US liquefied natural gas: Viable option for Turkey

AA Energy Terminal, *10.04.2016*

The U.S.' newly-launched liquefied natural gas (LNG) exports are a viable option for Turkey through the spot market to meet its rising domestic gas demand, experts told Anadolu Agency.

"It is very feasible for U.S. LNG to reach Turkey at competitive prices, given the sustained low cost of U.S. natural gas supplies," Christopher Goncalves, managing director of Berkeley Research Group, a global economic consulting firm in Washington, D.C., told Anadolu Agency. The U.S. started exporting LNG at the end of February from the Lower 48 states (excluding Alaska and Hawaii).

The American company Cheniere Energy has so far sent six LNG cargoes to different parts of the world -- the latest arriving in Portugal last month. While this marked the first time American gas entered the European market, Turkey could be another potential destination for U.S. LNG.

In a conference at the end of April in New York, Andrew Walker, vice president of strategy at Cheniere Energy, had emphasized the low-cost gas production and infrastructure and cost-competitiveness of U.S. natural gas supplies. "The U.S. has an abundance of supply, and a lot of cheap gas with its shale revolution. You can build LNG export infrastructure in the U.S. cheaper than anywhere else," Walker said in the conference.

Goncalves stated that to measure the competitiveness of U.S. LNG for Turkey, only towards the end of this decade will such information will come to light when more U.S. gas hits the global market. In addition, he said that forecasts should be made of U.S. gas prices, LNG shipping costs, and pipeline supply costs from Russia, Azerbaijan, and other countries Turkey imports gas from to make price comparison estimations.

Currently, Turkey annually imports 6.6 billion cubic meters (bcm) of gas from Azerbaijan, 20 bcm from Russia, 10 bcm from Iran. And, in the form of LNG, Turkey imports 4.4 bcm of gas from Algeria and 1.3 bcm from Nigeria, according to Turkish Petroleum Pipeline Corporation (BOTAS) figures, which brings the total to some 42 bcm per year.

Ed Hirs, an energy economist at the University of Houston, told Anadolu Agency that "U.S. LNG may be an option for Turkey to purchase on the spot market, if Turkey has a shortfall in the coming years." "U.S. exports will be quite large compared to Turkey's consumption," he said. Ten LNG export projects, which regulators approved to ship to countries that the U.S. does not have a free-trade agreement with, are currently active. Their total export volume amounts to 15 billion cubic feet (0.42 bcm) per day, according to data compiled by Anadolu Agency on the U.S.' Department of Energy and the Federal Energy Regulatory Commission.

Once completed, the U.S.' approved LNG facilities will be able to export around 150 bcm per year -- that is more than three-times Turkey's current natural gas demand per annum. However first, the U.S. export projects needs to be finished, and this could take some time.

"The approval of U.S. LNG export permits does not necessarily mean the project will be constructed and become operational. There are many developmental, financial and completion milestones. Many analysts think it may be perhaps half to two-thirds of that amount by the middle of the next decade," Goncalves explained.

Hirs pointed out to another factor to impede the U.S.' meeting its export targets -- competition among gas suppliers in the region. "The U.S. LNG cargoes will be competing with cargoes from other LNG producers such as Qatar, Algeria, Nigeria, Oman, Brunei, Trinidad and even Russia. These producers will have an advantage over U.S. cargoes due to shorter transportation routes and lower delivery costs," he explained.

Meanwhile, Turkey is expediting its efforts to finish the Trans Anatolian Natural Gas Pipeline (TANAP) project by mid-2018 to bring 10 bcm of gas from Azerbaijan to its domestic market and export another 6 bcm of Azeri gas to Europe.

In addition, northern Iraqi gas is expected to arrive in Turkey in two to three years' time with an annual average of 10 bcm, according to Genel Energy's Chairman Tony Hayward's announcement in November 2015. And natural gas from Israel could reach Turkey by the end of this decade if the two countries set aside their political differences. If both focus on the most feasible route for the delivery of eastern Mediterranean gas to northern Greek Cyprus, and then onto Turkey, then it could pave the way for Israeli gas reaching Europe cheaply.

Although Turkey has many opportunities to benefit from potential gas resources of its neighbors, U.S. LNG through the global spot market is still a viable option for Turkey. Whenever there is a gas supply distortion from sellers, or when Turkey's gas demand peaks seasonally, the spot market acts as a savior, and U.S. LNG is one of the cheapest options with its low-cost production.

However, Turkey also has some hurdles to overcome to import U.S. LNG. "The issue with getting LNG into Turkey is not the availability of LNG, or price, but the open access for LNG terminals and some of the rules regarding LNG storage requirements," Goncalves said. "It still remains difficult for Turkish buyers to independently import LNG. To assume large scale imports of U.S. LNG, one would need to assume the resolution of these LNG import challenges," he explained.

Turkey has two LNG terminals -- Aliaga in Izmir in the western part of the country which is fully operational to gasify 16.5 million cubic meters (mcm) of LNG per day, and the Marmara Ereglisi to the west of Istanbul where three tanks can gasify 22.5 mcm a day at full capacity, but the terminal is only processing 18 mcm a day at the moment. BOTAS plans to open a tender this year for the construction of a fourth tank in Marmara Ereglisi, which is estimated to be completed by 2019. This addition is set to increase the terminal's daily gasification output by 9 mcm per day.

Turkish energy companies eye post-sanctions Iran

AA Energy Terminal, *09.05.2016*

Turkish energy companies are looking eastward to Iran for opportunities to invest in various energy fields after the lifting of international sanctions on Iran, according to two Turkish energy majors in recent interviews.

Turcas, one of the major energy companies in Turkey, is interested in investing in Iran's renewable energy, natural gas, and oil industries, Batu Aksoy, CEO and board member of Turkish fuel retail company Turcas told. Since the sanctions were lifted on Jan. 16, Iran, which is anxious to regain its position as an energy player, has become a magnet for countries exploring trading opportunities.

With this aim, international energy companies have been welcomed to invest in Iran. The biggest challenge was conducting trade with Iran which through the sanctions imposition, had difficulties in accessing international financial institutions, Aksoy explained, and added that he believes such problems will end in the short term with the sanctions release.

Iran's banks had no connections with the international banking systems which meant the country could not legitimately transfer money in or out of the country. With a decade of not working with international banks, Iran will also need to update its banking systems. "Iran has huge potential with its high population and investor-friendly approach, and we want to get a share of this potential," Aksoy said.

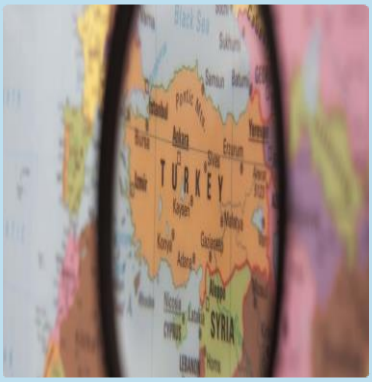
The CEO of another Turkish energy company, Limak Energy's Birol Erguven also said that they have visited Iran after sanctions were lifted. "With this visit we have seen that there are big opportunities in Iran to invest in various fields," Erguven added. "Turkish companies have very good experience in investments in energy, banking, construction and hotel [tourism] fields," Erguven said.

He also concurred that the biggest challenge in Iran is in its financial sector, but he was hopeful that these obstacles will be soon overcome. Erguven considers that Turkish companies lack in-depth information on investment opportunities in Iran and he urged would-be investors to conduct a thorough analysis of such potential.

Turkey and Iran regularly update their trade agreement with the signing of a fresh protocol to add new products to items exchanged between the neighbors. According to official data, in 2015, Turkey had $10 billion trade volume, however, the country wants to increase this to a $30 billion level.

Israel close to signing gas agreement with Turkey

Globes, *09.05.2016*



Israel is closer than ever to signing an agreement to export natural gas to Turkey, according to reports and statements by Minister of National Infrastructure, Energy, and Water Resources Yuval Steinitz in the "Bloomberg" news agency.

Turkey wants to consume half of the quantity of gas in the Leviathan gas reservoir, starting in 2020. In the second stage, gas may be transported from Turkey to Europe through a pipeline. "We have a strong connection with Israel, and importing Israeli gas to Turkey is a big deal for us," Zorlu Holdings CEO Omer Yungul said, adding that his company wanted to import 8 BCM of gas in the near future.

Zorlu is involved in the Israeli electricity sector, and together with Adeltech and Eilat-Ashkelon Pipeline, is a partner in private power station Dorad Energy. Adeltech and Zorlu also plan to build two more private power stations in Israel, and last January signed a gas supply contract with Leviathan.

Yungul's remarks came on top of statements by Turcas Petrol CEO Batu Aksoy that 15 Turkish energy companies were joining forces to promote the importing of Israeli gas to Turkey. Aksoy argued that Turkey, not Egypt, would be the anchor customer for Leviathan, and would consumer half of the gas in Leviathan.

"The main advantage in assembling a consortium is distribution of the risks incurred in such a major deal," Aksoy asserted, adding that Turkey, which consumes 50 BCM of gas a year, wants to decrease its dependence on gas from Russia, the supplier of 55% of the gas used in Turkey, with Iran accounting for an additional 15%.

The more Turkey succeeds in diversifying its sources of supply and reducing its dependence on a single supplier, the greater its energy security, so the prices it obtains will be lower, and the supplier's political power will also be weakened. The heads of the Turkish companies mentioned another advantage importing Israeli gas will open a window of opportunity for Turkey to serve as a passageway to Europe. Europe is desperately seeking to diversity its sources of supply, since an average of 30% of the gas it consumes comes from Russia, and a large proportion of that is transported via Ukraine.

In recent months, however, Russia has been acting aggressively against Ukraine, threatening to halt the supply of gas to it, and also to raise prices, which obviously affects all of Europe. Europe is promoting imports of gas, but by way of Greek Cyprus, not Turkey. European Commission announced it would grant Greek Cyprus €2 million for study for a gas pipeline from it to Europe.

A European Commission spokesman said, “The eastern Mediterranean gas reservoirs can help both the neighboring countries and countries seeking to bolster their energy security.” In order for gas exports from Israel to Turkey to take place, the countries must first sign a peace agreement. Since the Mavi Marmara incident, relations between the countries have deteriorated, and Turkish President Recep Tayyip Erdogan has banned gas imports from Israel.

Progress in the reconciliation efforts between the countries was achieved last week, with Israel Ambassador to the European Union David Walzer announcing in a lecture in Brussels that Turkey had rescinded its veto on Israel’s participation in NATO exercises. NATO has not yet made an official announcement in the matter.

In addition, Turkish Prime Minister Ahmet Davutoglu resigned at the end of last week, and one of the candidates to replace him is Turkish Minister of Energy and Natural Resources Berat Albayrak, Erdogan’s son-in-law. A source close to the negotiations between Israel and Turkey told “Globes” today, “Abayrak’s appointment as prime minister, if it goes through, will help move the gas export deal forward… Erdogan wants to sign a deal with Israel, and the appointment of the Minister of Energy will prove that he is attaching great importance to enhancing Turkey’s energy security.”

The political disputes with Turkey are not the only thing preventing the signing of a gas agreement. One of Turkey’s conditions for signing an agreement is access to Gaza, and Egypt will not allow this to occur. As of now, Greek Cyprus is also not permitting the deployment of a gas pipeline from Israel to Turkey through its economic waters, given the tense relations between Greek Cyprus and Turkey, which occupied the northern part of the island in 1974.

Nor should the problem of the gas agreement be ignored, after the Israel Supreme Court struck down the regulatory stability clause. In Steinitz’s Bloomberg interview, he asserted that Israel would soon present an alternative to the stability clause to Noble Energy and Delek Group Ltd. (TASE: DLEKG), and that the proposal would allow development of Leviathan to continue and the signing of gas export agreements with Egypt and Turkey. “…we are very close to resuming a diplomatic relationship with Turkey… Turkey is a huge market for gas,” Steinitz said, adding that Turkey’s consumption of gas would almost double in the next seven years: “They need our gas, and we need this market.”

Steinitz predicted that an agreement with Turkey would be signed in the coming weeks. Egypt and Greek Cyprus have announced that they were opening the sea to oil and gas exploration, and Steinitz announced last November that Israel’s economic waters would be opened to new oil and gas exploration, four years after the Ministry of National Infrastructure, Energy, and Water Resources stopped issuing licenses.

Six months have passed since then, and not a single license has been issued. The Ministry of National Infrastructure, Energy, and Water Resources stopped issuing new offshore exploration licenses in 2002 in order to make room for efforts to amend the Petroleum Law and establish a policy in the matter. Issuing of licenses resumed several years later, only to be discontinued again in 2012. In his last report on development of the natural gas sector, the State Comptroller criticized the Ministry of National Infrastructure, Energy, and Water Resources for these actions, saying that it had caused a gas monopoly in Israel. The neighboring countries, on the other hand, are planning to distribute new licenses.

At a conference in Houston, Egyptian Minister of Petroleum Tareq el Molla announced that in the coming weeks, Egypt was planning to issue 28 new blocs. “The Zohr discovery whet the appetite of other foreign companies working in Egypt to speed up seismic discovery operations and exploratory wells,” el Molla said, adding that Egypt was taking action at the same time to reduce its debt, which totaled $6.5 billion several years ago, and currently stands at $3 billion.

He went on to say that the Zohr reservoir had created 5,000 new jobs in Egypt. Egypt has signed 66 new agreements to distribute licenses in the past 30 months, guaranteeing the country at least $14 billion in revenue. Last February, the government signed an agreement with Italian company ENI, which discovered the Zohr field. According to the plan, gas will begin flowing from it late next year.

Greek Cyprus also announced six weeks ago that it was granting a third round of gas exploration licenses, after Delek Group and Noble Energy discovered the Aphrodite reservoir in Block 12 from a license granted in the first round in 2007, and 33 companies competed for nine blocks in the second round in 2012. The winners in the second round included French company Total (two blocks) and ENI and Kogas (three blocks). Companies are expected to submit their candidacy by July.

Greek Cyprus energy sector sources told “Globes” today that they hoped that Royal Dutch Shell would also participate in the third round. The Israel Ministry of National Infrastructure, Energy, and Water Resources asserts that the process of granting licenses is a long and complicated one, and that the sea will be opened for new licenses by the end of the year or the beginning of next year.

Cengiz Holding, biggest candidate for partnership in Akkuyu Nuclear Project

Daily Sabah, *10.05.2016*

Russian state-owned nuclear energy company Rosatom begins its search for a possible partner for the Akkuyu Nuclear Power Plant project, Turkey-based Cengiz Construction has expressed interest in becoming an investor. Speaking to Sabah daily, Cengiz Construction Chairman Mehmet Cengiz said it was the Russians who should knock on the door first.

As the builders of the marine hydro-technical structures of the plant, Cengiz added that Russia made offers to everyone, and stressed: “They made an offer to us as well. It is uncertain now with whom the project will proceed.

They are currently trying to make a decision, and it will become clear at the end of the year. We have experience in this sector; they would not come to us otherwise.” Cengiz Construction won a tender to build some of the Akkuyu plant’s structures.

Emphasizing that they have not yet been paid in full for the work completed so far, Cengiz said the Russians laid off Cengiz Construction staff; however, Cengiz Construction did not halt work in the area. Cengiz also highlighted that Russia would not waste to their money on the plant.

Recalling that nuclear has a 12.50 percent purchase guarantee, Cengiz said this investment was a technology-demanding and expensive one, but the state needed it. “Our biggest goal coming here was to learn about this technology. For example, the Japanese are good at constructing bridges, and we can learn about nuclear plants through this process as well,” Cengiz concluded.

Established in 1987, Cengiz İnşaat Sanayi ve Ticaret A.Ş., which is a subsidiary of Cengiz Holding, is one of the most renowned Turkish construction companies. The total value of the company’s ongoing projects within the country currently amount to approximately $7.85 billion.

The sale of a 49 percent stake is a provision of the inter-government agreement to build the plant signed by the two countries in 2010. The Akkuyu plant is not scheduled to come on online before 2022 and has faced delays due to regulatory hurdles and Moscow’s financial woes.

The Russian-owned project, Turkey’s first nuclear power plant, has been complicated by the deterioration in ties between the two countries after Turkey shot down a Russian warplane over the Turkey-Syria border in November. In December, Turkish energy officials said state-owned Rosatom had stopped construction work on the project. President Vladimir Putin subsequently said the decision on the future of the plant would be purely commercial.

Emphasizing that there have already been concerns regarding the financial health of the state-run company and its ability to finance projects in the wake of Russia’s deep economic problems -- fueled by low oil and gas prices and Western sanctions associated with the Ukraine crisis -- sources indicate that Rosatom’s willingness to sell so many shares has nothing to do with the Nov. 24 crisis between Turkey and Russia following the downing of a Russian military aircraft that violated Turkish airspace on the border with Syria.

In mid-January of last year U.S.-based credit rating agency Fitch downgraded the credit score of Atomenergoprom while lowering the credit rating of 13 of Russia’s largest companies, which make up a vast part of Rosatom’s structure. Currently, Rosatom has the lowest rating in the Better Business Bureau (BBB) investment-grade category, with a negative outlook being predicted by investors, who say that the company’s score is likely to be downgraded again in the future.

The U.S.-based credit rating agencies Standard & Poor’s (S&P) and Moody’s also assigned credit ratings of BB+/B and Ba1, respectively, which are considered “non-investment grade speculative.” Also, S&P has given Rosatom a negative credit outlook, whereas Moody’s considers the company’s outlook stable. Moreover, sovereign credit agencies in Russia have given similar ratings, changing the rating outlook of Rosatom from stable to negative.

In addition to the Akkuyu Nuclear Power Plant project, Rosatom has similar nuclear projects in other countries as well, including one of which Rosatom is a plant supplier, with Finland’s nuclear power company Fennovoima. Accordingly, Fennovoima aims to build its nuclear power plant Hanhikivi 1 (FH1) to produce electricity at cost in northern Finland.

While activists criticize the construction of the power plant, they also note that most of Rosatom´s projects have a long history of unpaid salaries and delayed payments. Expressing that Rosatom's partial sale of the Akkuyu Nuclear Power Plant, Turkey's first nuclear plant project, should be considered normal, energy experts stress that the sale has importance for Turkey in terms of potential construction work on the power plant.

The nuclear plant in the southern province of Mersin is the first of three nuclear power plants Turkey currently plans to build to reduce its dependence on imported energy from exporters such as Russia and Iran.

Turkey launched the construction of its first nuclear power plant in negotiations with Russia in 2010 for greater energy independence. The $20 billion project will consist of four units, each of which will be capable of generating 1,200 megawatts of electricity.

Rosatom is constructing the Akkuyu power plant and it is expected that the facility will produce approximately 35 billion kilowatt-hours of electricity per year once completed. Its service life is estimated to last 60 years. Akkuyu power plant is forecast begin operating in 2023 at the latest.

A second plant will be built by a French-Japanese consortium in the northern city of Sinop near the Black Sea, while former Energy and Natural Resources Minister Ali Rıza Alaboyun announced in October of last year that the country's third nuclear power plant will be built in the İğneada district in the northwestern province of Kırklareli.

Turkish gov't plans to set new criteria for power distribution companies

Hurriyet Daily News, *10.05.2016*

New criteria will soon be implemented to increase customer satisfaction in power distribution, Energy Minister Berat Albayrak has said.

In a closed meeting in the Black Sea province of Trabzon, Albayrak shared performance and employment data for power distribution companies, according to sources close to the matter. In addition to existing services, new criteria will be established to increase customer satisfaction in a number of areas, with officials set to offer written feedback within 15 days after any consumer complaint and answer consumer calls within 30 seconds at company call centers.

Albayrak met representatives from 21 power distribution companies last weekend. In a presentation about the new era for the companies, he said the firms would have responsibilities in four key areas, each of which has separate evaluation criteria, according to sources. Companies will be graded upon their evaluation results after a series of reviews and checks, he added.

If they do not resolve a problem in a pre-defined process, they will face penalties and sanctions, which are defined by regulations. The ministry will closely follow whether companies offer supply quality and consistency, undertake the required investments, offer good customer services and establish a number of well-functioning corporate communications services.

Under the criteria of the "Supply Quality and Consistency" criterion, any power cuts and their frequency will be determined upon a consumer-based feedback system. Under the "Investments" criterion, the ministry will follow whether companies will make the required investments, which are defined in cooperation with the Energy Markets Regulatory Authority (EPDK).

As part of the "Customer Services" criterion, companies were offered first assessment reports by ministry officials at the meeting that were prepared by asking people whether they were happy with their power distribution services. People were asked whether they had dealt with their power distribution companies in the last six months due to any problem and whether their problems were resolved easily.

Albayrak noted that the performance of the power distribution companies' call centers was one of the key criteria, according to sources. He advised company representatives to adopt effective and efficient corporate communication models through which they can build direct contact with their customers.

Turkey banking watchdog working to ease energy companies' debt

Bloomberg, *10.05.2016*

Turkey's banking regulator is working with energy companies and their lenders to help ease a debt burden estimated by some industry experts at $60 billion.

The Ankara-based regulator is investigating the situation after a request from both the banks and energy companies, Mehmet Ali Akben, head of the regulator, told reporters in Istanbul on Tuesday. It's studying the matter with the energy ministry, he said. The regulator is seeking to complete the review this year and will make a "comprehensive" assessment of the companies' demands, Mehmet Ali Akben said.

Many energy firms have demanded authorities examine their debt burden and enact measures similar to those which have helped the aviation and tourism industries, including treasury-backed funds. Energy companies have borrowed as much as $60 billion, mostly from Turkish lenders, for about $75 billion of power production and distribution investments, Mehmet Gocmen, chairman of Enerjisa Enerji Uretim AS, a joint venture between E.ON SE and Turkey's Haci Omer Sabanci Holding AS, said on April 5. Companies have faced declining power prices.

“We are trying to find a model to resolve the problem of those companies’ debt burden and to keep investment in the energy industry attractive,” Ali Riza Alaboyun, deputy energy minister, said in an interview.

Israeli government suspends work at Golan oil drilling site

Haaretz, *11.05.2016*

Testing at exploratory oil wells on the Golan Heights was suspended by an unexpected order of the Energy Ministry on Tuesday on the grounds that the company exploring hadn’t received proper approvals to continue.

The ministry said all work at the Ness 2 site, one of five drillings Afek Oil & Gas has completed at a site on the southern Golan Heights, should end “as soon as possible,” a move the company said took it by compete surprise. “The company has acted in accordance with the terms and is at the peak of its activities in the field it was awarded under the law,” said Afek, a subsidiary of the Genie Energy.

“Given the situation, we were taken by complete surprise by the request of the follow-up committee, which three weeks ago approved extending our testing, to bring them to an end as soon as possible.” The Golan drillings have been controversial both because they are taking place on land still claimed by Syria and because of environmental opposition. Last October, Yuval Bartov, Afek’s chief geologist, said the company has identified an oil stratum 350 meters thick, which would suggest large amounts of oil.

Shares of New Jersey-based Genie Energy, which was founded by American Jewish businessman Howard Jonas, were up 0.8% at $7.96 in early afternoon local time in New York. Genie had issued no announcement about the suspension.

Despite the controversy, the ministry’s order suspending operations appears to be only procedural. Six weeks ago, Afek received an extension on its license from a inter-ministerial follow-up committee, but the Energy Ministry said on Tuesday the government’s Oil Committee was the only body authorized to grant the approval. Sources said it was likely to grant the approval since the committee had awarded the license and extensions in the past.

Russia seeks bigger Middle East role through alliance with Israel

Asia Times, *06.05.2016*

What had initially started as co-ordination between Russian and Israeli forces to avoid any clash over the Syrian airspace is now expanding into a sort of strategic alliance.

Israel's prime minister Benjamin Netanyahu reached Moscow to discuss with Putin the state of crisis in Syria. While this was one of the many crucial issues reportedly discussed in the closed-door meeting, what stands out is the strong possibility of Gazprom developing Israel's Leviathan gas fields in the Eastern Mediterranean, if materialized, will have enormous implications for the future of the Middle East as it can, alter erstwhile regional alignments.

Russia's tilt towards Israel, many believe, is happening at a time when Iran is equally tilting towards the West to re-capture the markets it had previously lost to its competitor, Saudi Arabia. As such, were Russia and Israel to strike a deal to develop the Leviathan, it would have enormous geopolitical implications not only for Iran but also for Saudi Arabia, Israel and the U.S.

On the one hand, Russia's measured distance from Iran would allow Saudi Arabia to reach Moscow too. Troubled as relations between the U.S. and Saudi Arabia currently are, Riyadh might find in it a good opportunity to balance its relations with Russia and the U.S. On the other hand, Iran might find in it a justifiable excuse to increase its tilt towards the West.

Russian investment in Israel would certainly make Israel self-sufficient in its energy needs for the first time since 1948 — an economic condition that Israeli policy makers would not hesitate to translate into military strength and thereby achieve an advantage against Iran.

While Israeli media largely focused on the question of Russia-Israel co-ordination in Syria, Russian state media did mention that both leaders did discuss 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. Needless to say, Russian involvement in Israel would minimize the risk of Iran or Hezbollah attacking these instalments. Israel's interest in taking Gazprom on board therefore has clear strategic implications too.

Needless to say, Netanyahu did seek, during his visit, Russian assurance against Hezbollah's possible anti-Israel operations from Syria in the wake of Russia's partial withdrawal. It is not that Russia has suddenly discovered some interest in developing its relations with Israel. While the current attention Russia is paying certainly has regional dimension, the very presence of more than one million ethnic Russians in Israel, including one minister in Netanyahu's cabinet also warrant stronger and multi-dimensional relations between the two countries and indicate the potential to develop relations independently of Russia's and Israel's with Iran and the U.S. respectively.

The ground work for Netanyahu’s April visit was, however, actually prepared during Israeli President Reuven Rivlin’s visit to Russia in March. This visit had taken place due to Putin’s invitation to the Israeli president, and was aimed at taking Israel into confidence over Russian withdrawal from Syria. It is important to note that the Israeli President had to cancel his scheduled visit to Australia to go to Russia. Equally important is the fact this visit had Netanyahu’s blessings too.

Such Russian ‘deep’ interest in developing relations with Israel has another dimension too. While the U.S. wants reconciliation between Israel and Turkey and pave the way for the sale of Israeli gas and weapons to Turkey, Russian deal with Israel would help Russia pre-empt the Washington backed deal. It is important for Russia because if such a deal is to take place, it would certainly help Turkey considerably reduce its dependence on Russian-supplied gas.

The deal taking place between Russia and Israel, therefore, has two sub-deals. For Israel, Russia would provide security against Iran-backed Hezbollah; for Russia, Israel would walk away from the Washington backed gas deal with Turkey. This, in turn, would help Russia maintain its leverage over Turkey.

On the other hand, the reason for Israel not ‘willing’ enough to enter into a Washington-backed deal with Turkey, notwithstanding that Israel would benefit from it by selling Turkey weapons, is the currently fractured state of relations between Netanyahu and Obama. Recent efforts by Netanyahu to get US President Obama to back a permanent Israeli occupation of the Golan Heights reportedly fell on deaf ears. It is for this reason that the ‘security’ of Golan Heights was also one of the issues discussed during the March and April visits of Israeli President and Prime Minister to Russia.

As far as the Russian position is concerned, what has allowed Russia to diplomatically ‘disrupt’ Israel-Turkey gas deal is that both Israel and Turkey have failed to come up with a concrete deal, or its basic framework even. The reason for this is the support, Israeli officials believe, Turkey continues to provide to Hamas.

The Israeli Defence Minister, Moshe Ya’alon, said a few times that Israel has its own red lines, which included the shutdown of Hamas command post in Turkey from which terror activities against Israel were ordered, according to Israel. His stance probably gave voice to the Israeli military establishment that prefers maintaining military cooperation with Russia to potential Israeli gas sales to Turkey if they hurt Russian interests and anger Putin.

What is, therefore, emerging is a complex real politik negotiation between Putin and Netanyahu of the highest geopolitical stakes for the entire Middle East and beyond. Therefore, if Russia and Israel enter into a deal, it could portend a major new step in Putin’s energy geopolitics in the Middle East, one which could give Washington a major defeat in its increasingly inept moves to control the world’s center of oil and gas. While the deals are still in the offing, it cannot be gainsaid that Russia-Israel deal would provide the latter a much sought-after permanent foothold in the Middle East.

Iran’s Oil Sector Returns to Form

Stratfor, *10.05.2016*

Oil and geopolitics crossed paths repeatedly throughout the 20th century. And perhaps nowhere were the political effects of their intersection more pronounced than in Iran. For nearly five decades, the Anglo-Persian Oil Co. the forebear of what would eventually become British Petroleum, enjoyed near total control over Iran’s oil sector.

When Iran nationalized the sector in 1951, the United States and United Kingdom responded by overthrowing its architect, Prime Minister Mohammad Mossadegh, just two years later. Those events heavily influenced the 1979 Iranian Revolution, a foundational element of which was resource nationalism.

And now it appears that BP is returning to its roots. During the week of May 2, the head of Iran’s national oil company announced that BP will soon open an office in Tehran. Meanwhile, the country is opening up its energy sector and considering admitting foreign oil companies to set up joint ventures and operate oil fields there for the first time since 1979.

But Iran faces new challenges. To revive his country’s economy after years of sanctions, President Hassan Rouhani is now driving an initiative to reinvigorate the oil sector. To do so, Rouhani will have to break what has become a steady cycle of backlash — aimed at foreign and domestic actors alike — over the distribution of oil revenue in Iran.

The Islamic Republic of Iran is a country built on oil. Despite attempts to reduce the country’s economic reliance on the industry, oil remains Tehran’s lifeblood — supplying roughly 40 percent of the government’s revenue in 2015 — as well as its largest export.

Even so, oil production in the country has never returned to the pre-revolution levels of the 1970s. Since then, Iran has sought to balance its revolutionary ideals with the pragmatic understanding that it needs foreign investment and technology to develop its oil sector and, in turn, to finance its government.

Pragmatism notwithstanding, several restrictions, including a ban on foreign ownership of oil reserves, have deterred foreign partners, who may be difficult to lure back. Like Rouhani is now trying to do, former President Ali Akbar Hashemi Rafsanjani attempted to introduce liberalizing reforms to rebuild Iran’s economy following the Iran-Iraq war of the 1980s.

At the time, Iran’s political system was much different from what it is today. Foreign investment into the country’s hydrocarbon sector was anathema to many politicians, who showed little interest in attracting foreign investors, and Iran became embroiled in a bitter ideological war between its more isolationist Islamic left and a more capitalist conservative clerical base.

As Saudi Arabia looks beyond oil, its fight to remain top exporter intensifies

WSJ, *09.05.2016*

Even as Saudi Arabia attempts to reduce its dependence on oil, the kingdom's economic battle over the oil market with Iran, Russia and others is intensifying, a contest that OPEC officials say won't settle down until geopolitical rifts in the Middle East cool.

Saudi Arabia's rivalry has contributed to violent conflicts in Syria and Yemen, where Riyadh and Tehran support opposing sides, and made it nearly impossible for the OPEC to agree on tactics to raise prices. What needs to be resolved first are "strategic issues in the region, Yemen, Syria," said Iran's deputy oil minister for international affairs.

"The international community needs to take an agreed upon approach before things get settled down as far as OPEC is concerned." The descent of oil prices to 13-year lows this year, the nadir of a nearly two-year slump, has shaken Saudi Arabia, the world's largest oil exporter.

The country's powerful young Prince Mohammed bin Salman has introduced a package of economic and social policies aimed to free Saudi Arabia from its dependence on oil revenues, including selling a stake in the state oil company and boosting tax receipts from mining and tourism.

Low oil prices have also forced the kingdom to scramble to fend off competition for oil buyers from Asia to the U.S. Saudi Arabian officials have warily eyed the rise of Iranian exports as the Islamic Republic ramps up production following more than three years of crippled output because of Western sanctions on its nuclear program.

Saudi Arabia and Iran have announced price cuts for their crude as they compete in Europe and Asia. In an interview, Mohsen Ghamsari, the director in charge of marketing oil at the National Iranian Oil Co., said Iran wouldn't provide outright discounts for its crude. But, he said, "with Saudi Arabia, there is a price competition."

The removal of longtime Saudi oil minister Ali al-Naimi over the weekend was widely seen as a bid by Prince Mohammed to dig in his heels against the encroachment of Iran on its oil buyers.

The prince "seems fully committed to waging a brutal battle for market access against arch regional rival Iran," said Helima Croft, global head of commodity strategy at RBC Capital Markets LLC. "He apparently is not prepared to concede an inch in terms of oil market access," she added.

For oil traders, a market-share tussle between Saudi Arabia and Iran would signal that the global glut of crude that has weighed on prices isn't going away soon. The situation also gives the two countries another sore point against each other at a time of frayed diplomatic relations.

Riyadh, where Sunnism is the main form of Islam, cut off ties with Shiite-dominated Tehran after protesters ransacked Saudi diplomatic buildings after the execution of a Shiite cleric in Saudi Arabia. Tehran has been among Saudi Arabia's biggest critics for the deaths of hundreds of pilgrims during a stampede in Mecca last year.

The two countries also support opposing sides in Syria, where Iran backs President Bashar al-Assad, and in Yemen, where Saudi Arabia has led a military campaign against Tehran-supported rebels. Complicating the picture are low oil prices that have reordered the energy-sales landscape across the world. Saudi Arabia has ceded its grip on oil markets in the U.S. and parts of Asia and Europe. Iran, Russia and others have forced the kingdom to look for new markets.

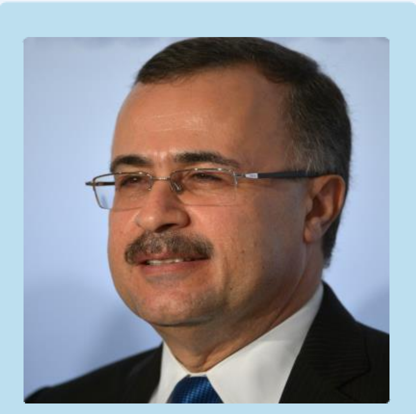
Saudi Arabia's crude-oil exports to its biggest single customer—the U.S.—have fallen almost a fifth between 2013 and 2015 because of surging American and Canadian oil production. The Saudis are losing traction in Japan, where they supplied 33.7% of oil imports in March, down from 37.6% last year, while Russia gained 1% over the same time there.

And the kingdom's efforts to grab some of Russia's European customers by selling at cut-rate prices hasn't worked so far. Russia has managed to keep its European market share steady at around 26% in 2014 and 2015, while Saudi Arabia has slipped, according to data from London-based consultancy FGE. The appointment of a new Saudi oil minister, Khalid al-Falih, comes after Iran's crude exports have surprised to the upside.

"Things will intensify," said energy analyst Jamie Webster. "In the short term the battle is in Europe, but the overall war is for the growing Asia demand," he added. The appointment of Mr. Falih as the new oil minister signaled the contest would continue. In his first public statement as oil minister, Mr. Falih said Sunday the kingdom was "committed to maintaining our role in international energy markets and strengthening our position as the world's most reliable supplier of energy."

Saudi Arabia plans to expand oil business as global demand rises

Bloomberg, *09.05.2016*



Saudi Arabian Oil Co., the world's biggest oil exporter, said it will keep expanding and meet demand from customers as global consumption increases, the head of the state-run producer said.

Saudi Arabian Oil Co., also known as Saudi Aramco, will boost capacity at the Shaybah oil field in the Rub Al-Khali desert in southeastern Saudi Arabia by 33 percent to 1 million barrels a day in the next couple of weeks and will double natural gas production over the next decade, Chief Executive Officer Amin Nasser told reporters Tuesday. Aramco ilooking for joint ventures in countries from the U.S. to China, he said.

“Saudi Aramco will continue to expand,” Nasser said at the company headquarters in Dhahran in eastern Saudi Arabia. “We will soon be publishing our annual book and you will see there is significant growth in our annual oil production compared to previous years.”

Saudi Arabia is seeking to reduce its reliance on oil sales amid lower prices for its most lucrative export. As part of that effort, the king’s increasingly influential son, Deputy Crown Prince Mohammed bin Salman, wants to sell stock in Saudi Aramco for the first time, creating what could be the world’s largest listed company. Brent crude rose Tuesday as much as 3.7 percent to $45.24 a barrel. Crude averaged about $100 a barrel from 2011 through 2014.

“Even though it is challenging, it’s still an opportunity for us to grow,” Nasser said of the international expansion plans. The company is looking to develop more joint ventures in countries including the U.S., China, Indonesia, India, Vietnam and South Africa, he said.

The plans include boosting refining capacity to 10 million barrels a day, Nasser said. Saudi Aramco already has refining and petrochemical partnerships in the U.S., China, South Korea and Japan, as well as in Saudi Arabia, giving it a share in plants capable of processing 5.4 million barrels a day. Of that total amount, it directly controls 3.1 million barrels a day of capacity, he said.

Global crude demand will rise by 1.2 million barrels a day this year, Nasser said. Saudi Aramco, which produced 10.2 million barrels a day on average last year, will meet customers’ requests for oil, he said. “We are seeing an increase in India, China, the U.S. and from different parts of the world,” Nasser said. “We are meeting that call on us from our partners across the world.”

The company is working to sell shares in an initial public offering on the domestic exchange as well as internationally, Nasser said. A supreme committee with oversight of the company is giving direction in the share sale process, he said.

A glimpse into what Saudi Arabia’s new oil policy will look like

Oilprice, *09.05.2016*

Following the biggest news of this weekend, the (anticipated) resignation/termination of Saudi Arabia’s longstanding oil minister Ali al-Naimi, everyone has been wondering about what comes next and how this development will impact the price of oil. We laid out our preliminary thoughts as follows:

Ultimately this is not about the new oil minister: this is about Prince Mohammed taking full control over Saudi oil. So the question everyone now wants answered is “what does this mean for oil?” While nobody knows the answer, what is clear is that over the past 2 months, Prince Mohammed has had a far more hawkish outlook on oil prices.

It was Mohammed who effectively scuttled the Doha oil deal which was “this close” to reaching a conclusion before a last minute collapse as the crown prince intervened, overriding al Naimi’s proposal.

Furthermore, as the FT reported at the time, “there were other signs that Saudi Arabia’s oil ministry was preparing for a deal. Between January and March the country held its oil output at around 10.2 million barrels per day — a level consistent with the proposed freeze.” Then a few weeks ago, Prince Mohammed once again poured cold water over any expectations that Saudi Arabia would permit higher oil prices when he said last week said “the country’s production could immediately rise to 11.5 million b/d — if there was demand.”

In other words, on the margin al Naimi’s termination and Prince Mohammed’s official ascent to the top of the Saudi oil chain of command are likely bearish in the short term, as Saudi Arabia reverts to its 2014 strategy of pushing oil prices low enough to put marginal producers out of business, a process that, due to relentless hedging and generous banks, has taken way too long.

In summary, it is likely the slow fruition of Saudi plans to put high cost producers out of business, coupled with Saudi Arabia’s own economic deterioration that forced the king to take this drastic measure. Shortly thereafter, one of the few energy market strategists we pay attention to, Reuters’ John Kemp, proceeded to tweet his thoughts on the matter of Saudi oil “succession”, in what effectively was a repeat of our own conclusion, and where the most notable observation is that “if anything dep crown prince has pursued an even more hawkish line to use oil weapon in broader struggle with Iran”:

Still, speculation is just that, and the market will be driven by any official statement out of Saudi Arabia and its new oil minister, Khalid al-Falih, who one day after the surprising power shift, made his first official statement saying that Saudi Arabia was “committed to meeting demand for hydrocarbons from its customers and would maintain its petroleum policies.” From Reuters:

“Saudi Arabia will maintain its stable petroleum policies. We remain committed to maintaining our role in international energy markets and strengthening our position as the world’s most reliable supplier of energy,” Khalid al-Falih said in an e-mailed statement. “We are committed to meeting existing and additional hydrocarbons demand from our expanding global customer base, backed by our current maximum sustainable capacity.”

As Reuters summarizes, Falih’s comments on Sunday support analysts’ views that no shift in Saudi oil policy is likely as a result of his appointment, however the emphasis on maximum sustainable capacity once again hints that any incremental increase in global demand will be promptly met by a boost in Saudi output, just as the deputy crown prince bin Salman said would happen in his Bloomberg interview one month ago.

Some other observations came from Dow Jones, which points out that as al-Naimi departs his job, “the kingdom’s crown as top crude supplier to Asia, home to some the world’s biggest and fastest-growing oil consumers, is slipping” something we first discussed several weeks ago. “Stiffening competition from countries such as Russia and Iran is threatening Saudi Arabia’s longtime hold over markets including China, Japan and India.”

Those competitive forces, intensified by the nearly two-year slump in oil prices, underscore the challenges Mr. Naimi faced during his final years as oil minister. Mr. Naimi was dismissed Saturday, replaced by Khalid al-Falih, chairman of state oil company Saudi Aramco.

Analysts say Mr. Falih is likely to follow Mr. Naimi's policy of trying to safeguard Saudi Arabia's market share, even if it means contributing to the world's continuing supply glut. Saudi Arabia has faced pressure from smaller OPEC members to cut its production since oil prices started tumbling in mid-2014.

"Khalid Al-Falih believes in the policy implemented by Al-Naimi and does not see the need for Saudi Arabia to intervene to balance the market," analysts at the research firm Energy Aspects wrote in a report Saturday. Mr. Falih "has made his opposition to unilateral cuts or freezing of production very clear," they wrote.

In other words, more of the same even as the Saudi policy of keeping its production high has had mixed success in Asia. Asian refiners still source the bulk of their oil from Middle Eastern producers, often on long-term contracts that are already in place. China, the region's biggest oil importer, still gets more of its crude from Saudi Arabia than anywhere else, although its reliance on Russia has been surging in recent months forcing Saudis to recently deliver oil at spot prices.

But while China's oil imports grew 13.4 percent year-over-year to 7.3 million barrels a day in the first quarter of 2016, its imports from Saudi Arabia grew just 7.3 percent, customs data show. The kingdom's share of Chinese imports fell to 15 percent from 15.9 percent.

Meanwhile, Chinese oil imports from Russia surged 42 percent in the first quarter of 2016, accounting for 13 percent of the total in the quarter, up from 10.6 percent in the same period the previous year.

In other words, if the Saudis want to regain Chinese market share from the Russians, they may well have no choice but to either aggressively boost production or cut prices, or both, once again. In another report, the WSJ confirmed precisely what we said yesterday when it wrote that the dismissal of Ali al-Naimi as Saudi Arabia's oil minister "puts the country's deputy crown prince firmly in control of energy policy and makes it less likely the Organization of the Petroleum Exporting Countries will change tactics next month, OPEC officials said."

Prince Mohammed bin Salman, second-in-line to the throne, has taken a hard line on Saudi oil policy, doubling down on the kingdom's strategy of maintaining high crude output in the face of collapsed prices. OPEC officials said the appointment of a new minister, Khalid al-Falih, makes it unlikely that Saudi Arabia will advocate changing policy with OPEC, the 13-nation cartel that controls a third of the world's oil production.

It could still be a long and fractious meeting when OPEC convenes on June 2. Some members want to pull back or freeze the cartel's output, while Saudi rival Iran is intent on throttling its own production up now that Western sanctions on its nuclear program have ended. "Naimi knows OPEC and OPEC knows him and any change will present another problem for OPEC ministers," said John Hall, chairman of Alfa Energy and a longtime OPEC watcher. "To understand the new direction that will undoubtedly arise from the new leadership of the Saudi ministry will take time."

Mr. Falih is an experienced oil executive, who has lead the state oil company for years, but he hasn't attended an OPEC meeting and doesn't have the long-term relationships with other countries that Mr. Naimi did.

Mr. Falih will have to navigate a landscape of increased competition from Iran, Saudi Arabia's main rival for power and influence in the Middle East. Freed from Western sanctions, Iran has embarked on a campaign to grab back customers it lost to Saudi Arabia and others, in both crude-oil markets and petroleum products like chemicals, Tehran officials said.

In his first remarks as minister, Mr. Falih said in a news release that the country would "remain committed to maintaining our role in international energy markets and strengthening our position as the world's most reliable supplier of energy."

Mr. Falih moves into his new job as Riyadh and Tehran are at odds diplomatically, backing opposing sides in the violent conflicts in Yemen and Syria, and representing different strains of Islam--Sunnism in Saudi Arabia and Shiism in Iran. Riyadh cut off ties with Tehran this year after some of its diplomatic buildings in Iran were ransacked by protesters following the execution of a popular Shiite cleric in Saudi Arabia.

Our assessment based on all the latest news is that the Saudi strategy of attempting to put high-cost, marginal producers, whether in (Venezuela) or out of OPEC (U.S. shale), out of business will accelerate, especially as Saudi's sworn nemesis, Iran, pushes its own output higher month after month.

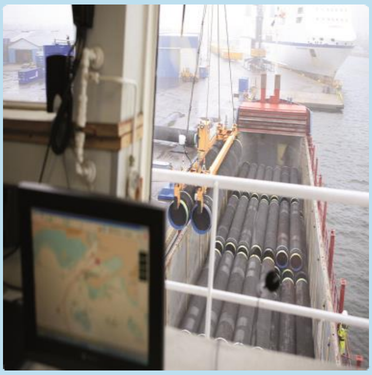
As we reported yesterday, Falih's appointment was part of a bigger Saudi shake-up announced on Saturday as King Salman restructured some big ministries in a major reshuffle intended to support a wide-ranging economic reform program. As part of the restructuring, the Petroleum Ministry has been renamed the Ministry of Energy, Industry and Mineral Resources. Additionally, the water and electricity ministry was abolished and its responsibilities split. The energy ministry will now oversee activities related to electricity.

"The creation of a new Ministry in Saudi Arabia that brings together the Kingdom's abundant and unrivalled energy and mineral resources and industrial capabilities is in line with the ambitious objectives of Saudi Vision 2030," Falih said.

Finally, while we wait to see how U.S. oil futures will react to the Saudi news, local Saudi equity markets took the news in stride. On Sunday, the Saudi stock index closed 0.2 percent higher after rising as much as 1.0 percent at one stage. Petrochemical blue chip Saudi Basic Industries gained 0.3 percent. State utility Saudi Electric climbed 1.8 percent.

Nord Stream 2: A killer project

EU Observer, *11.05.2016*



Scholars of European affairs will one day judge how well EU institutions coped with crises. However, speaking as an MEP, I must say it is unwise for the European Commission to try to play deaf, dumb and blind to certain serious developments in the real world.

Drawing attention to one area, it is unwise to pretend that things are normal in the EU-Russia energy business. The fact is that Russia's gas pipelines, the little green men that it sent to Ukraine, the money it gives to populist parties in our member states and its anti-EU propaganda are all part of the same programme.

The fact is that Russia is exerting great influence to bend, or even break, EU energy law. One project that lacks principled scrutiny by the EU's top institutions is the Nord Stream 2 (NS2) gas pipeline. If it is built, by 2019, it would duplicate existing pipes under the Baltic Sea from Russia to Germany and its implications would be far wider than many people think. I would like to hear commission president Jean-Claude Juncker take a clear stand on NS2. But I myself call it a killer project because I believe it is part of a programme to destroy European unity.

If it is built, the EU would become extremely dependent on a single gas supplier - Gazprom, an entity under the full control of Russian leader Vladimir Putin. Europe already imports 39 percent of its gas from Russia. After NS2, 80 percent of Russian gas imports would be concentrated in one route. In Germany itself, the share of Russian gas would increase from 40 percent to 60 percent.

Beyond Germany, 12 EU member states depend on Russia for 75 percent or more of their gas. After NS2, the level of their dependence would also go up. I call it a killer project because it has no commercial purpose, whatever its lobbyists say. Independent energy experts agree that there is no market logic for investing €20 billion in new Baltic pipelines. Nord Stream I, which is already in operation, uses less than half of its capacity.

NS2 was never about the energy business, it was always energy politics. It aims to split and destabilise the EU, to harm individual member states and to degrade Ukraine, which would be eliminated as the main Russia-EU gas transit route.

This is why Ukraine and all other central and eastern European countries are against the Russian-German project. It is obvious who would stand to gain from splitting the EU into gas partners and gas slaves - Russia. It is less obvious why Germany is getting involved. It is also interesting what Denmark's official position will be, knowing that NS2 will pass through Danish waters.

NS2 contradicts the European Energy Union - a policy of diversification of energy sources and suppliers. We need the energy union to guarantee a fair gas price for all and to enable imports from the wider world, for instance via liquefied natural gas (LNG) terminals.

Some have been built in Spain and in my home country, Lithuania. We have an LNG terminal in the port of Klaipeda and an LNG vessel named Independence. "Independence" is the key word here. The Juncker commission made big promises on creating a free and secure energy market. It has yet to deliver. NS2 is a killer project because it shows that Schroederism is back in Europe.

I am talking about the former German chancellor, Gerhard Schroeder's policy of putting Russian money first. It risks making Germany, one of the most powerful EU states, prone to Russian manipulation. You hear Schroederism from people in chancellor Angela Merkel's cabinet. You sometimes hear it from the chancellor herself. Merkel recently spoke out in defence of EU energy security, but she also defended the commercial merit of NS2.

There is no such merit. Behind Gazprom, a giant shell firm, there is only Putinism. There is no easy way to stop NS2. Two big states are building it and the ones who will pay the price are smaller. Brussels is being squeezed by Moscow and Berlin.

But for all of Russia and Germany's influence, if NS2 contradicts EU single market law - specifically, the so called third energy package - then Juncker's commission must call a spade a spade. Because of the sensitivity of the issue, a group of independent jurists should also provide its own legal analysis of the project. I will be demanding this as a member of the European Parliament. When strategic decisions are being made, but political courage and EU values are lacking, the law is our last line of defence.

Germany ups Gazprom imports by 19 percent in q1

Oilprice, *11.05.2016*

While dramatic talk of an end to Gazprom's 'monopoly' in Europe steals headlines in the wake of the first LNG shipments to the continent, Germany reveals that it's increased its gas imports from the Russian giant by 19 percent in the first four months of this year.

"It was noted the last year broke the record of supplies from Russia, which grew by 6.6 bcm. The upward trend continues to become stronger this year - 2 bcm as compared to the last year were already exported in the first four months of 2016," Gazprom said, referring to a meeting Gazprom CEO Alexei Miller and German Vice-Chancellor Sigmar Gabriel.

The two also discussed the Nord Stream 2 pipeline project as a way to meet the "growing demand for Russia's energy resources in Europe," Tass news agency reported. "Creation of a new gas transportation main line will not merely improve reliability of supplies but will also contribute to development of the European gas market," Gazprom noted. In 2015, Gazprom supplied 45.3 billion cubic meters of natural gas to Germany.

Gazprom supplies about one-third of the gas that Europe consumes. Norway supplies another quarter; so together, the two countries satisfy less than 60 percent of European gas needs. Gazprom is the single biggest player on the European market.

German Uniper, a subsidiary of E.ON, recently renegotiated a long-term gas import contract with Gazprom, reportedly “derisking” the contract going forward, according to Platts. The renegotiation came after E.ON started arbitration proceedings in 2014 against Gazprom over pricing.

Sino-Russian gas deal: Smoke without fire

Financial Times, *05.05.2016*

Russia’s political and economic “pivot to Asia” has long appeared to deliver less than it promised. But then, late last month, two Chinese banks came through with eye-catching loans worth $12bn to develop the Yamal liquefied natural gas venture in the Arctic — one of the largest project financing deals in Russian corporate history.

In fact, the agreement was the second big Chinese commitment to the project. In March Novatek, Russia’s largest independent gas producer and the main Russian shareholder in the Yamal project, sold a 9.9 per cent stake in the venture to China’s Silk Road Fund in a deal worth $1.2bn.

Taken together, the deals are a notable breakthrough for Novatek and for the Kremlin. They mean the $27bn project is fully funded and on track to launch next year, even though similar projects have been shelved amid a global oversupply of cheap energy — such as Woodside Petroleum’s $40bn Browse LNG venture off Western Australia.

It will therefore open up ship-borne LNG exports to Asia, enabling Russia to decrease its reliance on gas sales to Europe. No less significantly, it lets Moscow cock a snook at the west by showing it can still finance such a project even though Novatek and its part-owner Gennady Timchenko, a member of Russian president Vladimir Putin’s inner circle, are under US sanctions.

However, the Yamal deal seems unlikely to herald a rush of similar Sino-Russian energy deals. More likely, it will be the exception that proves the rule. There has been a handful of large Beijing-Moscow tie-ups in recent years, such as Rosneft’s 2013 agreement to supply 365m tonnes of oil, then worth $270bn, over 25 years to China National Petroleum Corporation. At the same time, CNPC took 20 per cent of the Yamal project. Beijing’s foreign policy initiative has led to both welcoming and wary reactions

Then weeks after Moscow’s annexation of Crimea, China and Russia agreed a $400bn deal for Gazprom to supply CNPC with for 30 years. But China has otherwise been surprisingly slow to take advantage of the combination of western sanctions and its own financial resources to grab a larger part of Russia’s upstream energy market, or to service more of Russia’s financing needs.

One reason may be that Beijing's banks lack the on-the-ground knowledge and risk-management skills to provide large-scale financing to Russian clients. Alexander Gabuev, an Asia specialist at the Carnegie Moscow Center think-tank, suggests that while Beijing has criticised sanctions, China's commercial banks and financial institutions have been reluctant to risk falling foul of sanctions compliance issues. In the past two years, not a single Russian company has raised debt or equity on Chinese exchanges despite Kremlin hopes that Asian capital markets could act as a substitute for western ones.

Mr Gabuev notes that the Silk Road Fund that took a stake in Yamal is a $40bn special purpose vehicle set up to back Chinese president Xi Jinping's One Belt, One Road initiative. That makes it essentially a "political pocket" of the Chinese government, largely disconnected from international financial markets. Similarly, the providers of the Yamal loans — China Development Bank and Export-Import Bank of China — are policy banks with little exposure to the global system.

Mr Gabuev believes that Mr Xi — realising that China has not provided the financial lifeline Russia expected — approved the Yamal investments as "small personal gifts to Putin and the entourage, to show that they are not abandoned . . . to invest in the relationship".

China's energy needs and Russia's abundant supply — and the inverse when it comes to financing — might seem to make them natural partners. Other special purpose vehicles could provide a means for further Chinese financing or investment in Russia, despite sanctions, as they did in Iran.

In reality, though, China's gas demand has slowed sharply in the past year, it has alternative suppliers and has already made good progress in covering its needs for coming years. So relations are likely to be hampered by Moscow's resolve not to sell on the cheap, and Beijing's determination to drive a hard bargain. As long as western sanctions persist, Russia is going to need China more than the other way round.

Ukraine unbundling 'too weak, yet too hasty' – ECS

Natural Gas Europe, *10.05.2016*

The Energy Community Secretariat (ECS) has requested "substantial changes" to the unbundling plan for state-owned Naftogaz that was recently submitted by Ukraine's energy ministry. Balkan countries and Ukraine are associated with the EU-28 member states through the Energy Community, which aims to integrate the former energy markets more closely with the EU.

In its conditional approval sent to Kiev and publicly disclosed, ECS asked the ministry to amend its plan to fully meet requirements in the Third Energy Package relating to unbundling and independence of the TSO.

It urged the ministry to submit the amended unbundling plan for adoption to Ukraine's ministerial cabinet without any delay so as to ensure that a firm roadmap for the unbundling process takes effect not later than June 1 2016. Yet ECS also wants some aspects of the unbundling slowed down – describing them as "hasty."

In early April, Naftogaz circulated its own far-ranging plan calling for full unbundling of Ukrtransgaz as an independently-owned TSO – in line with the TEP -- but urged the rest of the company be left as it is, with no further assets to be spun off.

ECS admits that Ukraine's model envisages that the TSO Ukrtransgaz together with the underground gas storage system come under the energy ministry's control, while a holding company is set up under the economy ministry to manage state-owned gas, oil and power production and supply firms.

But ECS director Janez Kopac now has said: "There is no need for a hasty separation of Naftogaz as a trading company from upstream and even oil-related activities. The restructuring of state-owned companies must be thoroughly analysed and not be part of the TSO unbundling process. Instead of a transfer of management of Ukrtransgaz to the energy ministry, the [ECS] asks for the establishment of a new company under the competence of the ministry to which all gas transmission infrastructure will be transferred step-by-step. This should be done at the latest immediately after the finalisation of the arbitration case between Naftogaz and Gazprom in Stockholm."

"In parallel, the ministry will have to transfer the management competences for all electricity or gas supply companies like nuclear and hydropower plants and CHP [combined heat and power] generation to another state body. A timely unbundling process is of crucial importance for keeping the trust in Ukraine as a gas transit country," remarked Kopac, a former Slovenian energy official.

Approval by the Vienna-based ECS of the selected unbundling model is required before Kiev's formal adoption of the plan can take place, according to Ukraine's Gas Sector Reform Implementation Plan agreed with the World Bank and the Energy Community Secretariat in March 2015.

The ECS says the next step will then be the certification of the unbundled transmission system operator by the national regulatory authority, which is subject to whether the ECS deems it TEP-compliant.

Could a “Brexit” enhance British energy security?

Oilprice, *11.05.2016*

The UK is only a few weeks away from a June 23 referendum that will decide whether or not it exits the European Union. British leaders are stepping up their campaign, urging voters to reject a “Brexit,” warning that doing so would lead to huge economic losses. The Chancellor of the Exchequer, George Osborne, said a Brexit would leave Britain “permanently poorer,” resulting in an economy that is 6 percent smaller in 2030.

But the economic effects that will stem from breaking up with Europe are not as clear cut as the government of Prime Minister David Cameron tends to argue.

Take the electricity sector, for example, where there are some upsides from a Brexit for electricity generators. If the UK withdrew from Europe, the British government would be allowed to put up new tariffs on electricity imported from France and the Netherlands, two countries that have strong linkages with Britain. That would correct for some market imbalances, according to Dr. Vladimir Parail, a senior consultant at the London-based consultancy Oxera, who spoke with Oilprice.com in an interview.

“Despite the UK being part of the EU single market, there is currently no truly leveled playing field where UK generators can compete with their EU counterparts. Notably, the UK has a higher CO2 tax than the rest of Europe, as well as higher transmission and balancing charges levied on generators, giving thermal generators in continental Europe a competitive advantage over their UK peers,” Dr. Parail said. British electricity generators pay about 8 to 8.5£/MWh more than their competitors in France and the Netherlands, according to Oxera’s research, equivalent to about 25 percent of traded UK electricity prices.

Oxera’s analysis finds that if the UK imposed new border charges on imported electricity, there would be several effects. First, electricity imports would fall by one-third as domestic coal and gas-fired generation becomes more competitive. Second, there could be higher investment in power plants within the UK, as the tariffs provide a “level playing field.”

Dr. Parail argues that the effect would be to increase the security of Britain’s electricity supply. A Brexit followed by new tariffs would not only provide a jolt to domestic generation, but the drop in electricity imports would mean that imports could then be ramped up in a time of need. “Overall, raising tariffs on electricity imports could act as an insurance mechanism—consumers would pay more in exchange for greater security of supply, since they would not be as dependent on electricity imports and would have greater flexibility to increase imports in case of a supply crunch,” he said.

The insurance policy would not come without costs. While British electricity generators would see gains under a Brexit plus new trade barriers, UK consumers would see higher electricity bills. Oxera's research finds that consumers would spend an additional £140 million per year under the new system. Still, that only equates to about £2 per person each year.

Moreover, a Brexit could lead to higher levels of investment in British natural gas production, according to Penelope Warne from CMS, an international law firm. "To try to enhance the overall security of supply picture, there may be a case for investment in new indigenous sources of gas (such as shale gas) and new UK gas storage and LNG facilities in a Brexit scenario," Warne wrote on CMS' blog. More trade barriers would mean a greater need for domestic energy.

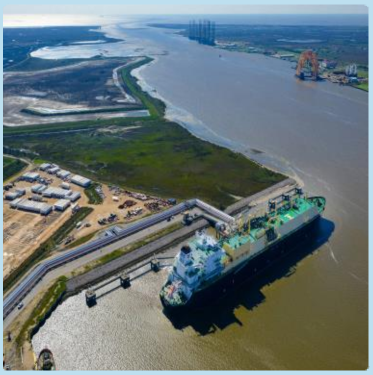
A Brexit would also free the UK to subsidize generation types that it chooses. "For example, the UK could choose not to close existing coal plant, and could promote specific new nuclear plant with substantial concessions free of EU procurement/state aid/competition rules," Warne wrote.

The UK would probably choose to stay aligned with many EU energy and decarbonization initiatives even if it did leave the Union, but the Brexit would open "Pandora's box," Warne argues. Another uncertain element would be what happens to the Republic of Ireland, which as a member of the EU would lose direct geographical access to the Union through the UK.

With all of this said, energy is not exactly dominating the debate surrounding the Brexit. The most hotly debated issues come down to things like immigration, the effects on the broader economy, and British sovereignty independent of Brussels. Voters will ultimately decide the country's future on June 23. According to The Economist, polls right now have the "Leave" and "Remain" campaigns neck and neck.

Decline in US crude inventories push oil prices higher

AA Energy Terminal, *12.05.2016*



Against market expectations, weekly crude oil inventories in the U.S. declined, the countries EIA announced Wednesday, pushing oil prices up more than 3 percent.

For the week ending May 6, commercial crude oil stocks fell by 3.4 million barrels, or 0.6 percent, to 540 million barrels, the EIA said. This marked the first weekly decline in inventories after four consecutive weeks of increases. The market expectation was stocks to increase by 0.7 million barrels for the week ending May 6. "The fall in crude stocks was mostly due to an increase in refinery inputs," according to Capital Economics' U.S. Weekly Petroleum Status Report.

"A sharp increase in demand for crude from refineries helped to reduce the amount of crude in storage last week," explained the report author and economist Thomas Pugh. After U.S. crude inventories rose more than expectations, oil prices soared over 3 percent, almost grasping their highest level this year.

The American benchmark West Texas Intermediate reached as high as $46.34 per barrel, recording a 3.8 percent increase, while the international benchmark Brent crude climbed to $47.75 a barrel, having a daily rise of 49 percent before 21:00 GMT.

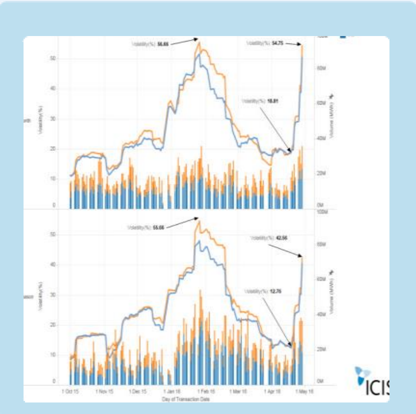
"Stocks will probably be drawn down further next week as imports from Canada fall," Pugh warned," and noted "there is likely to be a significant drop in imports this week owing to the disruption in Canada."

Due to the wildfire in Canada's oil-rich province Alberta, domestic oil production is down around one million barrels a day on average, according to Canada's CTV Television Network. The U.S. is the top destination for Canadian crude exports. U.S. crude imports fell by 5,000 barrels per day (bpd) for the week ending May 6, reaching 7.65 million bpd, according to the EIA.

Meanwhile, domestic oil production decreased by 23,000 bpd to reach 8.8 million bpd during the same period. This marked the ninth straight week that oil production has fallen in the country. The last time weekly domestic oil output rose was the week ending March 4 this year.

US LNG is now a live test case for flexible volumes

ICIS, *12.05.2016*



ICIS has this week launched a daily US LNG free on board price assessment and added shipping costs and netback values from Sabine Pass to 23 import destinations.

Just short of 70mtpa US LNG production has been commissioned or is on track for commissioning by 2019 from five projects: Cheniere's Sabine Pass, Sempra's Cameron LNG, Freeport LNG, Dominion's Cove Point and Cheniere's Corpus Christi. While the rise in exports will be steady and it will accelerate in 2018. By the end of 2016, Sabine Pass Trains 1 and 2 will be in operation and, by 2017, another three trains from Sabine and Cove Point could start up .

By 2018, this will ramp up to a schedule of up to five new trains online from Cameron, Freeport and Corpus Christi. By 2019, another four trains from Freeport, Corpus Christi and Sabine are due online. The first commissioning cargo produced by US-based exporter Cheniere from the 4.5mtpa Sabine Pass Train 1 earlier in February was marketed on a prompt basis to Brazil's state-run energy company Petrobras.

The train’s seven commissioning cargoes represented the pull of incremental spot cargoes toward destinations representing the highest netback. Tenders held by buyers in Argentina and Dubai led to short-covering opportunities by the trading companies that participated and not necessarily Cheniere itself. While the cargoes were sold on a delivered ex-ship (DES) basis by Cheniere, which could utilise its shipping length, the transactions often represented a waterfall of trades between various entities.

The move to the destination-free FOB model for long-term US LNG contracts that was marked by Cheniere’s deal with BG Group is now being realised. US LNG cargoes are expected to supplement supply into South America and Europe, with ICIS LNG shipping costs from the US Gulf to both regions currently in a range of $0.30-0.50/MMBtu.

This reflects the proportion of interest in US LNG long-term contract holders, which primarily will be portfolio companies such as Anglo Dutch Shell, Spain’s Gas Natural Fenosa and Paris-based ENGIE over the first few years.

The opportunities for US LNG to head to Europe are also now being laid out, with companies such as Cheniere leveraging options on the Dutch TTF gas hub through agreements with European capacity holders such as France’s EDF, or trading companies from Asia examining British NBP and TTF strategies. The Dutch TTF is gaining traction as a reference point for LNG pricing in the Atlantic basin as a whole.

The opening of the Panama Canal expansion, which is now expected in late June, will also help create new shipping flows from the US Gulf to Asia, although the arbitrage opportunities in the current market have deflated the potential savings. However, this could lead to what would currently be close to a $1.30/MMBtu reduction in shipping cost from Sabine to Tokyo.

A vessel traveling at 16 knots could make the voyage from Sabine Pass to Tokyo in 26 days via the Panama Canal, including time for transit of the canal, compared with 37 to 43 days, heading either through the Suez Canal, around Africa’s Cape of Good Hope or South America’s Cape Horn. The abundance of US natural gas supply is expected to continue to cover the ramp up of LNG exports.

How much the US will export to global LNG markets will also depend on broader supply and demand. In Europe, the role of Russian and Norwegian production as competing supply will be key. New LNG production from Australia and flexible Qatari supply will also compete, along with questions over east Asia’s long-term demand and the potential arrival of new, smaller buyers to the market.

Midstreamers see need for long-term contracts

Natural Gas Europe, *12.05.2016*

Wedged between gas producers, who seek predictable sales volumes, and end-users and utilities who vote with their feet whenever a cheaper deal comes along, Europe's midstream companies – who take the financial hit when demand and hub prices fall – still see the need for long-term contracts.

The only question is how to share the risk between the upstream and the midstream in a competitive world: as the cost of entry into the gas market is now low, the midstream appears an endangered species. Yet Uniper's CEO Klaus Schafer said they still had a role to play: "You cannot leave it to retail buyers; that segment, the midstream."

It took responsibility for stabilising and developing new demand, such as in power and transport. "It sets the right agenda and framework to ensure growing demand." Uniper is the power, gas and oil production company expected to be spun off from Germany's E.ON in June.

For the last six years the question of long-term contract prices has been high on the agenda. There have always been price-reopener clauses in these contracts, but in a competitive environment that is not enough: some midstream companies such as Engie want to remove the original formula forever to simplify their trade positions; others are happy for a mix of hub prices and oil.

Gazprom Export's CEO Elena Burmistrova spoke at 'Flame', this week's European gas conference in Amsterdam, about the need for hybrid contracts, where everyone appears to benefit from contracts that respond to market changes, but in a way that protects both sides from volatility.

Schafer told Flame that long-term contracts will never be finally settled as they must reflect moving gas market prices. Both sides take risk in order to make a margin and the balance will shift over time. Uniper settled out of court with Gazprom in its latest renegotiation, which Schafer said was the best way to do it. "My view is that this indicates these contracts are capable of reform to deal with new conditions to the satisfaction of both parties. The industry is about long-term contracts," he said.

Schafer said the "difficult" role played by midstreamers included accepting responsibility for investing in gas-fired generation, a massive move in terms of stabilising and developing new demand, and setting the right agenda and framework to ensure growing demand. Edison's vice-president for midstream gas, Pierre Vergerio, said he had fought to reduce the price of five long-term contracts in the last five years. He agreed it was better to find a settlement privately but that is not always possible; and the main conclusion that the courts agreed with was that "the buyer is not here to lose money; the balance that existed at the start of the contract should be preserved, so that buying is still profitable even if prices change."

As to how to tackle the oil-indexation problem, where high oil prices do not reflect low gas demand, the two approaches so far have been to move the contract to hub pricing where possible; or to lower the base price.

The latter allows both sides to claim a victory, with the sellers' oil indexation principle preserved and the buyer recompensed for circumstances that may lie beyond its control. However the confidentiality clauses last as long as the contract and few hard facts leak out into the wider world – something that both sides are anxious to protect as the European Commission has been considering asking for the right to see these contracts.

Vergerio accepted that using hubs is not ideal everywhere, as Europe's gas markets are moving at different paces and the degree of liquidity needs consideration. The seller needs stable cash flow, though, he said, and midstream companies present opportunities for producers to develop new routes: "Can they do it alone without the support of insiders in the EU to help them? Midstreamers deserve some reward, such as a long-term contract that is satisfactory to the buyer," he said.

Edison, part of French power group EDF, and Greek gas firm Depa are involved in talks with Gazprom about South Stream, while Uniper and Gazprom have an interest in remaining on good terms, as they are involved in the Nord Stream 2 pipeline project.

Schafer told Flame that Gazprom and Uniper had evaluated the project and they should have the best view of where to invest their money. "I find it amazing that the most vocal opposition is aimed at private finance," he said. "No one worries about projects pushed by the European Commission or which take taxpayers' money." Speaking for Wingas, now a Gazprom subsidiary, the head of sales Ludwig Mohring said that life had become harder for midstreamers in many ways, and a "new equilibrium" was needed between producers and midstreamers. "We have to find it soon," he said.

Global oil supply rises in April

AA Energy Terminal, *12.05.2016*

Global oil supply increased by 250,000 barrels per day in April to 96.2 million barrels per day (mb/d) compared to the previous month, according to the International Energy Agency's Thursday report. The rise in supply is linked to higher OPEC output which more than offset deepening non-OPEC declines, the report says.

In April, OPEC crude oil production surged by 330,000 b/d to 32.76 mb/d, the report shows. Additionally, OPEC natural gas liquids and unconventional supply rose by 48,000 b/d month on month to 6.8 mb/d. Total OPEC liquids production including crude oil reached 39.58 mb/d in April.

The surge was aided by “a 300,000 b/d jump in Iranian flows and a boost in Iraqi and United Arab Emirates supplies which more than offset outages in Kuwait and Nigeria,” IEA said. The biggest producer, Saudi Arabia’s output was steady at near 10.2 mb/d while Iranian supply rose to 3.56 mb/d, “a level last hit in November 2011 before sanctions were tightened,” according to the report. Non-OPEC oil production dropped by 125,000 b/d in April to 56.6 mb/d, due to “planned and unplanned outages, declines caused by lower oil prices and spending cuts.”

The declines stemmed primarily from Canada, Russia, Ghana, Italy and the U.S. In 2016, the IEA estimates that total Non-OPEC supply is forecast to average 56.8 mb/d, a decline of 800,000 b/d from 2015. At the same time, global consumption is estimated at 95.9 mb/d of oil products in 2016, 1.2 mb/d more than in 2015. The largest demand will come from Asia Pacific at 32.7 mb/d, followed by the Americas with 31.2 mb/d, according to the report.

Announcements & Reports

► *2016 IGU Wholesale Gas Price Survey*

Source : IGU
Weblink : http://www.igu.org/news/2016-igu-wholesale-gas-price-survey

► *Monthly Oil Market Report*

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

► *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

► *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/

PETFORM

► *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 Greek Cyprus Energy Symposium*

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