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Turkey's EXIST plans Georgia, Bulgaria exchanges links

AA Energy Terminal, *14.07.2016*

Energy Exchange Istanbul Turkey's (EXIST) expects to complete a market coupling agreement with Georgia and Bulgaria's energy exchanges by 2018 or 2019 while talks for collaboration with Bosnia-Herzegovina and Romania's energy bourses have accelerated, Hasan Huseyin Savas, EXIST's general manager said.

"At the moment, we are ready to hold further talks with any country which is interested in market coupling. This could be Iran, countries in the Arabian peninsula or in the Balkans, or Cyprus," Hasan Huseyin Savas, EXIST's general manager told.

Market coupling, in use since 2006, is an agreement between transmission system operators and market operators of two or more countries, in which they use a common algorithm to settle market transactions. Turkey has the potential to become an energy hub in the region due to the magnitude of its installed capacity in electricity, its geographic location and its increasing power consumption, Savas said.

"I think we will achieve more solid results in terms of integration with other markets in the next few years, as we begin to be more known globally," he said. "We started our exchange from scratch in 2015 and brought to life many important projects. We have now prepared EXIST's five-year strategic plan," he said.

The strategic plan covers efforts to gain global recognition, to encourage Turkey's transformation into a regional energy center, to progress in market couplings and further develop the Transparency Platform. The platform was established in 2016 to target the effective and fair functioning of Turkey's electricity market.

The exchange aims to post $6.2 million in profits in the first half 2016 and anticipates posting net profits of 18 million liras ($6.2 million) at the end of 2016, compared with the 5.6 million liras ($1.93 million) losses it posted at the end of 2015, Savas said.

It also aims to achieve total investments of about 9 million liras ($3.1 million) by the end of the year, he added. EXIST, established in 2015, became a member of the Association of European Exchanges (EUROPEX) in June this year, with the association's general assembly planned to be held in Istanbul in 2017. It also replaced its Intra-Day Market software with one designed entirely by the exchange's software engineers. EXIST may set up a spot natural gas market within the exchange in the first quarter of 2017, Savas said. Feasibility studies are also underway to launch carbon, green certificate, coal and oil markets, he added.

“We reported losses last year due to limited revenues and high operational costs, brought on by our launch,” Savas said. “This year we expect to post profits, spurred by market operation tariffs,” he said.

“The recent changes to renewable energy regulations in granting participants the responsibility to manage the energy imbalances has spurred on significant increases in volume in the Intra-Day market,” Savas said. Trading volume in the Intra-Day market surged past 13 million liras ($4.5 million) in June alone, with the highest amount of transactions on a daily basis since EXIST’s launch recorded on June 17, 2016 at 8,711 MWh.

EXIST reported a transaction volume of 56.05 terrawatt/hour (TWh) in the Day Ahead Market in the first six months of 2016, with trade volume totaling more than 15 billion liras ($5.2 billion), according to data provided by the exchange. At the end of 2015, the transaction volume reached around 100 TWh, with trade volume hitting a total of about 28.5 billion liras ($9.8 billion).

Iran-Turkey gas discount rate remains unresolved

AA Energy Terminal, *13.07.2016*

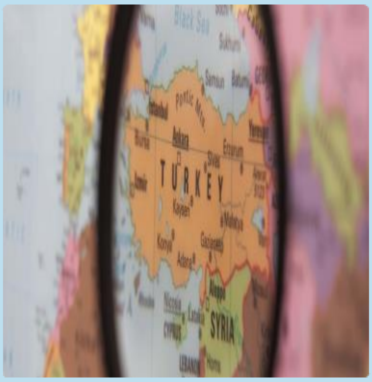
Turkey and Iran have not reached a final decision on natural gas price discount, Turkey’s energy and natural resources ministry said. The ministry’s statement comes as Turkish news outlets claimed an official rate 12 percent was agreed on.

Once the exact discount rate is finalized, the ministry will announce it, the ministry’s statement reads. Turkey imports 10 billion cubic meters of natural gas from Iran annually. In 2012, Turkey applied to the International Court of Arbitration for the overpriced gas by Iran during the four-year period between 2011 and 2015.

The court ruled in favor of Turkey in February 2016 and ordered that the both parties should agree on a reduction between the rates of 13.3 percent and 15.8 percent in the price of Iranian gas exports to Turkey. Turkish officials earlier said that they hoped to reach a decision by 2017.

Turkish Stream: Still only a dream

Natural Gas Europe, *11.07.2016*



Russian President Vladimir Putin announced that he and Turkish President Recep Tayyip Erdoğan had agreed to restore bilateral ties between their two countries. Russian Prime Minister Dmitry Medvedev followed the announcement with his own statement that economic sanctions against Turkey would be removed "on a gradual basis."

Meanwhile, plans to build a natural gas pipeline—known as Turkish Stream—under the Black Sea to bypass Ukraine remain on hold. Russia halted negotiations on Turkish Stream after Turkey shot down a Russian jet on the Syrian border on November 24, 2015.

The originally planned 1,100-kilometer pipeline would consist of four lines designed to transport sixty-three billion cubic meters (bcm) of natural gas annually. Sixteen bcm was destined for the Turkish domestic market, while the remaining forty-seven bcm was for the European market. Combined with the Nord Stream pipeline, Turkish Stream would have eliminated the need for Gazprom—Russia's chief energy giant—to use Ukrainian pipelines to supply the European market.

Gazprom CEO Alexei Miller previously said that he awaited word from the European Commission on their position on the pipeline before he would discuss implementation. Miller is following the position Putin laid down in December of 2015.

Still smarting from the European Commission's refusal to ratify the originally planned South Stream, Putin said: "We need guarantees in writing from the European Commission that all routes, including the potential one to Europe through Turkey, may not only be realized but will become a priority with the [Commission's] support. If Gazprom's partners bring us a document of this sort we can move on."

Turkish Stream had been in trouble before the Russian jet was shot down. In September of 2015, Gazprom Deputy Chief Alexander Medvedev announced the project was being scaled back to a single line to feed Turkey's energy needs. "We agreed with the Turkish partners that first we will work on pipe number one, and then we will look to the others," he said. Whether other lines would be built depended on European demand.

Turkey had been demanding a 10.25 percent price discount on Russian natural gas; Gazprom had refused to sign the agreement. According to Turkish Deputy Undersecretary for Energy Sefa Sadik Aytekin, this price dispute was impassable.

“We can’t move forward in the negotiations at the moment. Russia placed the gas discount talks between Gazprom and Turkey’s gas grid, BOTAS, as a prerequisite to the Turkish Stream project…The parties have not ended the talks, but frozen them,” he said in September of 2015. Russia seized the jet incident with alacrity—using it as an excuse to halt negotiations that had ultimately not gone their way.

According to Agnia Grigas, a nonresident senior fellow in the Atlantic Council’s Dinu Patriciu Eurasia Center, “Moscow’s pointing to the recent tensions with Ankara as the main reason for slowing down the Turkish Stream project is perhaps just a way of saving face when the costs of currently implementing it would be difficult for Russia to bear.”

Gazprom spokesman Sergey Kupriyanov has declared that the company is “open for dialogue” on the project, and Turkey is prepared to unfreezenegotiations. However, unless progress can be made on the underlying pricing issues, it appears the Ukrainian route will still be used. Even Putin seems to have acknowledged this reality. At the St. Petersburg International Economic Forum in mid-June, he said that contrary to previous official statements Russia would not phase out the Ukrainian route.

Turkey’s current-account deficit shrinks in may on energy

Bloomberg, *14.07.2016*

Turkey’s current-account deficit narrowed for a 10th month in May on lower energy costs, but less than expected. The shortfall in the current account, the broadest measure of trade in goods and services, shrank to $2.86 billion in May from $4.27 billion a year earlier, Turkey’s central bank said in a statement Thursday. The median estimate in a Bloomberg survey of eight analysts was for a $2.7 billion gap.

The annualized deficit has been shrinking since August on lower oil prices. Imports of mineral fuels, which include crude oil, declined 37 percent to $2.1 billion in May from a year earlier, according to the state statistics institute.

Turkish gold shipments surged more than 10-fold in May from a year earlier, led by a big jump in sales to the U.K., further narrowing the current-account gap. The deficit at the end of the year is expected to remain little changed from 2015 at about 4.5 percent of gross domestic product, according to estimates compiled by Bloomberg.

Investors track the gap because Turkey relies on capital inflows to finance it, leaving the economy vulnerable to sudden changes in sentiment toward the nation’s assets. The lira was little changed after the data and was trading 0.2 percent higher at 2.8933 per dollar at 10:02 a.m. in Istanbul.

Energy-hungry Iran may turn to Turkey for gas-fired power plants

ICIS, *12.07.2016*

Iran could ask Turkish investors to build more gas-fired generation or ship existing plants to the country as its current capacity struggles to meet soaring demand, a source active in the Iranian energy sector told ICIS.

Iran saw record daily peak power demand of 51GW, as temperatures reached, according to data from the Iranian Ministry of Energy. However, with consumption set to increase on the back of economic growth and supply struggling to keep pace following years of underinvestment caused by international sanctions, Iran could turn to Turkey where gas-fired plants are currently underused.

Earlier in June Turkish energy company Unit International signed a $4.2bn (€3.8bn) deal to build gas-fired power plants in Iran with a total capacity of 6,020MW. The seven plants would meet around 10% of the country's energy needs and construction is set to start in the first part of 2017.

However, in an interview with ICIS, Mahmood Khaghani, a Tehran-based energy consultant, said there was a need to bring in more state-of-the-art equipment to guarantee greater efficiency. "In Turkey one cubic metre of gas produces 5kWh, in Iran one cubic metre produces only 3kWh," he said.

Turkey saw surging investment in gas-fired power production capacity in the first decade of this millennium. However, slowing economic growth combined with an increase in renewable capacity and government support for coal-fired capacity to take its toll on gas-fired generation volume, which fell 19% from 121TWh in 2014 to 98TWh in 2015, according to latest official data.

This meant that many gas-fired plants have been sitting idle for the greatest part of 2015 and 2016. "There are numerous CCGT [combined-cycle gas turbines] with low capacity and low efficiency or state-of-the-art plants with capacities below 100MW in Turkey which are looking for buyers," a source active in the Turkish gas market said.

"We have already seen some turbines being marketed in Ghana," the source said. "Similar projects can be undertaken in Iran." However, Khaghani conceded that Iran had to produce a clear national policy to reform its electricity sector before hoping to attract significant investment in the sector. Iran expects to build an average 5GW of capacity annually between 2016-2021 as well as increase its electricity exports from its current 8TWh to 12TWh, according to its five-year development plan. Last month Iran completed a 600MW interconnection with Azerbaijan, which could become the centrepiece of a North-South electricity export corridor including Russia, Armenia, Azerbaijan, Georgia and Iran.

Bulgaria and Iran hope to expand energy cooperation

Natural Gas Europe, *13.07.2016*

Bulgaria's energy minister Temenuzhka Petkova discussed opportunities for deepening bilateral cooperation in the energy sector, particularly in the field of natural gas with her Iranian counterpart Bijan Zangeneh, the ministry said.

Iran is working on priority projects for the next years, including building export terminals to export lng from the Persian Gulf. "Minister Zangeneh underlined Iran considers Bulgaria as its close partner, which could be the gateway for Iranian energy resources to European markets. He stressed that Iran's natural gas reserves in the Persian Gulf are among the biggest in the world," the statement said.

Petkova updated her Iranian counterpart on a priority of the government – the diversification of energy sources and supply routes for Bulgaria and southeast Europe. One of the possible routes for the supply of Iranian natural gas to Bulgaria could be an LNG import terminal at Alexandroupolis and the gas interconnector Greece-Bulgaria (IGB).

Bulgaria plans to participate in the Alexandroupolis LNG project, establishing a joint venture with Greece. "We expect that by the end of October to have clarity on technical, financial and legal aspects of the project," Petkova said in a statement. Iran's oil minister Bijan Namdar Zangeneh and Bulgarian energy minister Temenuzhka Petkova (Credit: energy ministry of Bulgaria)

"Energy was one of the major issues on which we can cooperate with our partners from Iran," Petkova said, Focus agency reported. "…Speaking of the construction of the LNG terminal in Alexandroupolis, there are many clear preconditions for the possibility to deliver natural gas from Iran in about 3-4 years," the minister explained. Petkova invited Zangeneh to visit Bulgaria to see the capabilities of the modernized Bulgarian gas transmission network, according to ministry statement. It is expected that over the next few months a joint Bulgaria-Iran energy committee as well as a joint working group on natural gas will resume activity.

The meeting between energy ministers was part of an official visit by Bulgaria's prime minister, Boyko Borisov, to Iran. Separately, Borisov announced that Bulgaria and Iran would explore a transport corridor project that would link Bulgaria and Iran through Armenia and Georgia that could carry gas.

A new transport corridor between the Gulf and the Black Sea, linking Iran, Armenia, Georgia and Bulgaria will be discussed during forthcoming expert meeting in Sofia, according to a prime minister office statement. "We built a highway Trakia and Maritsa speed railway lines... I said that today we can accept through our ports and across Europe such transport corridor, making it look not only for freight but gas transmission," said Borisov.

Cooperation in nuclear energy sector is also under discussion. However analysts consider Turkey the easiest option for delivering Iranian gas to Bulgaria. Mikhail Korchemkin, owner of consultancy East European Gas Analysis, told NGE that Iran can quickly increase gas exports by adding loops to the existing pipeline to Turkey. “Other loops could expand the capacity of gas pipeline that runs across Turkey. It would be enough to supply at least 50% of Bulgarian market,” he said.

According to Korchemkin, Bulgaria will be able import Iranian gas via the virtual reverse flow scheme – taking gas from the transit flow and replacing it by matching volumes of Iranian gas at the border of Turkey and Iran.

Earlier this week Iran’s ambassador to Bulgaria Abdollah Norouzi expressed the similar ideas with his interview for Bulgaria’s Evropa TV. He said that the Iranian business in general was interested in investing in Bulgaria’s energy sector, including oil and gas export and oil refinery in Bulgaria.

“We have to see how much the Bulgarian side is ready for this. Having in mind that our gas network is quite developed and we have pipes leading to the border with Turkey, certain agreements for cooperation have to be signed,” he said. Iran has a spare capacity in the pipeline that delivers gas to Turkey, the nation’s energy ministry said.

Steinitz warns on ignoring IMF recommendations

Globes, *10.07.2016*

Minister of National Infrastructure, Energy, and Water Resources and former Minister of Finance Yuval Steinitz warned in a radio interview with Anat Davidov and Hagai Golan against ignoring a warning by the International Monetary Fund (IMF), which severely criticized the banking and credit card reform in Israel.

Davidov noted that Minister of Finance Moshe Kahlon had chosen to reject the criticism, and was going ahead with the reform. Steinitz commented, “I was inclined to support the Strum Committee’s conclusions, but I would not ignore the criticism by the IMF, which had no axe to grind.

It is expressing great concern about the stability of the financial system in Israel, which in the medium and long term could lead to a credit bubble, or detract from the bank’s financial stability. We know what terrible trouble can occur, and how much it cost people in the US and Europe when some of the banks there fell, and had to be rescued.

I would suggest devoting a few weeks now to serious study of this criticism to see whether there are remedies that can moderate these risks, and to understand how to make a reform that takes this concern and anxiety into account.”

Golan and Davidov cited the connection Steinitz himself made between signing a defense aid agreement with the US and finding additional gas fields in the Mediterranean Sea. In response, Steinitz said, “This agreement is very important to us. Israel faces enormous defense challenges.

The prime minister is doing his duty by trying to obtain a good and reasonable agreement for us on US aid. It’s a complicated matter - the agreement is complicated. That’s why there’s room for dialogue and reaching a better agreement. There are questions about how much aid, how much can be used for procurement from Israeli defense industries; that important. The proportion in past agreements was 26%, nearly NIS 1 billion for procurement from our defense industries, which can develop our weapons systems and provide jobs.

“On the other hand, we have to take into account the fact that according to our forecasts, there is a reasonable likelihood that in the coming years, we will find more substantial gas fields in our economic waters,” Steinitz added.

“I have given orders to make all the preparations to renew the oil and gas exploration this November, after many years of treading water. If more such fields are discovered, it could be argued that we have enough for ourselves. The answer is therefore no simple matter.

In my opinion, if there is a reasonable agreement now that meets our current needs, because we don’t know what will happen in the future, we should sign it, and not wait to see whether it can be improved in the future, because we don’t know what will happen in the future, who will become president of the US, what will happen to the US economy, and what will happen to us.

Maybe income from the gas will become much greater. We don’t know, and there’s no guarantee we’ll get a better agreement in the future. So we have to consider these things carefully, and make an effort to reach an agreement. I don’t think that we’ve lost or left it too long.”

When Golan asked about the connection between the diplomatic agreement with Turkey and development of the Leviathan gas field, Steinitz answered, “Turkey is important for the gas sector for two reasons. The first is sales of gas to Turkey. The market there is very large, and new agreements are being signed in the region at $6.5-7, which right now is 50% more than the price in Israel, and this is a good market.

The other reason is that we want to take full advantage of the potential to bring more companies here, in addition to Noble Energy and Delek Group Ltd. (TASE: DLEKG), to find more gas fields, so the Turkish market is enormously important, as is the European market via Turkey.”

Golan noted that there are those who say that there is nothing to be glad about in the development of the Leviathan gas field, and Davidov added that perhaps Delek Group controlling shareholder Yitzhak Tshuva is the one who should be glad.

Steinitz responded, “If anyone expects, or hopes, that Israel will not benefit from its natural resources, and will leave the gas under the sea, I think that’s stupidity. I don’t know of any country in the world that found a natural resource like the Leviathan gas field and left it untouched. Since I was Minister of Finance and set up the Sheshinski Committee, a decisive majority of the revenues, 66% in the case of a large field like Leviathan, goes to the citizens of the country.

The country isn’t investing billions of dollars; the companies are. I don’t know of any Western country that doesn’t invest in its gas fields that has revenues like ours. The average in the West for large gas fields is 50-55%, and we get 66%, which is considered a very high proportion, compared with countries like the US, Canada, the UK, and Denmark.”

Golan asked about the high price at which Israel Electric Corporation (IEC) (TASE: ELEC.B22) has contracted to buy gas, which will be translated into high electricity prices paid by the public. “This is completely untrue,” Steinitz answered. “In retrospect, the contract with IEC could have been linked to the price of oil, instead of to the Consumer Price Index (CPI). That’s true, but they thought that the price of oil would rise higher than the CPI.

The contract was signed in 2012, and it is bringing the current price of gas to $5.50 per MMbtu. In the Netherlands, the UK, and Norway, on the other hand, power stations have signed contracts at $11-12 per MMbtu, about double. So the prices in Europe have fallen, but they’re still higher than in Israel.”

In conclusion, Golan mentioned the conviction this week of businessman Nochi Dankner for share manipulation, and asked Steinitz whether he regretted that as Minister of Finance, he had consulted with Dankner in his office.

“The place wasn’t right; it was set without my knowledge,” Steinitz explained. “But the meeting in itself was right. I met with economic leaders, and I still do. I think that it’s the duty of the Minister of Finance and other ministers dealing with economic matters to hear opinions and concerns. That’s our duty.

At the same time, share manipulation is a serious crime. As Minister of Finance, I was the one who appointed Prof. Shmuel Hauser to head the Israel Securities Authority, and one of my requests from him was for strict enforcement and prevention of unfair intervention and share manipulation.

I’m very glad that he’s keeping a good watch. The initial discussions about overconcentration, which later led to the establishment of the committee on overconcentration aimed at dismantling and eliminating the power of large groups like IDB Holding Corp. Ltd. (TASE:IDBH) - to separate, for example, financial and non-financial holdings, and eliminate intervention through financial holdings, were things I initiated against the problem of overconcentration in Israel.”

“Ankara–Tel Aviv” orient express: Course set for rapprochement?

Journal of Turkish Weekly, *11.07.2016*

Turkey’s foreign policy has been on the rise this past month. Riding the wave of de-escalation in the Russia–Turkey dialogue, relations between Ankara and Tel Aviv are also being resumed after an almost six-year break. One should not forget that deterioration began in 2009, when Israel strengthened its positions in the Gaza Strip and soon started an open intervention.

Later, at the World Economic Forum in Davos, Recep Erdogan delivered his famous speech, later dubbed “one minute talk,” where he sharply criticized the actions of the Israeli leadership at the time.

Further escalation happened in May 2010 following the incident with the Turkish Mavi Marmara ship: as it attempted to break the Israeli blockade and deliver a humanitarian cargo to the Gaza Strip, Israel killed 10 Turkish citizens. Afterwards, political and diplomatic relations between the two countries were ceased.

Ankara has put forward three conditions which, should the Israeli side agree, could result in the de-escalation of the bilateral relations crisis: an official apology; compensation to the families of the deceased; and, most importantly, lifting the naval, land and air blockade of the Gaza Strip that has been in effect since 2006.

In 2013, under U.S. President Barack Obama’s mediation, Israel agreed to offer a formal apology to Turkey and pay compensation. This may be viewed as the first step towards normalizing relations between the two countries, but questions concerning the sums to be paid to the victims and the lifting of the blockade were never even on the agenda.

On the other hand, Israel set a series of demands of its own, with which Ankara could not comply at that time. One was to abolish the prosecution of Israeli soldiers whose actions had resulted in the deaths of Turkish citizens.

Essentially, it would ensure their immunity on an international level. At the same time, Tel Aviv could not lift the blockade of the Gaza Strip completely. Moreover, Israel insisted that the Turkish leadership significantly cut the number of the Hamas representatives (Israel views Hamas as a military threat) in Turkey and stop all contacts with the group as soon as possible.

Obviously, the domestic political climate in both states, as well as the foreign political situation, did not allow Ankara and Tel Aviv to make mutual concessions. Until 2010, political and military contacts had been developing successfully, but dropped off sharply that year. Israel-Turkey economic relations, however, were on the rise, and the trade volume grew many times over.

What is more, it is common knowledge that, since 2014, the oil that fills the new pipeline from Iraqi Kurdistan is transported via Turkey and its ports (Ceyhan) and on into Israel. Such developments prove once again that neither country is interested in severing ties completely. And the results of the parliamentary elections held in Turkey on November 1, 2015, where the ruling party received nearly 50 per cent of the votes, allowed Ankara to adhere to a bolder foreign policy, including a rapprochement with Tel Aviv.

It is apparent that the events in Syria and the Middle East played a key role in defining a new foreign policy, not only for countries directly connected with the region, but also for the non-regional players, primarily the West, Russia, and the United States. In this context, Turkey and Israel are countries that are involved in the conflict to some extent, and their domestic political situation depends directly on foreign policy decisions. Thus, both sides have gradually come to realize that looking for common ground is a necessity.

First, Turkey and Israel are two non-Arab countries in the Middle East whose positions and actions largely determine the development of the Middle East as a whole. In many ways, this served as a starting point for the recent rapprochement between Ankara and Tel Aviv. At the same time, both Turkey and Israel have long been targets for large-scale terrorist attacks. That is why a joint fight against armed and radical groups such as ISIS could significantly enhance possible bilateral cooperation. The lack of statehood and growing destabilization in many Middle Eastern countries force Ankara and Tel Aviv to look for common ground.

At the same time, it should be remembered that the involvement of the Russian Aerospace Defence Forces in Syria ran contrary to Ankara’s regional interests and thus afforded an opportunity for a renewed dialogue between Turkey and Israel.

Tehran’s nuclear agreement (P5+1), which opened a new page in Iran developing its regional influence and strengthening its international stance, also contributed to a further rapprochement between Turkey and Israel. Neither Turkey, nor Israel favour Iran’s growing influence in the Middle East, and therefore, making it necessary for Ankara and Tel Aviv to cooperate.

Although the question remains open as to which party will derive greater profits from this rapprochement, the renewed dialogue is nothing but a reflection of Realpolitik. Certainly, this rapprochement cannot fully resolve the crises and disagreements, of which Turkey and Israel had had their fair share even before the Syrian crisis, but it could minimize the increasing risks of destabilization processes. Second, Ankara’s foreign policy largely contributed to isolating Turkey from regional processes, while non-regional actors such as Russia, the United States and western countries have now joined in. A significant cooling of Russia-Turkey relations was a trigger to overcoming the Israel–Turkey crisis.

In a typical move, in May 2016, Turkey revised its position concerning the right to veto the opening of the Israeli office at NATO’s Brussels headquarters. For a long time, Ankara was against such cooperation. It should also be noted that, although officially, cooperation between Israel and NATO was not particularly productive, bilateral cooperation with Washington has compensated for this. Moreover, as is well known, Turkey has been going through a period of strained relations with its western partners of late, including the United States. For Ankara, Tel Aviv has become a bridge for improving dialogue with Washington due to Israel’s powerful lobby in Washington.

Third, despite the political premises for improving relations, energy is also a very significant factor. The energy situation in the Eastern Mediterranean has changed drastically over the past five or six years. Geological explorations for new deposits are under way.

Ten years ago, discussions focused on the possibilities of exporting Russian gas to Israel, and now Tel Aviv is concerned with selling its own gas to Europe, thus essentially becoming a competitor for Moscow. Among the largest new gas fields are Tamar (discovered in 2009) and Leviathan (discovered in 2010).

Later, taking into account the impossibility of finding a consensus in the Turkey–Israel dialogue, Tel Aviv was prepared to sell its gas to Egypt, which also had political disagreements with Ankara.

The rapprochement between Cairo and Tel Aviv was as disadvantageous for Ankara as Iran's growing influence in the region. Thus, Turkey was forced to soften its stance in order to prevent further rapprochement between states Ankara had conflicts with.

However, in 2015, Egypt conducted its own geological exploration, which resulted in the discovery of its own shelf deposits. Israel was forced to look north and west to export its gas. Some suppose that had geological exploration revealed large gas fields in Israel during the Turkey–Israel crisis, the Mavi Marmara incident would not have had such grave aftermath. However, history knows no "ifs."

Israel's rapprochement with Greek Cyprus and Greece also irritated Ankara due to the territorial proximity of the states and Ankara's clear interests in that area. The possibility of exporting natural gas into those countries seemed attractive to Tel Aviv, yet constructing a new pipeline branch into Greece and Greek Cyprus was not financially sound, since neither country consumed sufficient amounts of energy commodities to meet Israel's export plans.

It is also obvious that the Eastern Mediterranean is an unstable region. Territorial conflicts and questions of the water border jurisdiction involve a large number of risks, and to minimize them, Tel Aviv would still have to negotiate with Ankara.

At the same time, transporting Israeli gas to the European market via Turkey is more advantageous from a financial point of view. On the other hand, a crisis in Russia–Turkey relations had a negative impact on the possibilities of diversifying Turkey's energy sources, which enhanced the role of such gas exporting countries as Azerbaijan, Qatar, Iraq and Israel.

Fourth, other than Turkey, Israel has also recently experienced international pressure as a result of its actions in Palestine.[vii] The Iranian factor also irritates Tel Aviv, because Iran has gained the status of a significant regional player and enjoys the support of western countries, Russia and China.

The nuclear agreement also contributed to the fact that countries that had previously been unable to find common ground started to talk about the possibilities of cooperation. This is what happened between Israel and Saudi Arabia. Moreover, both Israel and Turkey believe that, with time, Tehran will enhance its positions in Syria, Yemen and other Middle Eastern countries, which is not in the best interests of Ankara and Tel Aviv.

As we have already noted, normalization of the Turkey-Israel dialogue required that Tel Aviv comply with three demands, and the main demand – a complete lifting of the Gaza Strip blockade – has never been implemented.

Still, in late June 2016, the parties were able to reach a consensus and sign an agreement giving Ankara the right to ship humanitarian cargo for the Gaza strip to the Israeli port of Ashdod on the condition that such cargo is cleared by the Israeli authorities and the contents are inspected upon arrival. At the same time, an agreement was achieved on constructing a power plant in Gaza jointly with Germany. Turkish contractors are also ready to build a hospital and water treatment facilities.

Essentially, the agreement returns both parties to the time period before the Mavi Marmara incident. Israel puts forward the same demands as before, and Turkey believes that it can extenuate the blockade. Ankara agreed to Tel Aviv's demands that the prosecution of Israeli soldiers who had caused the death of Turkish citizens be stopped and the number of Hamas offices in Turkey be reduced.

The remaining offices will have to play a diplomatic role. It was a kind of symbolic gesture on the part of the Turkish leadership towards Israel. Despite the progress in the Turkey-Israel dialogue, there is a risk that relations could deteriorate due to the unpredictability of developments in the Gaza Strip and in Israel-Palestine relations.

Moreover, as is well known, Egypt has recently initiated its own blockade of the Gaza Strip as a result of the close ties between Hamas and the Muslim Brotherhood. It is therefore apparent that in the nearest future, in order to develop a more effective foreign policy and resolve domestic political issues Turkey will have to improve its relations with both Tel Aviv and Cairo.

Egyptian Foreign Minister in Israel to discuss gas exports

Globes, *10.07.2016*

Egyptian Foreign Minister Sameh Shoukry is arriving on a visit to Israel, ending a nine-year period without any visits to the country by the Egyptian foreign minister. Talks about natural gas exports to Egypt and regional cooperation for gas exports to Asia or Europe are scheduled.

Letters of intent for exports of Israeli gas to Egypt have already been signed. One deal was to have made possible the expanded development of the Tamar gas reservoir, and the second to facilitate the development of the Leviathan reservoir, because Egypt was regarded as the anchor customer for Leviathan.

Several changes in the regional gas sector, however, have changed the situation completely, including Egypt's improving situation, the low level of global gas prices (the partial recovery in global oil prices has not affected gas prices), and the acquisition of British Gas by Royal Dutch Shell.

In addition, Eni, the partner of Union Fenosa in the gas liquefaction facility in Egypt, has discovered two large gas reservoirs in Egypt, thereby casting doubt on a deal between the parties. Nevertheless, even if exports of gas from Israel to Egypt are questionable, the two countries, together with Cyprus, are capable of building joint gas export infrastructure. Furthermore, interest in Egypt's gas sector could lead to renewed interest in the Israel gas sector.

Saudi Arabia oil production rises in June on seasonal demand

Financial Times, *12.07.2016*

Saudi Arabia's oil production rose close to record levels in June, as Opec forecast stronger demand for the group's crude next year. The kingdom increased output to almost 10.6m bpd last month, after keeping output largely steady.

Saudi Arabia normally pumps more crude oil to meet a seasonal surge in domestic demand during the summer. However, its output is under particular scrutiny after promising Opec peers not to flood the market. Traders and Opec rivals are watching Saudi production after oil minister al Falih sought to reassure the market at the Vienna Opec meeting.

The Opec data, released on Tuesday, contains for the first time forecasts for the whole of next year. The numbers suggest the Saudi-led oil strategy shows signs of working. In late 2014 Opec made a decision to sustain its output in the face of lower prices, putting pressure on rival producers of expensively produced oil. This helped extend the drop in crude prices.

The market is beginning to rebalance thanks to a drop in output from higher cost producers, which Opec claims will boost demand for the group's crude in 2017. Saudi production rose to similar levels this time last year — a record for the kingdom.

Production in June jumped by 280,000 b/d from the prior month, according to data reported by the Saudi government to the Opec producers group. Higher air-conditioning demand has traditionally pushed higher the volume of crude burnt directly in the kingdom's power plants. Industry observers say domestic refining has also picked up. The self-reported numbers are higher than estimates provided to Opec by secondary sources, such as oil analysts and consultants, who said Saudi Arabia produced 10.3m b/d in June. Figures given to JODI, the oil database, by the kingdom show production hovered around 10.2m b/d for the past nine months. November and December saw a drop below this level.

Mr Falih, who is also chairman of the state's energy giant Saudi Aramco, said after his appointment to minister in May that the kingdom would maintain its oil policy of not cutting its production to benefit others. "We have seen a decrease in supply by roughly 1m barrels of crude oil per day," Mr Falih told German business daily Handelsblatt this week, referring to output in the US and Canada.

"At the same time, demand has recovered, meaning that supply and demand are now more balanced again. But there are still excess stocks on the market," he said. Brent crude, which fell from $115 a barrel in June 2014 to below $30 earlier this year, has since risen to almost $50. On Tuesday the international benchmark rose more than 4 per cent to $48.28.

The sharp rise in Opec's total June production — of more than 260,000 b/d to 32.9m b/d — according to secondary sources, affirms a continuation of the group's strategy. Alongside Saudi Arabia, Iran, Libya and Nigeria accounted for much of the increase, according to these secondary estimates. Venezuela's production declined.

Demand for crude from the 14 members of Opec, which now also includes new member Gabon, stands at 31.9m b/d on average for 2016. This is still below today's production levels. Should global demand increase at 2016's pace next year — at 1.2m — to total 95.3m b/d, while production outside the group continues to fall, demand for the group's crude is forecast to increase to almost 33m b/d. "Market conditions will help remove overall excess oil stocks in 2017," Opec said in its monthly report.

OPEC delegates say Saudi comments show higher oil price desire

Reuters, *13.07.2016*

OPEC delegates say comments from top exporter Saudi Arabia, which two years ago led the group to drop its historic role of supporting oil prices, are a change in tone and a sign the kingdom is looking - verbally for now - to prop up the market.

Khalid al-Falih, who took over this year from longserving Saudi oil minister Ali al-Naimi, told German newspaper Handelsblatt that an oil price higher than $50 is needed to achieve a balance in oil markets in the long term. There is certainly no sign yet of an actual policy shift by Saudi Arabia, or of the kingdom cutting supplies to support prices.

Indeed, Riyadh told OPEC it raised its output in June to within a whisker of a record high reached a year ago. But OPEC insiders say Falih's comments, and a remark he made last month raising the possibility Saudi Arabia may return to its role of balancing oil supply and demand, contrasted with previous statements from Saudi oil officials. "This a change in the Saudi position," an OPEC delegate from a major Middle East producer said of Falih's remarks.

“Before, they did not mention a range of prices they were looking for.” “They are looking for a higher price, but they want a moderate price.” In May, Saudi oil sources said the kingdom would not return to the old pattern of cutting output any time soon to support prices. Naimi frequently said prices were determined by the market, without giving a preferred range. The optimum oil price, Falih told the paper, lies somewhere in between $50 and $100.

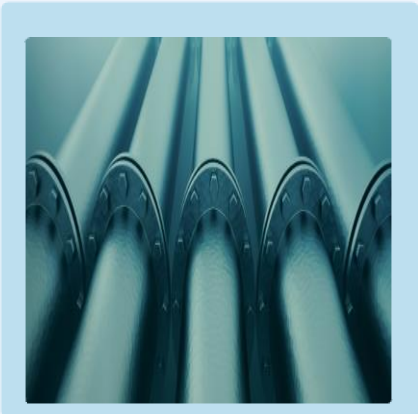
Other delegates from the OPEC nations outside the Gulf, who had misgivings about OPEC’s 2014 policy shift and would like higher prices, saw the Saudi minister’s comments as a sign the kingdom may be wanting a stronger market. “It’s an indication,” said a second OPEC delegate. “Is this a function of their cost of production and budget requirements?”

OPEC oil revenues collapsed since its November 2014 policy shift accelerated a drop in prices, which hit a 12-year low near $27 a barrel in January and are trading close to $48 - half the level of two years ago. A third delegate, from an OPEC country which wants the exporter group to work more actively toward supporting prices, was encouraged by the Saudi minister’s remarks.

“For sure, a decent price of oil is needed to have enough investment to avoid a supply crunch and a boom in prices a few years from now,” this delegate said. “So let us hope for the best. It is good that the Saudis are realizing, but after a huge loss for oil exporters.”

Is Iran’s claim about doubling oil exports just hype?

Oilprice, *13.07.2016*



After having regained 80 percent of its pre-sanction market share, beating all expectations, Iran now plans to double its exports if market conditions improve, according to Mohsen Qamsari, the director of international affairs of the National Iranian Oil Company (NIOC).

Many had believed that Iran would take time to reach its pre-sanction levels, however, Iran has surprised experts by quickly ramping up exports within a short span of time under challenging conditions. Some part of Iran’s success can be attributed to the supply outages, which helped Iran to quickly build its exports.

Without the disruptions in supply, Iran would have found it difficult to scale up exports in the oil glut environment. However, it will be an uphill task for Iran to double the exports from current levels because both Libya and Nigeria, both of which are OPEC members, are taking steps to restore production. A combination of these steps has pushed the OPEC production to an 8-year high of 32.9 million barrels per day. With prices nearing $50 per barrel mark, the U.S. rig count has also shown signs of life. It is an indication that the U.S. shale oil producers will ramp up production if oil prices increase further.

With all the major oil producers planning to increase production at the slightest increase in oil prices the dependence of these countries on oil is clear. However, Iran will require fresh investments to the tune of $185 billion over the next five years to reach its ambitious target. Any fresh investment by the Western oil majors will not only require a higher crude price environment, it will also require a favourable business environment in Iran.

Only a handful of the large oil companies such as Total and Lukoil have shown an interest in investing in Iran, though a large number of oil companies like British Petroleum, ENI, Repsol and others attended a conference in Iran. Iran’s Oil Minister Bijan Namdar Zanganeh insists that investing in Iran can be very profitable for the international giants as oil production costs in Iran as low as $10 per barrel.

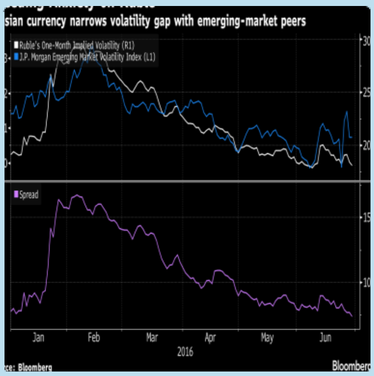
Iranian Deputy Oil Minister for International Affairs Amir Hossein Zamaninia said in an interview with the Tasnim News Agency back in June that “the implementation of Iran Petroleum Contract (IPC) is one of the many strategies Tehran has adopted to attract investment and upgrade the country’s oil industry.”

Iran currently uses a buyback deal, where the government pays the company a predetermined price for the oil produced. However, with the new IPC rule, joint ventures will be set up between the National Iranian Oil Company (NIOC) and the international oil producing companies and the payment will be shared depending on the output. However, Iran will have to win over the international investing community before it can find investors for its oil projects.

Nonetheless, Iran’s plans to double its exports will keep OPEC’s production near its highs and compensate for any shortfall arising out of Nigeria and Libya. Supply is likely to stay ahead of the demand in the near future, which will cap oil prices.

Iran plans to double crude exports to regain market share

Bloomberg, *06.07.2016*



Iran plans to double crude exports so long as the increase in shipments is absorbed by global markets, which it sees as stable for the rest of the year, according to a senior official at state-run National Iranian Oil Co.

The country is exporting about 2 million barrels of its daily output of 3.8 million, said Mohsen Ghamsari. It has regained about 80 percent of the market share it held before the U.S. and European Union tightened sanctions on its oil industry in 2012, he said. Iran plans to double crude exports.”We are not very far away from our pre-sanctions peak and we will soon attain that share,” Ghamsari said.

“Our exports peak is above 4 million barrels a day, and we have plans for that and are waiting for the right conditions,” he said, without elaborating on the timing for such an increase. The Persian Gulf nation is seeking more than $100 billion in investment from international partners to upgrade its oil industry and reclaim its position as the second-biggest producer in the Organization of Petroleum Exporting Countries, after Saudi Arabia.

Iran targets 5.8 million barrels a day in combined production of crude and condensates by 2021. It defied skeptics with a 25 percent surge in production so far in 2016 and aims to reach an eight-year high for daily output of 4 million barrels by the end of the year. Benchmark Brent crude, which averaged more than $99 a barrel in 2014, tumbled to a 12-year low of about $27 in January due to the continued global supply glut. It fell as much at 1.8 percent to $45.90 a barrel and traded at $46.13 at 11:30 a.m. in London.

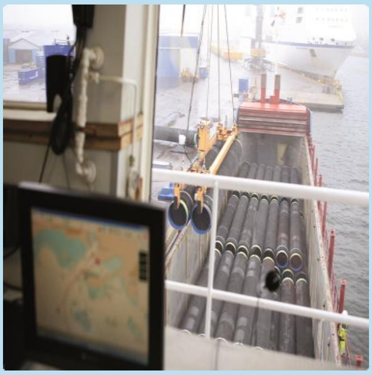
“The market will stay on its present balance, and a return to prices below $30 a barrel is not very probable, at least in the current year,” Ghamsari said. “Our policy is not to stockpile oil in floating offshore storage. In other words, we produce as much as we think the market would absorb.”

Iran is shipping about 25 percent of its exports to European buyers, he said. NIOC is selling bigger volumes in Asia, though it hasn’t increased the number of supply contracts in that region, he said. “Most of our oil transactions and agreements are long-term-based, leaving a small portion for spot sale,” Ghamsari said. “We are right now in negotiations with many companies, both in Europe and Asia,” he said, without identifying any of them. Iran is taking payments for some sales in euros, he said.

The U.S. still prohibits transactions related to Iran from being conducted in dollars, accusing the Islamic Republic of abusing human rights and sponsoring terrorism. Even so, Oil Minister Bijan Namdar Zanganeh predicted in June that Iran would sign its first deals with foreign companies within three months.

Nord Stream 2 and the role of the EC

European Center for Energy and Resource Security, *12.07.2016*



Critics of the Gazprom-led Nord Stream 2 pipeline within the European Commission need to distinguish between the body's regulatory and political objectives, the author of a new paper Andreas Goldthau said at its launch July 11.

Speaking at an event organised by the European Centre of Energy and Resource Security, he said that the pipeline would be a "litmus test" for the European Commission (EC): "Is it a market watchdog or a political actor?" He said this had not been determined but the EC should be neutral in the way it thinks about the energy sector and it has to apply competition law if it suspects the market is being rigged.

Rules should not be applied selectively, he said. He said there were no legal grounds for blocking the pipeline. Once the gas was landed all the capacity in the onshore pipelines would be sold on the Prisma platform and be controlled by the existing regulations on third-party access. Regulation is not the right forum for discussion of political objections, he said.

Two European Union energy commissioners – Miguel Arias Canete and Maros Sefcovic – have both voiced apprehension about the line: Canete has said that the EC will be vigilant about the rigorous application of EU law while Sefcovic has said that eastern European countries will clearly have their energy security reduced because of it.

But Goldthau, who cited both officials in his opening remarks, said that their concerns were used to support the geopolitical argument, whereas in fact the line would fulfil an EU objective of improving the gas market as long-term Russian contracted gas competed with hub-priced Russian gas and more interconnectors allowed gas to flow west-east. A precondition for that, he said, was physical integration and compliance with the appropriate regulations.

A panel discussion after Goldthau had summarised his report considered the risks of a civil service acting also as a political entity. The EC might decide to apply certain rules to Gazprom that were not applied to other external suppliers for example, and these decisions could expose it to the risk of a judicial review.

According to Katja Yafimava of the Oxford Institute of Energy Studies, the EC had been reluctant to transfer sufficient decision-making powers to the Agency for the Co-operation of Energy Regulators, which was established by the Third Energy Package as an independent body. In either event, whether political or regulatory, market players needed transparency. At the moment the situation is unclear, she said.

Energy security consultant John Roberts said that Goldthau's report was fair up to a point: more gas meant more competition and more trade and security; but the interconnectors and LNG import terminals on which this cycle depend are relatively small in scale and not built out yet.

There would still be a problem with European security of gas supply if a major supplier, be it Russia or Norway, failed to deliver as contracted, especially in southeast Europe and Turkey which are reliant now on transit through Ukraine.

And Gazprom had made no concessions, he said, with regard to allowing the Brotherhood line which crosses Slovakia to move into reverse flow, a way of exerting pressure on Slovakia and Hungary.

He concluded the NS2 line was “obviously” both a commercial project and a geopolitical one; as well as the means by which Gazprom’s western partners may be allowed to develop business within Russia. The EU would be right to take both political and commercial questions into account, he said, perhaps coming up with a ‘bundled’ solution for Gazprom to trade within Europe that dealt also with the loss of Ukrainian transit revenues and the anti-trust case against it.

Roberts’ arguments are similar to those of former Hungarian regulatory chief Peter Kaderjak who said in May that allowing NS2 to proceed would increase price divergence in eastern Europe, lead to bottlenecks between Germany and Czechia and between Czechia and Slovakia, and mean that Russian contractual gas flowing from east to west would prevent spot gas from entering eastern Europe.

Goldthau concluded the July 11 event by remarking that it might be true that gas was a public good, but that markets need to work. Europe falls short of the US gas market, he said. The EC should not be picking winners but should allow the market to do its job. Eucers director Friedbert Pfluger described the paper, which had been funded by the five western partners of Gazprom – Anglo-Dutch Shell, German Uniper and BASF, French Engie and Austrian OMV – as balanced and scholarly.

Changing EU gas market dynamics benefit mini-LNG

Natural Gas Europe, *12.07.2016*

Current dynamics in gas markets in Europe increasingly benefit small-scale LNG in the North Sea and Baltic Sea, a senior researcher on political economy of energy at the University of Eastern Finland, Dr Andrei Belyi told NGE in an interview July 12. “LNG is seen as an interesting alternative to pipeline gas, and LNG storage could also compete with underground storage.”

He says that the transaction costs for pipeline gas are greater and less predictable than the operational costs of LNG, free from the rules of the network codes. “There are greater administrative and regulatory costs for pipeline gas.

So some companies prefer LNG over pipelines," he said. These include difficulties shippers face when planning their capacity for transportation, owing to a fragmented market, and the summer-winter spread is very low, reflecting the oversupply of even peak-day gas. In recent years, at least prior to 2015, overall gas demand in Europe declined, while it has grown for small LNG.

Even liquefying pipeline gas – once a staple element of the UK peak-shaving market – is now also catching on. For that purpose, for example, a company called Skangas has opened two liquefaction plants, one in Norway and the other in Finland.

The former is about 100,000 metric tons/year at Risavika in Norway, using Norwegian gas; and the other one is the much smaller Porvoo plant in Finland, of 20,000 mt/yr. That is for liquefying gas from the Finnish grid, which is Russian gas and hence cheap. "It means that part of the pipeline gas surplus is liquefied. It becomes a competitive alternative, the output being for the bunkering market," Belyi said.

Belyi said this showed a change in approach. "A few years ago, most experts agreed that LNG would not displace pipeline gas in the region, but now we can see that in small volumes gas is being liquefied. This is not because it is cheaper but because of the flexibility it offers. It might cost more in $/mn Btu terms but it yields higher profits because of the optionality and greater simplicity in terms of trade." Skangas is also opening Finland's first LNG import terminal and plans to open another in 2018.

Still, Russia's Gazprom plans for a large-scale liquefaction in Ust Luga on the Baltic coast remains uncertain, he believes. There is no reason for importing companies who want to buy LNG to buy it from Gazprom as their motive for buying LNG consists in diversification from Gazprom. For that and other reasons he does not see the 10mn mt/yr Baltic LNG terminal working. Originally conceived as a means of delivering Shtokman gas to the US and the Iberian Peninsula, it cannot be easily repurposed for deliveries to the north European market.

A possible indication of its limited prospects was the recent decision of Group East to drop their plans to build a chemicals plant in Ust Luga for urea production. Its output would have supplied the LNG terminal and the renouncement of the chemical business rather unveils uncertain prospects of the liquefaction project in Ust Luga.

However, a liquefaction plant would still make sense, especially if Russians plan to supply gas to the Kaliningrad enclave on the Baltic. The Brexit vote has exposed a greater amount of uncertainty in the world than many had foreseen.

That, and the oil price, could provoke more change in the gas market, Belyi says. First it could quicken the growth of the Dutch Title Transfer Facility (TTF) over the UK NBP. Traders already preferred dealing in euros and now this trend will be reinforced, he says, if the UK is seen as a bit-part player in the energy market.

Affected by Brexit, the stronger dollar relative to the pound sterling and the euro will keep the lid on prices. "The rising dollar or a falling price mean less investment upstream, meaning more expensive oil further down the line," he said.

“Most of the forecasts show that prices will be back to $70/barrel by 2017-18,” he says. “It is impossible to be precise but the glut appears to be over, or coming to an end.” Meanwhile, the current situation makes life tough for investors especially for service companies. With less demand for their services generally while the banks’ demands for repayment continue, costs have been forced down. Contractors have also squeezed margins, sometimes until they vanish altogether.

And contractors without the safety net of a downstream refining or petrochemicals business, are desperate for revenues and increasing production to repay lenders. Because of high level of debt, most service companies’ share prices did not follow proportionally the oil price that has doubled from January to May 2016.

By contrast, large vertically integrated companies rather see an opportunity to invest in the context of the lower price and hence lower service costs. New investments at Tengiz Chevroil project in Kazakhstan and the BP expansion of the Tangguh LNG plant in Indonesia show confidence that prices will only grow from now on, with a knock-on effect on costs.

The gas supply surplus may take longer to soak away and it may take longer for gas prices to recover their pre-2014 heights than oil prices. Still it creates a good opportunity for gas demand to grow, he says.

Transit countries back Eastring

Natural Gas Europe, *14.07.2016*

Slovakia’s Peter Ziga and Bulgaria’s deputy energy minister Stankov have signed a memorandum of understanding on the Eastring pipeline. Both sides consider it to be “an important launch of the process of expressing support for the project, which is expected to lead to its effective implementation,” the official statement of Slovak economy ministry said July 13.

Eastring is to connect Romania, Bulgaria, Hungary and Slovakia, taking gas in either direction, with the planned capacity of 20–40bn m³/year – more than enough to meet the demand of those countries, even at the lower end of the range.

It could either be a new pipeline combined with the maximum possible use of the existing capacity in Romania and Bulgaria, or it could be a completely new pipeline from Malkoclar on the Bulgaria-Turkey border up to Velke Kapusany, an existing compressor station on the Slovakia-Ukraine border and reception point for some of Russia’s exports.

Eastring is one of the most important projects to achieve the EU objective of diversification of transport routes and enhancement of energy security in central and southeast Europe, contributing to energy security and to the diversification of natural gas supplies to Europe, according to Peter Ziga.

“The memorandum represents the actors´ expression of political support for the project at the highest level. By signing the declaration we have sent a positive political signal to enhance its position within the projects of common interest (PCI) competition and presented a good argument for obtaining co-financing at the European level,” said Ziga. “We will call upon other participating countries to express the same kind of support at the highest political level,” he added.

“We will cooperate and exchange information related to Easting and identify all intergovernmental and other agreements that required to enter the project into a binding phase”, the Bulgarian energy ministry said.

Easting is positioning itself as an alternative of Russia’s scrapped South Stream project, bringing new gas from the Caspian region through southeast Europe to western Europe and contribute to the integration of gas markets.

Shippers will be able to supply Balkan countries and Turkey from European hubs and it will be ready for future gas imports to Europe from well-established and also alternative sources: the Caspian region and the Middle East.

The MOU between Slovakia and Bulgaria was signed in the framework of the informal council meeting of energy ministers held in Bratislava which had been organised under the Slovak presidency of the Council of the EU.

EU energy and climate change ministers also discussed sustainable financing and governance of the Energy Union. They agreed that energy and climate change policies are closely interlinked, and hence strengthening the cooperation among member states in this area is a precondition for effective functioning and reaching Energy Union objectives.

“We agreed that governance and its structure must have strong foundations. Only then we can build an effective and truly functioning Energy Union and reach climate and energy objectives set by the EU in the areas of greenhouse gas emissions reduction, energy efficiency increase and share of renewable energy sources,” Slovakia’s economy minister said in a separate statement.

The EU energy ministers discussed energy prices and their impact on EU competitiveness. “They emphasized that each state has the right to choose appropriate measures for reaching climate and energy objectives in accordance with the principle of technological neutrality,” Ziga said.

Ministers also discussed the contribution LNG might make to EU energy security. They agreed it was important to build intra-European infrastructure so that deliveries of LNG are available for all EU member states.

Gazprom's new strategy of control: Recapturing EU gas market

Eurasia Review, *15.07.2016*

Britain's exit from the European Union is a huge blow to European project with potentially devastating implications for its' latest flagship policy – Energy Union. The United Kingdom has been one of the strongest proponents of EU energy market integration, liberalization, and diversification.

By using the power of consorted action, Energy Union was intended to confront gas monopolies, such as Gazprom, in the fight against price discrimination and market distortions. As fallout from Brexit rattles Brussels, Kremlin-backed Gazprom is well positioned to seize the moment to recapture this lucrative market for Russian gas.

This article takes a closer look at recent developments in European Union energy policy and examines opportunities for Gazprom to gain a stronger influence over downstream energy relations in the continent.

The State of the Energy Union was created by the European Commission in February 2015 on the following promises: diversification through embracing LNG exports from alternative suppliers, market integration by building gas interconnections among EU member states, and ownership unbundling of critical gas infrastructure.

Despite member states' pledge for unconditional support of this policy, public support for the Energy Union has been dismal. The controversial Nord Stream- 2 pipeline along with Gazprom's recent acquisition of strategic gas storage facilities within the EU have raised eyebrows across Europe's capitals. Delays in building critical gas transmission lines between northern and southern Europe further eroded public confidence in European Energy Union.

Yet, there have been some positive developments for this policy as a result of increasing competition and liberalization of the EU gas market. Eastern and central Europeans zealously embraced growing LNG exports from Qatar, Australia, and the United States.

Preference for LNG over piped gas in Lithuania and Poland has already cost Gazprom billions in lost revenues from re-negotiating purchasing contracts. After commissioning "Freedom" LNG Terminal in Klaipeda, Lithuanian utilities were able to reduce the purchase price of Russian gas by 23%, from about 32.9 Euro per megawatt/ hr to 25 Euro per megawatt/ hr.

Poland, which relies on Russian gas for 2/3 of its imports, recently announced that it would not renew its contract with Gazprom after it expires in 2022. Gazprom issued a press-conference immediately after the announcement to remind stakeholders that both Gazprom and Poland have 'always found compromises' since Poland began importing gas from Russia in 1948.

While LNG exports to Europe clearly strengthened the bargaining position of European governments vis-a-vis Moscow, they have not freed the continent from Russian gas. There are several reasons why this has not yet happened.

There are strong headwinds against LNG in Europe, which include low energy prices and sluggish demand in the EU. Gazprom Chief Executive Officer recently took a swipe at American LNG saying that it will not a “panacea” for Europe, and suggested the company is ready to embrace the competition.

Indeed, gas prices across Europe have fallen 37%, which does not favor a satisfactory return on investments in large scale LNG terminals. Many hope that LNG spot market could be competitive with piped gas in the long run as technology and economies of scale move forward.

However, those EU countries that opted for LNG exports already today seem to prioritize geopolitical risk and security of supply over short term economic benefit. Regardless of the rational for LNG imports to Europe, member states have opted to set their own policy agenda instead of forming a unified front across Europe.

The lack of unified agenda has proved to be Europe’s “Achilles Heel” that Gazprom has been successfully exploiting. In 2015 Gazprom supplied record volumes of gas to Europe- 158.56 bcm, which is 8% increase from 146.6 bcd in 2014. The bulk of these deliveries were to western Europe and eastern Europe took only 18%. Despite geopolitical tensions between Moscow and Brussels, Gazprom has been successfully implementing the strategy of “divide and conquer” with some powerful support within the European Union.

Nord Stream-2 pipeline, a joint German-Russian project became the building block of that strategy, which runs contrary to the agenda of Energy Union. Stream-2 (annual capacity of 55 bcm) will deliver gas to Germany and western Europe, bypassing transit routes in Ukraine, Poland and Czech Republic, stripping them of transit payments.

Nord Stream-2 by design is a twin pipeline of already operational Nord Stream that is fed into the German grid connected to at least five transition pipelines (JAGAL, MIDAL, STEGAL in the east, WEDAL and Hamburg-Rehden in the west, all of which are controlled by Gazprom-Wintershall joint company Gascade Gastransport).

However, current gas demand in Germany is rapidly declining due to competition from subsidized renewables and cheap coal. This energy equation makes additional gas volumes delivered by Nord Stream- 2 obsolete in Germany’s electricity generation and heating. What makes more sense for Germany is to transfer these gas molecules further west- to France and the Netherlands.

Dynamic western Europe energy markets are also highly sought after destination for LNG producers. To prove the point of real destination for Nord Stream 2 gas, one simply needs to examine the planned gas infrastructure projects that will be constructed simultaneously with the Stream. In contrast with long awaited North-South corridor interconnections, these lines had no difficulty in quickly finding agreeable investors. Stream-2 annual capacity perfectly matches combined capacity of 55 bcm of OPAL and NEL – new transit lines in German territory, which makes Gazprom an exclusive provider of gas to both lines.

OPAL is slated to feed some volumes (via Gazelle) into the MEGAL pipeline (44-percent French interest), which runs from Bavaria into France. NEL (with 39-percent Dutch and Belgian interests) is planned to reach from northwestern Germany into the gas markets of the Netherlands and Belgium and potentially farther afield. By design OPAL and NEL could be fed only with Russian gas, transforming them and Germany into a new transit choke point of Russian gas in Europe.

Another building block of Gazprom strategy in Europe is the acquisition of strategically located gas storage units along OPAL and NEPAL route. In fact, these storage sites controlled by Gazprom in Germany are planned to operate in congruence with Gazprom-controlled transmission pipelines.

Consequently, throughout the value chain of Nord Stream-2 there is only one dominant player – Gazprom – and risks to the ‘security of supply’ are not diversified among various actors but instead reside entirely with the Russian gas giant. According to the European Union’s Third Legislative Package gas, producers and suppliers cannot control the transport and storage infrastructure simultaneously. Yet, in the German case someone willingly turned the blind eye to Gazprom’s breach of the EU law.

There is no surprise that eastern European nations that lack access to gas supply from the Western Europe fiercely oppose this pipeline. In March 2016 leaders of Latvia, Lithuania, Poland, Czech Republic, Slovakia, Romania, Estonia and Hungary signed a letter of objection to European Commission.

Their position was supported by western European governments that are not benefiting from the Nord Stream pipeline, which included Italy and United Kingdom. The addition of the UK to the anti-Nord Stream 2 camp in Europe transformed it into truly meaningful opposition that had to be reckoned with.

It was expected that considerable pressure from a united western-eastern opposition to the pipeline would force Gazprom to make further concessions to eastern European countries in terms of price and contract terms. However, with Britain out of the European equation it becomes less clear how much influence the eastern European bloc can have on its own. The same logic applies to Gazprom strategy in Ukraine.

The company announced that it would stop all gas supplies though Ukraine by 2019. It was expected that Russia might suggest that it would maintain supplies to Ukraine as long as there is an acceptable payment agreement; it could even be by a third party. Without coordinated action from EU member states on this issue it would be hard to find that responsible third party.

Consequent to Nord Stream 2 and tight partnership with German utilities, Gazprom is expected to increase its gas export capacity to Europe. By flooding Europe with gas, it will further depress gas prices on the continent. If Russia chooses to do so, it can easily price out LNG competition in short to medium term.

By implementing the strategy of rapid export increases and picking out “partners in crime” Gazprom sends a clear message that it is in control of the European gas market. But it doesn’t have to be that way. Despite the shock waves Brexit has sent though the European Union it is essential for the remaining member states to maintain ambition and momentum of the Energy Union.

Nord Stream -2 is a major step back for that policy but just because one builds a line, it doesn't mean that it will be utilized. This will be a European choice that will not be controlled by any gas monopoly.

Global bunker LNG coalition formed

Natural Gas Europe, *14.07.2016*

Fourteen companies announced the formation of new cross-industry coalition called SEA\LNG to accelerate the use of LNG as a marine fuel. Executive vice president of US shipowner Tote, Peter Keller, said: "SEA\LNG aims to address market barriers and help transform the use of LNG as a marine fuel into a global reality". He will chair the new organisation. Tote has deployed two US-built LNG-fuelled roll-on, roll-off cargo ships.

It regroups LNG suppliers Shell, Qatargas, Engie, ENN and Mitsubishi; shipowners Carnival Corporation, NYK Line and Tote; classification societies Lloyd's Register and DNV GL.

SEA\LNG has a number of problems to tackle: the need for more LNG refuelling infrastructure in the world's ports; the price premium for LNG-fuelled vessels that can make investment decisions challenging; and inconsistent regulations and standards.

Over 90% of global trade moves by sea and shipping is the world's cleanest form of transport, the coalition says. But volumes moved are so large that shipping accounts for some 3% of total global greenhouse gases, 10% of global sulphur oxide (SOx) and 15% of nitrogen oxide (NOx) emissions. Engie Global LNG CEO Philip Olivier said: "LNG has the potential to take a 10% market share of global bunker demand by 2030. Engie will contribute to achieving this target."

In April, Shell agreed to refuel Carnival's LNG-fueled cruiseliners at several European ports. Last year Shell signed up Finnish shipowner Containerships as its foundation customer for a new LNG bunkering ship being built in South Korea.

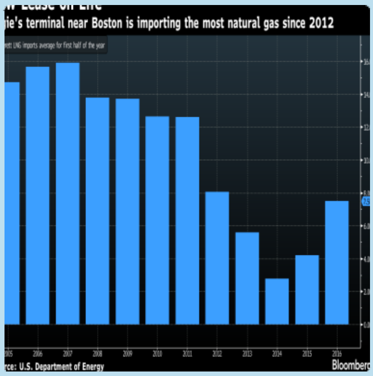
Tjerk-Johan de Vries, West Europe & Africa regional manager at DNV GL said: "The ground work has been laid for LNG to thrive, but we need a cross-industry approach to realize the full potential of LNG fuelled shipping.

Having been at the forefront of LNG fuelled shipping since its beginning, DNV GL is proud to work with innovative partners to help LNG take its place as a key fuel for the future." China's ENN says it has invested in the building of bunker delivery barges and a terminal in China to accommodate current and future growth.West Africa is seen as a promising market for bunker LNG, once more import terminals are in operation. Skangas, the largest bunker LNG supplier in what today is the largest such market in the world, northern Europe, has not joined the coalition. "It's a great initiative," Skangas CEO Tor Morten Osmundsen told NGE July 14.

“We were invited to participate in SEA\LNG, we said no thank you at this stage as our focus is in North and Baltic Seas. But we may a find way to associate with the group.” Excluding fuel burned by LNG carriers, consultancy Poten forecast in 2015 that global bunker use of LNG by merchant ships worldwide would reach 1.2mn metric tons in 2020 and 6.4mn mt in 2025 – equivalent to about 2% of world LNG consumption in 2025.

Loneliest natural gas terminal in US bucks pipeline trend

Bloomberg, *12.07.2016*



Thanks to the shale revolution, the U.S. has plenty of natural gas of its own. All along the eastern seaboard, a chain of import terminals -- built when the country expected to get its fuel from abroad -- now lie idle. Except one.

For reasons that have to do with environmental politics and geology, New England is bucking the trend. Three or four times a month, a police helicopter escorts giant ships through Boston Harbor, as they deliver liquefied natural gas from Trinidad to a terminal on the Mystic River. Why buy from the Caribbean, when so much cheap gas is pumped out of Pennsylvania and Ohio?

One objection is the new pipelines needed to bring it to New England. The Northeast is famously cold in winter, and it sits on beds of granite that make underground fuel storage a problem, so gas and power prices typically spike way above the rest of the country when there’s a freeze.

But using shale gas to cut the bills means a longer-term commitment to fossil fuels, and any proposed pipeline route triggers local objections: it will leave a scar along the Catskill Mountains, or pose a safety risk to residential neighborhoods. That’s the dilemma that has given Engie SA’s import facility near Boston, unlike all its peers, a new lease on life.

“We’ve been competing with pipelines since we opened,” Carol Churchill, a spokeswoman for the French utility in Massachusetts, said by phone. Once the gas arrives in Boston, some of it goes straight to an adjacent Exelon Corp. power station and the rest is transported via existing pipes or by truck. “It doesn’t make sense to build a pipeline to satisfy demand for 30 to 40 days a year,” Churchill says.

That argument has seen off a few potential rivals. Kinder Morgan Inc. scrapped its proposed $3.3 billion Northeast Energy Direct project in April, after failing to sign up enough customers. The Constitution Pipeline, intended to bring Marcellus gas from Pennsylvania, has been held up because New York denied a water permit, amid concern about contamination of the city’s supply. Instead, New England relies on tankers like the BW GDF Suez Everett, a regular visitor, whose logbook reflects the surge in Yankee demand.

It used to roam the world's seas, putting in at places like Singapore, Nigeria and Yemen; this year, it's been plying a straight shuttle between Trinidad, where it loads up with LNG, and Boston. Engie's terminal there looked like it was sliding into disuse a couple of years ago, but now it's taking in more cargoes than at any time since 2012. It supplied 11 percent of New England's gas in January, according to Energy Department and Bloomberg data.

To pipeline-builders, that's a stopgap not a solution. They point out that New England, like other parts of the U.S., has a growing appetite for natural gas in homes and power plants, as dirtier fossil fuels like coal and oil are phased out. Gas-fired plants are providing more than half of the Northeast's power supply this month, up from 15 percent in 2000.

Spectra Energy Corp., based in Houston, is months away from completing an expansion of existing pipes in the northeastern region that's still drawing protests: Former Vice President Al Gore's daughter Karenna was among 23 people arrested at a digging site last month. And Spectra has a more ambitious project lined up. Access Northeast would bring 925 million cubic feet of Pennsylvanian gas a day -- enough to generate as much power as five nuclear reactors. It could save New Englanders $2.5 billion a year on electricity and gas bills, the company says.

Richard Kruse, Spectra's vice president of regulatory affairs, acknowledges that there's now a "coordinated nationwide effort in opposition to natural gas." But he says there's no way around the need for new pipelines in the Northeast: Even if the region opts to remain dependent on the more expensive fuel carried in by the tankers, it still has to be distributed.

"If people want to rely on LNG imports and you want reliability, you are going to have to make additional investments to deliver that gas," Kruse said. "The market has grown and that market needs gas in the winter." It's during New England winters that the argument becomes acute. When the polar vortex plunged half the country into an Arctic chill in 2014, prices everywhere surged -- but nowhere as much as the Northeast. That January, spot gas in New England reached a record of almost $80 per million British thermal units, or 15 times the price of Marcellus gas at the same time.

Even in a normal winter, the region pays extra. Gas for delivery next January via Spectra's New England network currently costs about $8.46 per million Btu, compared with $3.16 for Pennsylvanian shale gas. The price disconnect comes as the U.S. is on track to produce a record amount of gas in 2016 for the sixth straight year, according to a report Tuesday by the Energy Information Administration. The country started exporting shale gas by tanker in February, adding to a growing amount of shale gas being exported to Mexico by pipeline.

"For the first time since 1957, the United States is on track to export more natural gas than it imports; this will occur during the second half of next year as more liquefied natural gas export capacity comes online," EIA Administrator Adam Sieminski said an e-mailed statement. "The population up there has to pay exorbitant power bills, and the number one reason for that is that local gas, indigenous to the U.S., 300 miles away, the cheapest in the world, can't get up there," said Robert Christensen, an analyst with Drexel Hamilton LLC in New York. "It's sinful." Environmentalists say pipelines are expensive too, though that's usually not the main objection. Building more of them "would lock us into decades of infrastructure for fossil fuels and crowd out the opportunity for clean energy," said Kelly Martin, deputy director of the Sierra Club's Beyond Dirty Fuels campaign.

Alternative power sources like wind and solar energy are getting cheaper, so energy companies should make do with the existing pipelines as the country transitions, Martin says. She acknowledges that the system needs to be able to cope with surges in demand, but says that's best handled by investing in more efficient energy use -- installing new light bulbs or home appliances that use less power -- and what the industry calls "demand response": offering customers incentives to cut their consumption at times when the grid is under the most strain.

Industry analysts say it's risky to leave small margins at crunch times. Pipelines provide one kind of insurance policy, ensuring there's always spare capacity. There are other ways to avoid shortages. The past two winters, the New England grid has been offering generators incentives to stockpile LNG.

So long as the debate rages, there's likely to be a role for Engie's Boston terminal and its tanker-loads of Trinidadian gas. They're no cleaner to burn than the shale alternative, and certainly not cheaper. But they do offer a way to boost supplies at times of maximum demand -- like icy New England winters -- without making new long-term commitments to fossil fuels. "We bring LNG to satisfy that peaking need," Engie's Churchill said. "It's worked since 1971."

Announcements & Reports

► *The Ukrainian Residential Gas Sector: A Market Untapped*

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/07/The-Ukrainian-residential-gas-sector-a-market-untapped-NG-109.pdf

► *Azerbaijan's Gas Supply Squeeze and The Consequences For The Southern Corridor*

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/07/Azerbaijans-gas-supply-squeeze-and-the-consequences-for-the-Southern-Corridor-NG-110.pdf

► *Energy Perspectives 2016*

Source : Statoil
Weblink : http://www.statoil.com/no/NewsAndMedia/News/2016/Downloads/Energy%20Perspectives%202016.pdf

► *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

► *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