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Russia to be more careful in dealings with Turkey

AA Energy Terminal, *16.06.2016*

Moscow will be more careful in its relations with Turkey which is regarded as Russia's second biggest natural gas customer, Erdal Tanas Karagol, director of Economics at the SETA said.

Karagol told that Turkish officials always used moderate diplomatic language with Russia, adding that "Turkey wants to take steps to develop good relations with Russia." He explained that after November 2015, when Turkey downed a Russian fighter jet after it had violated Turkish air space, relations between the two countries soured rapidly, kicking off some Russian economic measures against Turkey.

However, Karagol said that the crisis did not affect Russia's natural gas supplies to Turkey. Measures have been taken to repair the disintegrating bilateral relations when Erdogan congratulated his opposite number Vladimir Putin on Russia Day, marked on June 12 as a national holiday to commemorate the proclamation of Russia's sovereignty.

In the message sent Sunday, Erdogan expressed his wish that Turkish-Russian relations would "rise to the level they deserve" in the future, sources said. After Erdogan's message, the Kremlin spokesman Dmitry Peskov said on Wednesday that Russia is willing to normalize relations with Turkey. Karagol also referred to Putin's words on the Turkish Stream natural gas pipeline project, which was planned to carry Russian gas to Europe through Turkey. "Russia will not abandon the Turkish Stream natural gas pipeline project despite the ongoing political problems with Turkey," Putin said.

Alexey Miller, CEO of Gazprom, announced that Putin had canceled the construction of the South Stream Natural Gas Pipeline in December 2014. Putin laid the blame on the European Union for axing the project. After terminating the project, Putin announced that Russia's state gas company, Gazprom, would build a 63 billion cubic meter (bcm) capacity natural gas pipeline to Turkey, bypassing Ukraine and naming the project the Turkish Stream.

However, the Turkish Stream, which was planned to carry Russian gas to Europe through Turkey, was cancelled by Ankara. Karagol noted that Russia wants to establish good relations with Turkey, and for that reason, Moscow will not engage in any project which would harm Turkey. "For example, people comment that the Nord Stream II will harm many countries. It is not an economical but political project, and will affect mostly Eastern European countries, but not Turkey," he stressed. The Nord Stream II project was announced on June 18, when global energy giant Royal Dutch Shell, 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, similar to the Nord Stream I pipeline which was launched in 2011. The project plans to bring gas to France, the U.K., the Netherlands and Denmark.

Russia wants Turkey relations 'to be normalized'

AA Energy Terminal, *15.06.2016*

Kremlin spokesman Dmitry Peskov said that Russia wants to normalize relations with Turkey. Answering journalists' questions in Moscow, Peskov said: "We want relations to be normalized and we want to return to the cooperation process…"

Peskov stated that Moscow was sorry about the breakdown of relationships between Turkey and Russia. "Moscow values the time when relations with Turkey were high", he added. Recently, President Erdogan congratulated Putin on Russia Day. In the message, Erdogan wished for Turkish-Russian relations to "rise to the level they deserve" in the future.

Deputy Prime Minister Numan Kurtulmus said on Tuesday that Erdogan's congratulatory message to Russia could be a step towards normalizing relations. However, the deputy prime minister said Erdogan's remarks did not mean Ankara and Moscow agreed on all political issues or would solve all regional problems.

"Our opinion differs on many issues, including Syria... But the bottom line is that it is essential to maintain peace between the two neighboring countries. "I hope that a similar signal will come from the Russian side. Russia has already revealed attitudes of this kind," Kurtulmus added.

Diplomatic relations between the countries soured after a Russian SU-24 violated Turkish airspace, was intercepted and shot down Nov. 24 by Turkish F-16 fighters. The Kremlin ordered sanctions on food products, an end to visa-free travel and a boycott of Turkey by Russian tourists.

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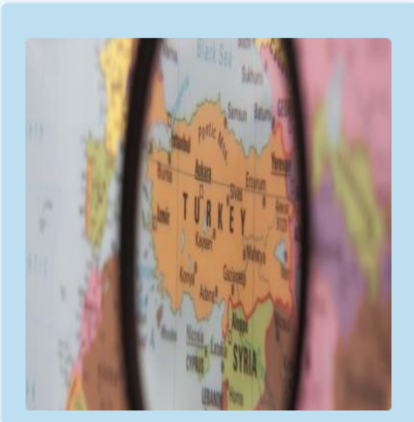
IEA Head: Turkish economy to face challenges if oil prices rally

Hurriyet Daily News, *14.06.2016*



Turkey's economy may face a challenging period in the event of an increase in oil prices, the executive director of the International Energy Agency, Fatih Birol, has said, while urging officials to take measures on their energy policies.

Turkey is among the countries which have secured some "positive effects" over the drop in oil prices but measures should be taken considering that "prices will not remain constant," Birol, who is also a Turkish economist and energy expert told, on the sidelines of the seventh International Energy and Climate Forum organized by Sabancı University Istanbul International Center for Energy and Climate (IICEC).

Birol listed countries in three categories, depending on how they were affected by the decrease in oil prices. Birol described the economies of Saudi Arabia, Russia and United Arab Emirates, which are mostly dependent on oil revenues, as countries which were "negatively affected" by the drop in prices, as their economies had "weakened" after the developments.

He added that Nigeria, Azerbaijan, Venezuela and some other African countries had suffered "the most significant damage," with many of their economies now going bankrupt. Birol said Turkey was among the countries that were "positively impacted" by the fall in prices. "The current account deficit in countries that import oil, including India, Turkey and Japan, have decreased to some extent.

The fall in oil prices was a major opportunity for Turkey, whose economy has been going through a difficult time. However, it would not be realistic to figure that these prices, which were 30 dollars and recently reached around 50 dollars, would remain constant in the long term," said Birol, who called for measures.

According to Birol, Turkey should take as much advantage as it can of the global wave of liquefied natural gas (LNG), which is expected to cost little. "A major opportunity fell into our lap," he said. Meanwhile, he urged that Turkey should "decrease its dependence on oil and natural gas, and search cheaper natural gas."

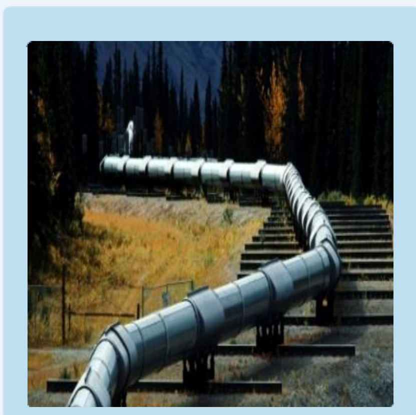
"Turkey imports natural gas excessively from a certain country. It should diversify its sources, lower prices and encourage competition to achieve that. This would only emerge if Turkey turn toward other alternatives," he said. Turkey could also import gas from the United States, Qatar or Canada, he added. "If we seek alternatives and decrease economic costs, we would also get rid of the downsides of the dependence on a certain country, on a political basis," said Birol. Debates on Turkey's "dependence" on Russia in energy importation were inflamed after Turkey downed a Russian jet near its border last year. The crisis was expected to cause gas cuts that would have had serious results for the Turkish economy, experts argued.

The consumption of natural gas in Turkey, which has the second highest demand for natural gas after China, increased by 120 percent, from 22.1 billion to 48.6 cubic meters, between 2004 and 2014. Some 35 percent of Turkey's overall energy consumption is met by natural gas, 29 percent by coal and 27 percent by crude oil. Natural gas is used predominantly in electricity production.

Turkey's natural gas production, which was 759 million cubic meters in 2011, declined to 479 million cubic meters in 2014. Thus, its dependence on natural gas increased from 97.5 percent to 99.04 percent between 2007 and 2014. Some 54.76 percent of Turkey's natural gas imports come from Russia, while 18.13 percent comes from Iran and 12.33 percent from Azerbaijan.

Italy surpasses Turkey as second-largest Russian gas importer

Oilprice, *16.06.2016*



Italy has leapfrogged Turkey to become the second-largest importer of Russian gas, according to Gazprom CEO Alexei Miller.

"In 2016, Italian consumers have increased their demand for gas from Russia," Miller said in a brief statement cited by S&P Global Platts. Demand grew by 5.3 percent to 24.2 billion cubic meters (bcm) of gas from 2014 to 2015, which was the second highest volume in its history. Purchases from Italy continue to rise this year with a first trimester yearly increase of 28 percent, though growth continued in the second quarter at a slower pace of 5.3 percent.

In contrast, Turkish imports have faltered in the early part of this year purportedly amid strained diplomatic relations stemming from the downing of a Russian fighter jet in November 2015. Turkey bought 6.42 Bcm from Gazprom in the first three months of this year, representing a 15 percent dip compared to the first quarter of 2015.

Italy isn't the only country suffering from a slowdown of Russian gas imports in the second quarter of this year. The latest Gazprom data also revealed that sales of gas to Europe and Turkey (not including ex-Soviet Union states) were practically unchanged in the first five months of 2016 compared to the same period in 2015.

But supplies to several key European markets including top Russian gas importer Germany grew at a gradual pace in the early part of this year. A silver lining to the easing of imports is the expectation of increased purchases by European countries due to the possibility of pricing under oil-indexed mechanisms falling from current levels.In addition, the Italian market may also benefit in the long run from greater availability of natural gas from Russia. Russian plans for the construction of a new pipeline route across the Black Sea to Greece and Italy continue to run their course.

Energy Minister Alexander Novak further claimed the implementation of the Trans-Adriatic Pipeline project from the Caspian Region and the Middle East would not interfere with the delivery of gas to Italy.

Turkey aims renewing Iran's aging oil refineries

Daily Sabah, *11.06.2016*

Economy Minister Nihat Zeybekci said Friday that Turkish companies aim to take part in renewing Iran's technologically aging oil refineries.

According to an article published on Turkish daily Habertürk, Zeybekci stated that Turkey will send five additional trade counsellors to Iran, who will be accompanied by five local employees in a bid to deepen trade ties between the two countries after the removal of international sanctions against Iran. Zeybekci pointed out that he will assume the co-chairmanship of Joint Economic Commission established with Russia and Iran.

The minister added that the Turkish Eximbank will play a new role in trade through new financing models in which the bank will play a supportive role of an insurance company. Minister Zeybekci also met with Turkish contractors again paying a visit to congratulate him for his new duty.

In the meeting, contractors reportedly asked Zeybekci about the current status of relations with Russia, Iran and Libya, where the projects of Turkish contractors were affected by diplomatic spats and domestic turmoil.

Following President Recep Tayyip Erdoğan's visit to the eastern African countries of Uganda, Kenya and Somalia last week, contractors also expressed their wish to take part in prospective sectors in Africa like tourism, energy and agriculture other than construction.

Minister: Georgia to open gas, power markets by 2020

ICIS, *15.06.2016*

Georgia is expecting to liberalise its natural gas and electricity markets by 2020 as part of its upcoming membership of the EU's Energy Community, Mariam Valishvili, the country's deputy energy minister told ICIS on Wednesday.

Valishvili said the EU's internal energy market rules would be transposed by 2018 in the electricity sector and by 2020 in the gas sector. Furthermore, she said the country was looking to establish a cross-border electricity trading platform that would be fully compatible with Turkish and EU market principles.

"The platform will be an important component of a new power market structure. The Platform will be instrumental in properly allocating risk among market participants and assist in providing dependable cross-border transmission capacity rights," she said.

"Other goals for the near future include the [establishment] of Day Ahead Planning, infrastructure and IT development for metering, balancing and market operation, clearing operations and Balancing Market and at the later stage the functioning of Day-ahead market."

Nevertheless, Valishvilli added that although Georgia would be a fully-fledged member of the Energy Community and would, therefore, be required to align its laws with those of the EU's internal market, it would be granted a number of exemptions with regards to energy cross-border exchanges.

"Georgia fulfils the requirement of isolated market derogation under the EU Third Energy Package," she said. "Therefore, specific solutions/exemptions regarding key gas transmission infrastructures mainly used for the shipment of gas through Georgia, including energy cross-border exchanges, have been identified under the Accession Protocol."

She added that the pipeline, which will transport natural gas from the Caspian Sea to Turkey and Europe when the second phase of the offshore Shah Deniz project comes online by the end of the decade, would be exempt from third party access. Derogations are also likely to be added in relation to cross-border gas trading with Georgia's neighbours – Turkey, Azerbaijan, Armenia and Russia – none of which is an EU member. In an interview with ICIS this week, Janez Kopac, director of the Energy Community Secretariat confirmed that Georgia had completed its fourth a round of negotiations with the European Union represented through the Energy Community in May. He added that the Georgian parliament was expected to ratify the protocol in October. Georgia has been an observer of the Energy Community since 2007.

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Kurds ready for new oil deal with Baghdad if they get $1 billion a month

Reuters, *15.06.2016*

Iraq's Kurds said they are ready to strike an agreement with the central government in Baghdad on a deal to increase oil exports if it guarantees them monthly revenue of $1 billion, more than double what they make currently from selling oil.

The Iraqi central government in March stopped oil exports through a Kurdish pipeline to pressure the local authorities to resume talks about an oil revenue-sharing agreement. Iraq's North Oil Company normally exported 150,000 bpd through the pipeline that comes out at the Mediterranean port in Turkey. The pipeline carries oil produced in the Kurdish region in northern Iraq and sold independently.

Kurdistan Regional Government (KRG) spokesman Safeen Dizayee said in an interview in the Iraqi Kurdish capital Erbil on Tuesday that the Kurdish authorities would be willing to sell the oil through Baghdad if they received a share from the federal budget amounting to $1 billion a month.

"If Baghdad comes and says OK, give me all the oil that you have and I'll give you the 17 percent as per the budget, which equals to 1 billion, I think, logically it should be the thing to accept," he told Reuters, specifying later that the amount referred to a monthly payment in dollars.

"Whether this oil goes to the international market or first to Baghdad and then to the market, it doesn't make any difference," he said. "We are ready to enter dialogue with Baghdad." A government spokesman in Baghdad did not return telephone calls seeking comment. The KRG stopped delivering crude oil to the central government a year ago, a decision taken when Baghdad's payment fell under $400 million a month, Dizayee said.

"The Kurds are offering a win-lose deal for Baghdad: a win for them and a loss for Baghdad," said Baghdad-based oil analyst Hamza al-Jawahiri. "What's the point of asking the central government to pay double the value of the region's oil?" The Kurdish region exported an average of 513,041 barrels in May through the pipeline to Turkey, generating about $391 million, of which about $75 million was paid to oil companies that produce the crude, according to KRG official estimates.

"The companies have been assured that certain amounts will be made on a monthly basis," said Dizayee, referring to the three foreign oil producers in the KRG region - DNO, Gulf Keystone and Genel. "We have started to pay some of it, at least it has rebuilt that confidence between the government and the IPCs (oil companies)," he said, referring to arrears owed to the companies. The KRG in February said it would pay international oil companies in 2016 according to the terms of their contracts, after making ad-hoc payments last year.

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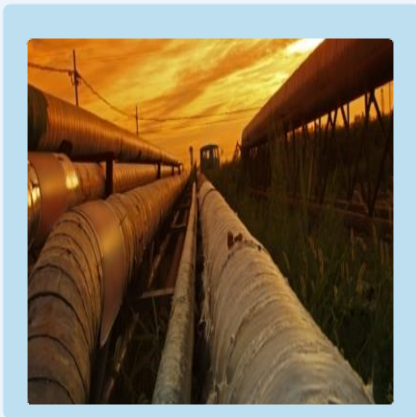
The foreign operators have been reluctant to invest without the promise of regular payment, while the cash-strapped KRG needs production to increase to avert an economic collapse caused by a sharp decline in oil prices since 2014. The KRG is also in a dispute with the central government over Kirkuk, where the North Oil Company produces its crude and which the Kurds claim as part of their territory.

“Israel has undiscovered gas worth 4 Leviathans”

Globes, *16.06.2016*



Israel has undiscovered offshore natural gas worth four more Leviathan fields, Minister Yuval Steinitz has told the 16th Herzliya Conference of the Institute for Policy and Strategy (IPS) at the Interdisciplinary Center.

Steinitz said, “It’s no secret that Israel has had a major downturn in growth, in investments and in exports and that’s very worrying. Developing the gas fields, bringing natural gas to factories and transport and developing export pipelines all these things are a huge engine of growth. What might save us from recession and bring us back to a reasonable level of growth is natural gas.”

Steinitz was speaking three weeks after the Israeli government approved the gas outline agreement with a “softened” stability clause. Speaking about the future of Israel’s natural gas industry, he claimed that according to the latest Ministry of National Infrastructures, Energy and Water Resources estimates the amount of gas still to be discovered in Israeli economic waters amounts to about 2,200 billion cubic meters.

He said, “That’s about double what we have discovered to date and four gas fields like Leviathan.” He added that the Ministry of National Infrastructures, Energy and Water Resources plans opening the seas for new gas exploration licenses in the fall.

Steinitz also discussed options for gas exports and said in the first stage Israel must become a gas exporter to neighboring countries in the region through pipelines including Jordan, Egypt and Turkey.

He added that the Ministry of National Infrastructures, Energy and Water Resources is currently examining the possibility of laying a pipeline to Cyprus and from there to Greece. He said, “The project is technologically possible and the costs are not as high as we thought in the past.” He insists that Israel can be a natural gas supplier to Europe. “If this can be realized it will position Israel well from the geopolitical and geostrategic point of view. Israel can become a significant player.”

Iran's oil comeback may already be over

Bloomberg, *16.06.2016*

Iran easily beat expectations with its speed in boosting oil exports after the lifting of sanctions. Without an injection of cash and the easing of remaining trade barriers, the recovery may have run its course.

When restrictions on Iran's oil exports were relieved in January following a nuclear pact with world powers, analysts from Goldman Sachs Group Inc. to Barclays Plc doubted it could return to previous levels this year. The Persian Gulf state defied the skeptics with a 25 percent surge in production and aims to reach an eight-year high of 4 million barrels a day by year-end.

"They have surprised most market participants with the speed they've been able to resume production," said Antoine Halff, a senior fellow at the Center on Global Energy Policy at Columbia University in New York. "But to exceed pre-sanctions levels would require investment and technology and that's a much longer-term proposition."

Returning to world markets after more than three years of isolation, Iran is seeking more than $100 billion of investment from international partners to rehabilitate its oil industry and ultimately reclaim its position as OPEC's second-biggest producer. Still, companies are waiting for Iran to approve the contract model to be used in deals and for clarity on remaining U.S. sanctions before re-entering the country.

Since limits on crude sales were lifted, exports have doubled to about 2 million barrels a day, flowing again to previously prohibited markets in Europe, where Royal Dutch Shell Plc and Total SA resumed purchases.

Production reached pre-sanctions levels of 3.6 million barrels a day in April and maintained that level in May, the Paris-based International Energy Agency estimates. Iran's own figures have output climbing to 3.8 million barrels a day in May, with plans to hit 4 million by the end of the year and ultimately reach 4.8 million within five years, Oil Minister Bijan Namdar Zanganeh said in Vienna.

With Total, Eni SpA and BP Plc having expressed interest in developing Iran's resources, Zanganeh predicts the first deals with foreign companies will be signed within three months. While oil analysts concede that Iran surpassed their initial forecasts, they aren't convinced its greater ambitions will be realized soon. Qamaar Energy Chief Executive Officer Robin Mills and independent consultant Peter Wells, who both have experience working in Iran, say that sustaining a level of 3.6 million to 3.8 million a day is more realistic.

Oil Ministry officials didn't immediately respond to requests for comment on whether output would plateau without the added spending. Oil fell to a three-week low in London, trading for $48.01 a barrel at 1:48 p.m. local time.

Iran will need billions of dollars of investment and foreign technology to boost reservoir pressure to expand capacity at its aging wells, which were already suffering output declines before sanctions took hold, according to the IEA. Even with an influx of investment, an increase to 4 million barrels a day won't happen before 2021, the agency predicts.

"They are doing everything they possibly can on their own while waiting to bring in foreign partners," said Bjornar Tonhaugen, an analyst with Rystad Energy AS in Oslo, an oil consultant that advises more than 600 clients. "The risk now is that it's not sustainable."

Iran can boost capacity by 300,000 barrels a day in the next few years from deposits in the West Karoun area near the Iraqi border, said Tushar Tarun Bansal, an energy analyst at consultants FGE in Singapore. Zanganeh, in an interview with Iranian magazine Seda Weekly published June 11, said the country can add 700,000 barrels a day from these fields over five years. However, attracting foreign capital will be a struggle when a model contract for oilfield investment isn't ready and as a slew of U.S. sanctions remain in place, FGE's Bansal said.

Even after dropping sanctions on Iran's oil sales, the U.S. still prohibits transactions related to the Islamic Republic from being conducted in dollars, restrictions imposed because it accuses Iran of human-rights abuses and sponsoring terrorism. Zanganeh acknowledged last week that the oil contract models need further revisions.

"The big question for the Iranians is: 'Are they going to get all the investment they want?'" Daniel Yergin, vice chairman of consulting firm IHS Inc., said in a Bloomberg Television interview. "Companies are going to be very cautious about making new commitments to Iran. No one wants to run afoul of U.S. sanction law."

A series of output disruptions from Nigeria to Canada and Venezuela has meant that the extra Iranian oil has been easily absorbed by the market rather than depressing prices, said Mike Wittner, head of oil-market research at Societe Generale SA in New York. Crude futures recovered to more than $50 a barrel last week, almost double the 12-year low reached in January.

With Iran's comeback almost complete and global demand rising, traders are starting to wonder how much world markets will tighten in 2017, he said. "By the end of this year Iran will be maxed out," Wittner said. "Is it bullish? Yeah. When I look around the world and I need a bit more OPEC crude, I ask myself where it's going to come from."

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This contract could help Iran win the OPEC oil war

Oilprice, *13.06.2016*

The mere mention of OPEC is almost instinctively accompanied by an automatic reference to the Kingdom of Saudi Arabia, as if the two are practically synonymous.

As an oil producer, Saudi Arabia is in a league of its own within OPEC. It produces over 10 million barrels of oil per day, which is around the same amount of production coming from Iraq, Iran, and Kuwait combined. Needless to say, Saudi Arabia has acted as the unofficial leader of OPEC. Its domestic oil production policy clearly influences and is invariably reflected in the decisions coming out of OPEC meetings.

In the midst of the current continued policy of Saudi Arabia and OPEC to keep pumping in order to preserve market share, a developing dynamic within OPEC may cause a dramatic change in both its power and leadership.

For several years Iran was subjected to sanctions, which not only prevented its oil production from reaching the U.S. and Europe, but also created dramatic declines in exports to China, India, and Japan.

Even as Iranian sanctions were lifted in 2015/2016, the country remains behind in production growth from its largest OPEC competitors Saudi Arabia and Iraq. While Saudi Arabia and Iraq increased production from 2010 by 15 percent and 90 percent respectively, Iran has lost 17 percent of its production.

This meant that not only was Iran losing market share to its closest OPEC competitors, but the country was missing out on growing production in one of the highest priced oil environments from 2011 to 2014.

In a battle for market share, Iran has been struggling as it is only just beginning to regain market share around the world. Much of the global fight for market share is occurring in four key markets that make up 36 percent of global oil demand: the European Union (EU), China, Japan, and India.

Sanctions imposed on Iran’s oil exports meant that it was unable to compete with its direct competitors within OPEC. This gave Saudi Arabia the opportunity to ramp up production and grow market share in those four key markets. Additionally, Iraq was able to almost double production from 2011 and gain significant market share in the EU, China, and India. From 2011 to 2014, Iraq increased market share in the EU from 3 percent to 7.5 percent and in China from 4.7 percent to 9.7 percent.

Since the lifting of sanctions in 2015/2016, Iran has been in the process of making critical oil and gas investment decisions that could not only change its position in the global market, but also make it a much larger competitive threat to the leadership of Saudi Arabia in OPEC.

In a departure from the past, a key strategy to building its oil sector back up has been a shift towards embracing foreign investment. Originally, Iran had tried to attract foreign investment in oil and gas fields through a “buy back” investment model for the exploration and development of Iran’s fields.

Essentially international oil companies (IOCs) would explore and develop an oil and gas block and the IOCs would then hand over the project to the National Iranian Oil Company (NIOC) at production. If successful, the IOCs would be reimbursed for pre-determined funds spent on the project based on a rate of return of 15 to 17 percent, but would not be reimbursed for cost overruns, increases in production, or excess exploration risks.

The problem with the “buy back” model was that IOCs took on all the risk of exploration and development but had limited upside as they could not participate in the production of their projects. Additionally, these exploration and development contracts lasted only 3-5 years. IOCs would not get a stake in the project they explored and developed and could not book reserves on their balance sheet.

Iran introduced a new Iranian Petroleum Contract (IPC) model in November 2015 that will result in a major shift away from its original “buy back” contract model which has been employed for the past 20 years.

The new contracting model structures investment in Iran’s upstream oil and gas sector by way of joint venture (JV) where the NIOC will own at least 51 percent of the JV. This model requires the involvement of the IOCs at the exploration, development, and production stages – leading to IOCs participating in the upside of their discoveries and development. Contracts between IOCs and the NIOC will last 20-25 years and provide payment flexibility on the risk taken to explore and develop difficult fields.

Once the JV project is in production, the IOC will receive a payment for its service by a measured volume of production and the NIOC will repay costs during the exploration and development stage. A JV management committee, made up of members of the IOC and NIOC, will review costs from the exploration and development stage annually in order to approve any necessary cost overruns.

The participation of IOC’s in the production of projects brought through commercial development is a big step for Iran. The new IPC is a modified form of a production sharing contract (PSC) in order to abide by the Iranian Constitution, which does not allow production sharing.

PSCs have been implemented in Iraqi Kurdistan, Oman, and Egypt where production is split between profit and cost oil. Profit oil is usually 40 to 60 percent of production and is split 70 to 85 percent toward the national oil company (NOC), with the remaining profit oil going to the IOCs. Cost oil is used by the NOC to recover operating costs and is usually 40 to 60 percent of production – any surplus in profit from cost oil is usually shifted to be split from profit oil and any cost recovery shortfall can be recouped in the following years.

For Iran’s new IPC, cost oil is expected to be covered through a maximum of 50 percent of annual production from the JV. Although there is no profit sharing under the IPC, the service fee paid through volumes of production annually can be considered the profit oil from a traditional PSC.

The IPCs from Iran are not without faults. The ambiguity of the IPC leads to many questions as it relates to base fees paid to IOCs, the oversight and qualifications of the JV management committee, clarity on the independent sale of production, and whether or not companies can book reserves on their balance sheet.

An important issue for IOCs is the booking of reserves as this gives companies increased value and the ability to leverage reserves for financing. Under the Iranian Constitution, all the country’s energy reserves belong to the state.

The IPC, however, may maneuver around the Iranian Constitution, much like with the concept of production sharing, by using the long-term production contracts of 20-25 years as a way to book the contract as an asset similar to the booking of reserves – this is currently being done in Iraq.

While Iran’s IPC has certain ambiguities, the NIOC’s Managing Director, Roknoddin Javadi, hopes to clarify these issues as the NIOC plans to have an IPC draft completed by July 2016 so that Iran can open bids for its blocks.

This transition from a “buy back” model to a virtual production sharing contract puts Iran in a unique position within OPEC. Iran holds the 3rd largest oil reserves in OPEC and would be the only country between the top three producers in OPEC to significantly open its markets to foreign investment.

Saudi Aramco, Saudi Arabia’s national oil company, has remained a sole proprietor of Saudi Arabia’s producing onshore fields and Iraq has opened itself to IOCs in a very limited form through service contracts that have seen IOCs reluctant to invest in Iraq unless contracts are changed.

Iraq pays its IOCs a fixed value fee equivalent to barrels of production for their service in Iraqi oil fields from the oil the Iraqi government sells. Part of the development costs is split between the Iraqi government and the IOC and both the Iraqi government and the IOC operate the field through a JV.

However, companies like BP and Royal Dutch Shell are requesting better terms on their contracts with Iraq as they prefer a model similar to a production sharing contract. The lower oil price and ongoing threat of Daesh in Iraq is forcing the Iraqi government to miss payment for services to IOCs, cut its oil budget and, in turn, force IOCs to cut their own development budgets.

BP, Lukoil, Eni Spa, ExxonMobil, and Royal Dutch Shell were asked to cut their 2016 development capital by a cumulative 33 percent from 2015 levels. Based on these cuts, BP and Shell have indicated it will be difficult to ramp up production into 2016 and will require more attractive terms to keep investing in Iraq.

Iran’s preemptive shift to an IPC similar to a production sharing contract has put Iran in a unique position. If the IPCs are deemed successful in bringing in foreign investment by IOCs, Iran’s adoption of global technology and innovation in the oil and gas industry will directly compete with the efficiency of Saudi Aramco.

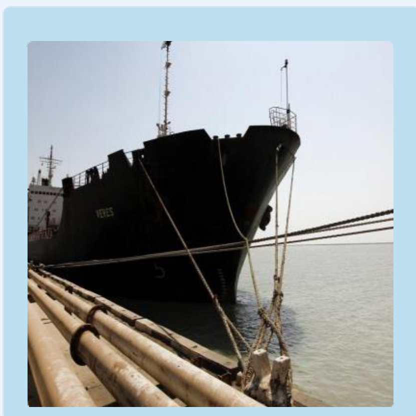
OPEC could see a dramatic shift in power as Iran invites more investment into the country's upstream, midstream, and downstream segments of the oil and gas industry. The adoption and support of IOCs and the technology they bring to Iran's aging fields and infrastructure could catapult Iran into direct competition with Saudi Arabia, surpassing Iraq, and encroach on Saudi Arabia's established market share.

This could push further opening of oil and gas markets in Saudi Arabia, Iran, and Iraq or see a globalized Iranian oil and gas industry as a competitive dichotomy to Saudi Arabia's domestically insulated industry.

Just as OPEC lost control over global oil production with increased production, technology, and innovation from the U.S. in 2011, Saudi Arabia stands to lose its control over OPEC as Iran's oil and gas industry opens to technology and innovation, resulting in increased production.

Iran to build oil terminal with China

UPI, *16.06.2016*



A $550 million contract with a Chinese partner envisions the construction of a new oil loading terminal in the Persian Gulf, Iranian media reported. The Fars News Agency reports a contract was signed between an Iranian company and an undisclosed Chinese counterpart to build an oil terminal.

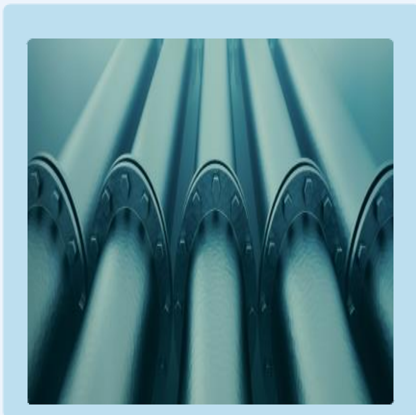
"The oil terminal will be built in Qeshm Island in the southern part of the Persian Gulf and will turn the island into a major center for oil production and storage," the report read. Fars reported the terminal would be able to store as much as 30 million barrels of oil and generate up to $300 million in annual revenue under the terms of a 10-year lease.

Though no construction benchmarks were unveiled, the report said the first stage of operations envisions storage of about 10 million barrels of oil produced from western Iranian fields. Iranian officials this week said exports have reached more than 2 million barrels per day now that some of the sanction barriers were removed. Iran was verified as conforming to the terms of a 2015 multilateral nuclear agreement in January and is now freed from some economic restrictions, though some financial doors are still closed because of existing U.S. sanctions.

Exports from Iran averaged around 1.4 million bpd last year. Before sanctions were imposed in 2011, the export average was around 2.6 million bpd, with most of that headed to the Asian market. Iranian government spokesman Mohammad Bagher Nobakht said it's within the nation's rights to ensure a larger market share now that sanctions pressures are easing. According to the Organization of Petroleum Exporting Countries, Iran's reported crude oil production for May averaged 3.6 million bpd, up 2.8 percent from the previous month and 16 percent higher than during 2014.

Gazprom prepares to wind down central route

Natural Gas Europe, *16.06.2016*



Gazprom is preparing to largely decommission its central gas export pipeline system that feeds Ukraine, Slovakia and central Europe at the end of the decade as it brings on Nord Stream 2.

CEO Alexei Miller told the St Petersburg Economic Forum that the export monopoly would reduce its working capacity to no more than 15bn m³/yr, saving $1.6bn by 2020. "For us it is a principal issue. Gazprom has launched a programme to optimise expenses in the central corridor which now has free capacities which also cost us money. We will hence liquidate 4,300 km of pipes and close 62 compressor stations...

This means that by 2020 the transit capacities left in the direction of Ukraine will be 10-15bn m³/yr," he said. "There were some suggestions to leave 30bn m³/yr of transit in Ukraine; we calculated that it will cost us $25-43bn over 25 years. Who will compensate us for these extra expenses? This approach will also equal extra 112mn tons of CO_2."

He also introduced an argument not much aired in Europe: he pointed out that Russia's production base was moving further north, to Yamal – home of the supergiant Bovanenkovo field. "Yamal is our key new resource base – actually it is becoming our main supply base. Therefore everything is moving northwards and we must adjust our strategies in terms of exports and domestic flows," he said. This would entail a new and more efficient transport system.

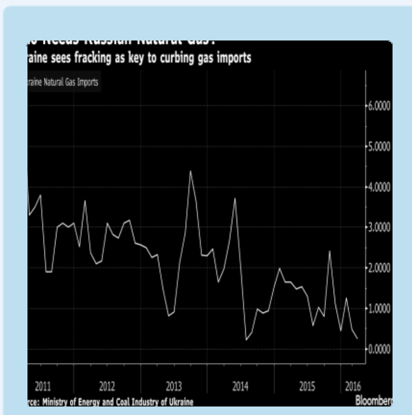
Running offshore, "it is the shortest and straightest export route from our Yamal resource base to our key markets of demand." The Ukraine corridor is 2,000 km or 1.5 times longer, and it is more expensive per unit per distance. It is also better for the environment, it says. It operates at higher pressure and does not entail high maintenance costs.

The costs of delivering gas to Germany will be 1.6 times is lower via Nord Stream compared with Ukraine, he said. With the Nord Stream 2 projected volumes and using this fee, Gazprom can earn $7bn in dividends in the next 25 years and provide its European shareholders dividends of $7.3bn.

"In addition, everyone knows that Ukraine needs to modernize its transmission system with significant investments which will have to be recouped via higher transit charges which is estimated to reach $4.6/t'000 m³/100 km. This will make Ukraine twice as expensive as Nord Stream 2." He said the project was on schedule and tendering processes are ongoing. "Some tenders for the marine section of linepipe are already completed. Everything is on track and we will start laying pipes beginning of 2018." He said there was no doubt that 55bn m³ [more] gas will come to Germany through this route.

Naftogaz seeks stronger sanctions on Russia to stop pipeline

Bloomberg, *17.06.2016*



The U.S. and the European Union should impose stronger sanctions against Russia to kill the country's plan for a natural gas pipeline supplying Germany because it would raise prices for consumers and jeopardize energy security, said Andriy Kobolyev, chief executive officer of Naftogaz.

Naftogaz is calling on the U.S. to increase sanctions on Russia to halt work on the Nord Stream 2 twin-pipeline system led by Moscow-based Gazprom PJSC. The 28-nation EU should investigate whether the project, which would link Russia's gas supplies to Germany via the Baltic Sea, violates the trading bloc's energy-market legislation, Kobolyev said.

"We believe Nord Stream 2 should have financial sanctions so they will not be able to draw financing from an international bank," he said. "You are killing other routes in exchange for the route which will go through Germany."

The dispute lays bare the complex relationship between Ukraine and Russia, which has been particularly tense since Russia invaded Ukraine and annexed the Crimea region following pro-European demonstrations in Kiev in 2014. While confronting Russia -- the world's largest natural-gas supplier -- over the Baltic pipeline, Ukraine is also negotiating with Gazprom for potential supplies of the heating fuel for delivery later this year.

In addition to Gazprom, shareholders in Nord Stream 2 AG, the company developing the pipeline system, include Netherlands-based Royal Dutch Shell Plc and France's Engie SA. The group in March announced suppliers for the pipes, and Gazprom is expected to hold its tender for pipe-laying soon.

"Nord Stream 2 completely complies with national law and international law, including EU legislation," Jens Mueller, a spokesman for the project, said in a phone interview. He said the infrastructure work is needed for energy security and that it falls outside of the scope of sanctions. It meets the permitting requirements of five countries, Mueller said.

Russia may limit natural gas transit through Ukraine after the Nord Stream 2 project is complete because it would provide the cheapest and most direct route to European consumers, Gazprom Chief Executive Officer Alexey Miller said in St. Petersburg. Nord Stream 2 would "deepen the rift between East and West" and "endanger the economic viability of Ukraine and Slovakia," Amos Hochstein, the U.S. State Department's special envoy for international energy affairs, said on a May 6 call with reporters. The U.S. prefers the development of a southern pipeline route and floating terminals for liquefied natural gas in Croatia and Greece, Hochstein said.

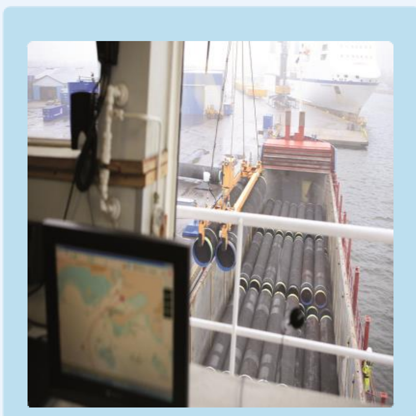
If built, Nord Stream 2 must operate within a legal framework that takes into account EU energy-market rules, European Commission Vice President Maros Sefcovic said in Brussels on April 6. Nord Stream 2 is probably Russia's "most important asset" for access to the European market, Ira Joseph, head of global gas and power at PIRA Energy in New York, said in a phone interview. "The more gas that Russia can reroute around Ukraine, the more vulnerable position Ukraine is in."

Naftogaz will decide by the end of June whether to obtain supplies for delivery later this year from either Russia or Europe, and European suppliers have offered to sell the power plant fuel for $170 per thousand cubic meters, according to Kobolyev. "So Gazprom will need to be competitive with this," he said. Kobolyev declined to comment on the identity of potential European suppliers and possible purchase and storage amounts.

Ukraine's storage facilities were 31 percent full, compared with a two-year average of 39 percent, according to Gas Infrastructure Europe in Brussels. Naftogaz is looking to horizontal drilling and hydraulic fracturing, or "fracking," as a way to reduce Ukraine's dependence on imports in general. The company is seeking to attract foreign investment to provide technical drilling assistance and may conduct as many as 100 fracking exercises this year, according to Kobolyev. "By 2020 Ukraine can become self-sufficient in terms of gas production" with the help of fracking, he said.

Brexit, Nord Stream 1&2

Natural Gas Europe, *17.06.2016*



In the last full week before the June 23 UK referendum on whether to leave the European Union, energy markets were untroubled, even if sterling weakened on fears of an exit. "Energy isn't central to this debate," said a source at pipeline operator Interconnector, which links the UK to Belgium.

In many respects the UK has influenced the development of the EU gas market, being the first country to go for ownership unbundling, non-discriminatory pipeline access, revenue-neutral balancing and incorporating large chunks of the US model into its own network code – the contract setting out the commercial obligations on shippers and the TSO.

With its own highly liquid hub and interconnections, it is already future-proof. On the other hand, membership of the EU hasn't been a silver bullet for its energy market: despite vigorous lobbying, it lost the argument on the ability to retain the start and finish of its gas day as defined in EU network codes, despite having much more to lose from changing it than other member states.

But in or out, as non-member Norway has demonstrated, the EU's trading rules will still have to be observed: in order to continue as a major exporter, Norway had to break up its gas sales cartel early last decade, for example, in order to comply with competition law. Gazprom is also coming to grips with EU laws on unbundling commodity and capacity ownership, as the EC erects obstacles in the the way of Nord Stream 2, giving it uncertain capacity rights in onshore pipelines in Germany.

This raises the – admittedly remote – prospect of a spur line from Nord Stream 2 running all the way to an underused UK production platform and related export pipeline system to the UK NBP, thus allowing some of the capacity to escape EC rules.

The UK energy ministry has been clearly divided on the Brexit issue. Owing to civil service rules, secretary of state Amber Rudd and her department have been unable to comment publicly recently.

In March however she said that leaving would be an “electric shock” costing consumers at least £500mn a year if it leaves the EU. That shock is unlikely to refer to the abandonment of the nuclear plant proposed for Hinkley Point C – which many would consider a relief, bearing in mind the high electricity price that the majority French-state-owned plant’s owners are guaranteed.

But her junior minister Andrea Leadsom has been banging the drum for exit. “Leaving the EU will give us freedom to keep bills down, to meet our climate change targets in the cheapest way possible and of course to keep the lights on,” she said, apparently referring to security of supply arrangements that the EC is putting in place.

One benefit the UK would lose would be funding from the European Investment Bank. The bank told NGE that in the event of a vote to leave, “the legal obligations concerning EIB loans already agreed will not change. Existing borrowers will not face any change in contracts that have already been signed with the EIB….

However it must be noted that future support for long-term investment in the UK by the EIB could be at risk if the UK were to leave the EU. In the event of a Brexit vote it can be expected that the role of the EIB would be discussed in withdrawal negotiations and the EIB’s future lending in the UK would be considered by the bank’s 28 EU member state shareholders.

The EIB says it has supported more climate related investment in the UK than any other country worldwide and unlike other European countries there is no national infrastructure bank in the UK that could replace the European Investment Bank overnight. Over the last eight years the EIB has provided €43bn for long-term investment in the UK, compared with €1bn in all the European Free Trade Area countries combined: Norway, Switzerland, Iceland and Liechtenstein.

At time of press, delegates from EU member states had flocked to the St Petersburg International Economic Forum in Russia, including such heavyweights as the president of the European Commission Jean-Claude Juncker; Italy’s prime minister Matteo Renzi, and former French president Nicolas Sarkozy.

This compares with last year’s event, after the imposition of sanctions following Russia’s involement in eastern Ukraine and the Crimea. Then, the main EU trophy for Russia’s president and main forum sponsor, the St Petersburger Vladimir Putin, was the economically-harassed Greek PM, Alexis Tsipras.

According to a senior Russian official speaking to the Financial Times June 16, sanctions would be discussed in Putin’s meeting with Juncker, “but it’s not like we are pushing for this now… We see that the understanding in Europe is growing that we are natural partners and it is against their interests to artificially distance themselves from us just because the Americans tell them to do so.”

Also present was former UK Conservative energy minister, Charles Hendry, who told Sputnik on the sidelines that Nord Stream 2 was needed. “It’s important that we diversify the routes of Russian gas [deliveries] into Europe. Nord Stream 2 does have an important part to play in that process.” Hedging his bets he also identified the Southern Gas Corridor, a big EU-US-backed project, as another key route for gas into Europe.

Gazprom CEO Alexei Miller took the floor to present Nord Stream 2 in a newish light: the line is all about gas production and gas demand moving north, in Russia and Europe, respectively.

But also in his speech was an airing of plans to limit to a relative trickle the amount of its gas that might flow through the central export route that brings Russian gas to Ukraine. This would be done by closing down compressor stations and decommissioning linepipe, and save billions cumulatively; but it would also entrench Gazprom’s position as monopoly exporter as other Russian gas producers would find their access to European markets blocked.

The first Nord Stream line has proved somewhat of a disappointment as the EC has prevented Gazprom from using more than half the OPAL pipe, which brings gas south from Greifswald on the Baltic coast to central Europe. Nord Stream 1 has, in consequence, been running at no more than 82% of capacity.

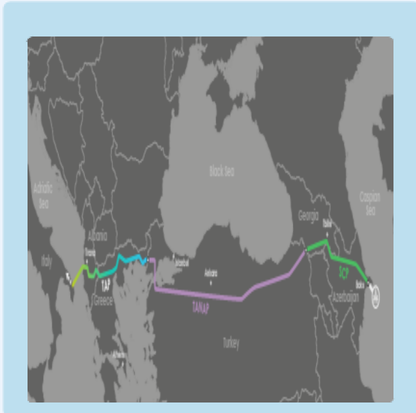
But this is being reconsidered, the European Commission told NGE June 16, as it received in May a notification of a settlement agreement by the German energy networks regulator, the Bundesnetzagentur.

The new agreement aims at revising the conditions of the use of the OPAL pipeline as laid down in the 2009 exemption decision, and this has triggered the restart of “internal procedures for the EC decision concerning OPAL.” These are ongoing and the EC said it would “carefully assess the review request in line with the Gas Directive 2009/73 of the Third Energy Package and with other relevant EU rules.” The Berlin-based regulator told NGE June 16 that it was hoping for a decision next month.

PETFORM

US, Europe enable Southern Gas Corridor

Natural Gas Europe, *10.06.2016*



The first half of 2016 has proved vitally important to the success of the SGC, both in terms of the project's physical implementation and also with regard to funding of several segments of the value chain by a number of the project partners, in particular the government of Azerbaijan.

In addition to these successes, the project received enormous and unprecedented political support at the highest level, both from the EU and the US. The question remains why the US administration and EU officials should so vividly demonstrate their diplomatic and political support for this project over the last three or four months.

From the US side, diplomatic and political support has been voiced several times over the last few months. The State Department's Special Envoy and Coordinator for International Energy Affairs Amos Hochstein stated that the SGC is a "long-standing priority for the US government," and at the Southern Gas Corridor Advisory Council Second Ministerial Meeting in February it was stated that the project is a guarantee of EU energy security.

A month later, at the Nuclear Summit in Washington at the end of March, Secretary John Kerry in a meeting with the president, of Azerbaijan, Ilham Aliev, commented on the role of Azerbaijan in "European energy security as a leader in developing the Southern Gas Corridor."

He went further, saying that the "US expresses support for Azerbaijan's efforts to become a regional trade hub." US Vice President Joe Biden, in his meeting with Aliev, stated that the "US fully support Azerbaijan's efforts to implement" the SGC project, noting that the country would take the necessary measures in this regard.

Last week, at the Caspian Oil & Gas Show and Conference in Baku, the biggest event on this topic in the region, a State Department representative read a message from the president, Barack Obama, emphasising that "Azerbaijan continues to play a crucial role in global energy supply and is a reliable partner in achieving our common goal of increasing regional diversification, market competition and energy security." He went on to reinforce US support for Azerbaijan in the realization of this project.

The EU has demonstrated enormous support for the SGC ever since the project was initiated and in Regulation (EU)No 1316/2013 (Dec 11, 2013), the EU included it as one of its four priority gas corridors. One of its components, the TransAdriatic Pipeline, has also been included in the European Commission's list of 33 priority energy security projects of common interest. The main message of the UK prime minister, David Cameron, speaking at the same event was that "The SGC plays an important role in the diversification of energy supplies to European markets," and hydrocarbons sourced in Azerbaijan play a crucial role. The SGC and other energy projects will have a centre stage during Aliev's planned visit to Berlin and his meeting with Angela Merkel.

At the Ministerial Advisory Council Meeting in Baku in February this year, the energy ministers of all seven countries through which the pipelines will pass, as well as four energy ministers of the Balkan region, signed a document committing them to take all the necessary legislative and financial measures to implement the SGC in a timely manner.

The document also expressed that "existing and future opportunities for the expansion of the project beyond the EU, including the Balkans will be evaluated." The EU High Representative for Foreign Affairs and Security Policy, Federica Mogherini, and vice-president of the European Commission for Energy Union, Maros Sefcovic, stated that the EU will take all the measures necessary to ensure the realization of the project in accordance with the schedule.

Having said all the above, it is important to understand why the SGC is gaining increasing importance for the US and EU and has become an ever more vital strategic project for diversification, market competition and energy security within Europe in general and southeast Europe in particular, with Azerbaijan assigned a leadership role in the materialization of the project.

In the current conditions of a changing market landscape, in terms of both the price and supply/demand dynamic, in Europe and elsewhere in the world, it is vital for the EU to create a competitive gas market with fair gas prices across all the countries of the bloc to ensure sustainable and reliable gas deliveries, including, most importantly, from new sources.

According to the main EU energy security objectives, each European country should have access to at least to three new sources of supply, which envisages not only gas deliveries from new country sources, but also through new transportation routes. The SCG fully addresses this objective of the EU.

As the current European pipeline gas suppliers are relatively undiversified, new gas from the Shah Denis Phase 2 field will bring competitive gas prices to the market. As of today, although at a historic low in the market at around $4.3/mn Btu, pipeline gas price is competitive with LNG from new sources, notably from the US. US LNG is a price taker in Europe, but it is also clear that current gas prices in the market do not incentivize new investments in LNG.

It is worthwhile mentioning that not only the EU and US are interested in this strategic Corridor, but also the resource-rich Central Asian states to the east that see the SGC as a unique opportunity to acquire access to the new route and the large European market, without multi-billion dollar investments in infrastructure. The resource-rich Middle East countries as well as Iran and the eastern Mediterranean countries have similar interests in the SGC for the same reason, namely, having access to strategic infrastructure.

Despite the enormous scale of the project including all its segments, the government of Azerbaijan and state oil company Socar, together with their foreign partners are developing this project based on their own financial and technical capabilities. The partners are implementing the SGC based on international practice, financing part of the investment on their own with the remainder financed from long-term loans from international banking and financial institutions. The Southern Gas Corridor Company's capital is, directly and indirectly, wholly owned by Azerbaijan, with 51% held by the ministry of the economy of Azerbaijan and 49% held by Socar which, in turn, is wholly-owned by Azerbaijan.

Funding for Azerbaijan's stake in the SGC has, to date, been achieved primarily by the issuance of bonds due to SOFAZ in the amount of $2.5bn and by an equity injection from the energy ministry and Socar with a total value of $1.7bn.

The SGC Company is planning to raise $7.7bn between 2016 and 2019 in order to fund its remaining share of investment in the projects. Business investors, international banks and financial institutions have demonstrated significant interest in all segments of the SGC, and as a result the Azerbaijani side successfully sold its obligations for an amount of $1bn in March.

In addition, the European Investment Bank, EBRD, World Bank, Asian Development Bank among others have already agreed to issue billions of dollars in long-term loans to finance different parts of the SGC until 2019. Without the political and diplomatic support of the West along with long-term loans from the international banking community, it would not be possible to realize the SGC.

Five graphics to cheer up the US natural gas and LNG industry

Forbes, *08.06.2016*

Burdened by sunken prices, global oversupply, more regulations, and more relentless attack, the U.S. oil and gas industry could use a cheer up. While there are threats, the emerging U.S. LNG export business has a bright future. Let's just look at the latest global gas demand projection we have, EIA's International Energy Outlook 2016.

Given that gas has CO_2 emissions 40-50% lower than coal and 25-35% lower than petroleum, releases far fewer greenhouse gases and local pollutants, and is the essential backup for wind and solar power, COP21 commitments "simply cannot come to pass without more gas."

Lots more gas. The world is on the verge of major structural increases in natural gas demand. Gas is the world's fastest growing major fuel, and the big importers will require more imports. As a nation, we have an obligation to support our companies looking to export natural gas, because it helps to reduce global CO_2 emissions, supplies modern energy to an overwhelmingly still poor and energy-short world, and buffers the gaining influence of the Gas Exporting Countries Forum, a "gas OPEC" set into motion by Vladimir Putin that holds nearly 70% of the world's proven reserves.

These are important and diverse concepts in our swiftly connecting planet, where energy markets are increasingly based upon a complex combination of politics, economics, and security. Too many of the analysts and policymakers leading our energy/environment discussion have so pigeonholed and short-sighted their focus that they only see trees, not forests. Repeatedly defying the naysayers, U.S. gas production continues to increase. In fact, our production has been rising so fast that EIA's National Energy Modeling System hasn't been able to keep up.

For example, in just one year's time, compared to its Annual Energy Outlook 2015, EIA's Annual Energy Outlook 2016 upped its projection for U.S. gas production by 47 Bcm in 2020, 122 Bcm in 2025, and 134 Bcm in 2030.

Evolving technologies and know-how make these forecasted gains in output annual events: for example, in the Marcellus shale play, the largest U.S. gas field, rig efficiency has increased nearly 40% in the past year alone. Rising projections for extraction are even more impressive because they also come amid projections of lower prices, which obviously make it more difficult to produce.

More production in the face of lower prices is just another reason why the boom in proven U.S. natural gas reserves is so remarkable. Even though prices have been sliced in quarter, our gas reserves are up over 60% to 11.2 Tcm since 2008. This means that we actually have much more gas to produce than can be reported in financial statements.

One industry estimate has us with 22.3 Tcm of gas available to produce at under $3 per million Btu (prices today are around $2). For reference, 22.3 Tcm is about as much proven gas as LNG leader Qatar has. Such a massive, low-cost resource is the basis of our ability to absorb large amounts of U.S. gas exports. Equaling nearly 30% of the current global LNG market, Deloitte says a 100 Bcm (9.8 Bcf/day) increase in U.S. LNG would “only lead to a marginal $0.05 per million Btu increase in price.”

So, as more baseload gas demand comes online from The Clean Power Plan, a $120 billion industrial build-out, and more exports of piped gas and LNG, prices will indeed increase but our producers will be able to extract even more, thereby maintaining our vital supply-demand balance.

This is why higher gas prices aren't as bad a thing as many Americans might think. To illustrate, for Southwestern Energy, the 3rd largest U.S. gas producer, a $1 increase in the price of gas nearly triples profitable drilling locations (here).

The next question becomes who are the main LNG importers. Three Asian nations alone constitute around 60% of global LNG imports, with China being the fastest growing incremental importer, likely to pass South Korea and become the 2nd largest market by 2018. Price reductions in November to boost demand have helped China's overall gas imports, up 33% in March and 27% in April.

Yet, seemingly forgotten thanks to the rise of China and India, LNG leader Japan will remain an interesting market to watch. While demand in Japan faces a number of issues (more coal power plants, a nuclear power re-start, an overly high reliance on oil electricity, more solar power, and tiny population/economic growth), Japan still has a recently fully liberalized, $165 billion power market, where natural gas accounts for a very high 40% of generation.

And Japan's natural gas industry could be liberalized next year, allowing new entrants to the business better access to pipelines. Encouraging more gas use, “it is hoped that increased competition will result in lower electricity and gas bills for consumers.” Japan is already favoring gas with a COP21 target to reduce greenhouse gas emissions 26% by 2030 compared to 2013 levels. “Japan – Natural Gas Demand Will Grow.” As an island country, Japan has no cross-border pipelines and is forced to import some 98% of its gas needs via LNG.

Although “Japan Looks to Import U.S. Natural Gas,” it appears that Russian piped gas could once more be our competition: “Tokyo Gas Wants to Build a Natural Gas Pipeline to Russia.” There will be plenty of other options for us, however, as the current LNG importing market of 34 nations is expanding by as many as four new markets a year.

LNG is one of the most attractive markets in the energy industry, with demand rising 6-8% per year as countries shift to lower-carbon fuels. Free market U.S. LNG is a wanted product for a number of reasons, particularly the flexibility of our tolling agreements that don’t have fixed destination clauses.

Closer Europe will likely be the main destination for U.S. LNG. There’s a fast growing gap between domestic production and demand, and enhancing gas security hinges on diversifying supply sources. The claim that Europe simply needs more efficiency and more renewables to displace gas is clearly false: International Energy Agency reports that Europe needs to invest $40 billion in gas supply infrastructure a year.

Europe’s anti-gas movement requires a serious re-think because gas use is destined to grow. Natural gas supplies just 17% of Europe’s electricity, compared to 33% in the U.S., where more gas has us reducing CO2 in the power sector more quickly (here).

And potentially cheaper U.S. LNG supplies (which can be imported at a profit into Europe for as little as $4.5o per million Btu) would really help a continent that continues to be hampered by power rates that are 2,3, or even 4 times higher than those in the U.S.: “Energy price gap with the U.S. to hurt Europe for ‘at least 20 years.”

Traders’ lobby group calls for price freedom

Natural Gas Europe, *10.06.2016*

The Efet believes that the electricity system in Europe is ripe for a major overhaul and a levelling of the playing-field. Despite significant progress and integration of electricity markets, truly free formation of prices remains an unattained objective in all member states so far, it said.

Energy prices should be allowed to reflect the true value, even allowing for negative prices. Liberalisation and integration are rising but patterns of generation and supply and the “massive” build-out of renewable capacity, distort the price, affecting both dispatch and investment, divestment decisions, it said in position paper.

In the particular case electricity produced from renewable energy sources (RES-E), current priority dispatch arrangements, where they still exist, do not incentivise RESE producers to moderate their own output efficiently. Low or negative prices should arise naturally rather than through the operation of market-distorting privileges and subsidies.

To improve this situation, Efet believes all participants in the wholesale market should be treated equally, with no discrimination either in favour of internal flows and the price should not be regulated or distorted in an anticompetitive way.

“The time has come to do away with privileges, old and new, and to guarantee a level-playing field to all market participants, irrespective of their location, the technology they use, and the type of product or service they provide. A critical review of measures favouring specific technologies or preventing challengers – including on the demand and storage side – to enter the market should be launched,” it says.

“Renewable power generation has largely developed separately from the operation of the wholesale energy market. This situation has undermined the efficiency of the European carbon market. We believe that the central instrument to encourage support in investment in low-carbon technology should be the EU Emissions Trading System (ETS). It promotes the most cost-efficient form of abatement and does not distort the internal energy market.”

According to Uniper, in Germany redispatching events have risen significantly over the last few years, much to its own detriment and at the end of April it sued grid operator Tennet through the Bayreuth regional court to recover its full costs relating to redispatching the 800-MW Franken gas-fired plant, saying Tennet was not interpreting correctly the ruling by the Dusseldorf Higher Regional Court of a year earlier.

Uniper believes it is subsidising Tennet, allowing lower transport charges for customers as Tennet did not pay enough for this service in 2013 and 2014, even though the power plant was re-dispatched for grid-stabilisation purposes to a substantial extent.

“In 2010 we [Germany] had 364 hours of redispatch measures and in 2014, we had 8,453 hours, or one nearly every hour on average. This year we estimate the costs to be €1bn,” a spokesman told NGE this month.

The reasons were more feed-ins of mainly renewable energy in the north, and relatively high demand in the south with the decommissioning of the nuclear plants there. Uniper argues that its own actions in providing flexibility were equivalent to an extra grid which only Tennet gets the full value of.

In its April 28, 2015 decision, the Higher Regional Court had determined that re-dispatching operations of a power plant were equivalent to an alternative for a grid asset because the intervention eliminates transmission network congestion. Such congestion could be remedied by expanding the transmission network. Regulated transmission network charges, on the other hand, are based on the premise that all costs must be reimbursed. It is therefore appropriate to also reimburse the pro-rated fixed costs of a power station used for redispatching, it said.

US oil rig count increases for 2nd consecutive week

AA Energy Terminal, *11.06.2016*

The number of oil rigs in the U.S. have increased for the second consecutive week, the oilfield services company Baker Hughes said. Oil rig count in the country rose by 3 past week to reach 328. Last week, the number of oil rigs increased by 9 to 325.

However, the total number of oil rigs in the U.S. is still almost 80 percent below its highest level in October 2014 when they were at 1,609. After the release of data, the price of crude oil in global market decreased around 3 percent. The American WTI dived to $48.88 a barrel, while the international benchmark Brent declined to $50.37 per barrel.

The rig count provides an indication on the well-being of the oil sector in the U.S., and signals possible short-term production cuts and increases. Due to low oil prices, oil rigs are removed, wells are shut down, while production declines.

The U.S. oil output was at 8.7 million barrels per day for the week ending June 3, according to the country's Energy Information Administration. Domestic oil production in the U.S. is now at almost 900,000 bpd less than June last year when output peaked at 9.6 million bpd.

Oil prices fall to one-month low

WSJ, *16.06.2016*

U.S. oil prices posted their largest one-day loss since April, dragged down by market jitters over the looming U.K referendum.

Crude prices have fallen for six straight days, as traders assessed global economic uncertainty and the prospect that U.S. oil production could start rising again. U.S. crude for July delivery settled down $1.80, or 3.7%, to $46.21 a barrel on the New York Mercantile Exchange, the lowest settlement since May 13. Brent, the global benchmark, fell $1.78, or 3.6%, to $47.19 a barrel on ICE Futures Europe, the lowest level since May 10.

Oil has fallen alongside global stocks, which have sold off in recent days amid fears that a British vote to exit the European Union will disrupt financial markets and the economy. U.S. stocks fell early Thursday but pared losses later in the day.

“I don’t think it’s any coincidence that you see both energy down ...and equities down,” said Bob Yawger, director of the futures division at Mizuho Securities USA Inc. “It’s a ‘risk-off’ environment that we’re operating under globally.”

Investors also are assessing whether U.S. oil production, which has declined for about a year, is set to start rising again. Output has fallen from its April 2015 peak as low oil prices forced producers to cut spending on new drilling. But U.S. prices have rallied more than 75% from their February lows, and the number of rigs drilling for oil has risen for two straight weeks.

The U.S. Energy Information Administration said Wednesday domestic crude stockpiles shrank less than expected, decreasing by 900,000 barrels. Stockpiles also grew by 900,000 barrels at the key crude delivery hub of Cushing, Okla. Production fell by 29,000 barrels to 8.72 million barrels a day, the EIA said. It had risen the previous week. Gasoline futures settled down 3.61 cents, or 2.4%, to $1.4653 a gallon. Diesel futures fell 5.49 cents, or 3.7%, to $1.4229 a gallon.

Announcements & Reports

► *China's 13th Five-Year Plan: Implications for Oil Markets*

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/06/Chinas-13th-Five-Year-Plan-Implications-for-Oil-Markets.pdf

► *MOMR June 2016*

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

► *Natural Gas Weekly Update*

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

► *This Week in Petroleum*

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

Upcoming Events

► *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

► *FLNG World Congress 2016*

Date : 28 - 29 June 2016
Place : One Farrer Hotel, Singapore
Website : http://www.flngworldcongress.com/

► 9th SE Europe Energy Dialogue

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

► FSRU Asia Summit

Date : 06 – 07 September 2016
Place : Amara Sanctuary Resort Sentosa, Singapore
Website : http://www.fsrusummit.com/

► Operational Excellence in Oil and Gas Europe

Date : 19 – 21 September 2016
Place : London, UK
Website : http://www.opexinoilandgasemea.com/

► 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