fallen in the country, according to the EIA. The last time weekly domestic oil output rose was for week ending March 4 this year. "A sizeable majority [of the decline] was accounted for by lower production in Alaska," London-based Capital Economics' U.S. Weekly Petroleum Status Report noted.

"Past rig closures are undoubtedly continuing to weigh on U.S. crude output," wrote Simon MacAdam, an assistant economist at Capital Economics and author of the report. Due to low oil prices, falling investment and cash flows, wells have been shut in, while the number of oil rigs in the U.S. has fallen around 79 percent to 332 last week, since its highest level in October 2014 when it numbered 1,609.

Meanwhile, weekly commercial crude oil inventories increased by 2.8 million barrels, or 0.5 percent, for the week ending April 29, from 7.55 million barrels the week before, according to the EIA, to reach a new all-time record at 543.4 million barrels. This marked the fourth consecutive weekly increase in U.S. commercial crude stocks.

This weekly jump in inventories was above the market expectation of a 1.7 million barrel increase, and higher than previous week's rise of 2 million barrels. After weekly crude inventories rose above expectations, oil prices recorded losses. The American benchmark West Texas Intermediate fell to \$43.23 a barrel, while international benchmark Brent crude declined to \$44.20 a barrel.

"The build in crude stocks was in part a result of an uptick in net imports," MacAdam noted in his report. Weekly U.S. oil imports increased by 110,000 bpd to reach 7.66 million bpd for the week ending April 29, according to the EIA.



## Announcements & Reports

### ► *Barrels and Bullets: The Geostrategic Significance of Russia's Oil and Gas Exports*

**Source** : Taylor & Francis Online  
**Weblink** : <http://tandfonline.com/doi/full/10.1080/00963402.2016.1170372>

### ► *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

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

**Date** : 09 – 12 May 2016  
**Place** : Amsterdam, Netherlands  
**Website** : [www.flame-event.com](http://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](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](http://www.pipeline-conference.com)

### ► *Caspian Oil & Gas*

**Date** : 01 – 04 June 2016  
**Place** : Baku, Azerbaijan  
**Website** : [www.caspianoilgas.az/2016/](http://www.caspianoilgas.az/2016/)

### ► *Yamal Oil & Gas*

**Date** : 08 – 09 June 2016  
**Place** : Salekhard, Russia  
**Website** : [www.yamaloilandgas.com/en/programmerequest/](http://www.yamaloilandgas.com/en/programmerequest/)

### ► *7<sup>th</sup> International Energy Forum*

**Date** : 10 June 2016  
**Place** : Istanbul, Turkey  
**Website** : [www.iicec.sabanciuniv.edu](http://www.iicec.sabanciuniv.edu)

### ► *Energy Systems Conference 2016*

**Date** : 14 - 15 June 2016  
**Place** : London, UK  
**Website** : [www.energysystemsconference.com](http://www.energysystemsconference.com)

### ► *World National Oil Companies Congress*

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

### ► *Energy Trading Central and South Eastern Europe 2016*

**Date** : 15 – 16 June 2016  
**Place** : Bucharest – Romania  
**Website** : <http://www.energytradingcsee.com/>

### ► *Eurasian Natural Gas Infrastructure*

**Date** : 22 – 23 June 2016  
**Place** : Athens – Greece  
**Website** : <http://www.engi-conference.com/>



► *ERRA Summer School: Introduction to Energy Regulation*

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

► *9<sup>th</sup> SE Europe Energy Dialogue*

**Date** : 29 – 30 June 2016  
**Place** : Thessaloniki, Greece  
**Website** : [www.iene.eu](http://www.iene.eu)

► *Global Oil & Gas - Black Sea and Mediterranean*

**Date** : 22 – 23 September 2016  
**Place** : Athens, Greece  
**Website** : [www.iene.eu](http://www.iene.eu)

► *23<sup>rd</sup> World Energy Congress*

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

► *15<sup>th</sup> ERRA Energy Investment & Regulation Conference*

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

► *21<sup>st</sup> IENE National Conference “Energy and Development 2016”*

**Date** : 24 - 25 October 2016  
**Place** : Athens, Greece  
**Website** : [www.iene.eu](http://www.iene.eu)

► *European Autumn Gas Conference 2016*

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

► *5<sup>th</sup> Cyprus Energy Symposium*

**Date** : 29 - 30 November 2016  
**Place** : Nicosia, Cyprus  
**Website** : [www.iene.eu](http://www.iene.eu)