

Adding Iranian gas to TAP, TANAP could benefit Europe

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Adding Iranian gas to the TAP and TANAP projects could benefit Europe, Jim Krane, Middle East energy analyst, Rice University's Baker Institute, Houston, told May 18.

“Iranian gas should be a welcome addition to the TAP and TANAP pipelines for several reasons. First, Iranian gas would increase the diversity of natural gas supplied to Europe, increasing the EU's security of supply,” he said. Krane believes that adding Iran to the roster of gas exporters also increases the long-term viability of the pipeline, reassuring investors as well as European utilities and industry that the project will succeed.

Increasing the supply of gas -- from whatever source -- would also act to bring down gas prices in Europe, which would help force coal out of the power market, with environmental benefits for all, according to the expert.

“Further, Iranian gas would bring some geopolitical benefit to European countries attempting to reduce Russian influence in their energy sectors,” he said. “If Iran joins the supply consortium, it might even reduce the available pipeline volumes that Russia is seeking to fill.”

Finally, increasing Iran's economic integration into the region might even moderate Iranian foreign policy, according to Krane. Iran has announced repeatedly about its willingness to export natural gas (methane) to European markets via pipeline or LNG. Iran has a semi-finished LNG plant, suspended mid-2000s due to sanctions, but hasn't re-launched the plant yet. The capacity of project is 10.4 million tons per year of liquefaction of natural gas.

Iran also have to construct a \$6 billion 1800-km pipeline, stretched from South Pars to Turkey borders. Then it may be able to supply gas to TANAP, connected to TAP in Europe in case the shareholders of projects show green light.

TANAP project envisages transportation of gas from Azerbaijan's Shah Deniz field to the western borders of Turkey. The length of TANAP is 1,800 kilometers with the initial capacity of 16 billion cubic meters. Around six billion cubic meters of the gas will be delivered to Turkey and the remaining volume will be supplied to Europe.

The gas will be delivered to Turkey in 2018 and after completion of the Trans-Adriatic Pipeline's construction the gas will be delivered to Europe in early 2020. TAP is a part of the Southern Gas Corridor, which is one of the priority energy projects for the European Union. The project envisages transportation of gas from Azerbaijan's Shah Deniz Stage 2 to the EU countries.

The pipeline will connect to the Trans Anatolian Natural Gas Pipeline (TANAP) on the Turkish-Greek border, run through Greece, Albania and the Adriatic Sea, before coming ashore in Italy's south.

TAP will be 878 kilometers in length (Greece 550 kilometers, Albania 215 kilometers, Adriatic Sea 105 kilometers, and Italy 8 kilometers). TAP's shareholding is comprised of BP (20 percent), SOCAR (20 percent), Snam S.p.A. (20 percent), Fluxys (19 percent), Enagás (16 percent) and Axpo (5 percent).

Turkish Stream to affect prospects of Trans-Caspian pipeline, expert says

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Construction of the Turkish Stream pipeline, which envisages Russian gas supplies to Turkey and further to Europe, will have negative effect on the prospects of realization of Trans-Caspian gas pipeline, expert of the British University of Glasgow focusing on the Central Asia, Luca Anceschi believes.

The Trans-Caspian gas pipeline project involving laying of a 300-km gas pipeline between Turkmenistan and Azerbaijan along the bottom of the Caspian Sea, could deliver gas from Central Asian and in particular from Turkmenistan, which is the fourth in the world in terms of gas reserves, to Azerbaijan.

Further Turkmen gas will be pumped through existing infrastructure to Europe and thereby decrease EU's dependence on Russian energy supplies. "Any progress on Turkish Stream would modify the structure of the demand for Caspian gas, making the Trans-Caspian pipeline even more irrelevant," Anceschi told Trend.

Russian Gazprom started construction of the offshore section of the Turkish Stream pipeline in early May. According to Anceschi, one would have expected that, given the current crisis, Ashgabat would consider changing its energy policy, moving towards smaller [with a capacity of 7-8 billion cubic meters] transit projects, in a scenario that would be ideal to enhance Trans-Caspian cooperation.

"This scenario is however yet to crystallize," the expert said. Trans-Caspian gas pipeline is optimal for the delivery of Turkmen energy resources to the European market. The project may be implemented as a part of huge Southern Gas Corridor project designed to transport gas from the Caspian region to European countries. The negotiations on the Trans-Caspian gas pipeline among the EU, Azerbaijan and Turkmenistan began in September 2011.



IHRDC to provide TANAP with competency training

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International Human Resources Development Corporation (IHRDC), a worldwide leader in oil and gas training and competency development, has won a landmark contract to provide its training solutions to the operations, maintenance and integrity personnel employed by the Trans-Anatolian Natural Gas Pipeline Project (TANAP).

IHRDC reported that it will provide a combined package of its training offerings including competency assessment and development services, CMS Online software, and its computer based training (e-Learning) that will include custom learning modules created specifically for the TANAP project.

The 10-month contract represents a key component of the human capital development program and talent management strategy for the pipeline company's major infrastructure project. "IHRDC will establish pathways to superior performance in line with TANAP's operational requirements," said the company. "To achieve this, IHRDC will deploy a package of competency-based development training plans, and learning solutions for the pipeline operator, including the IHRDC's CMS Online software."

In addition, IHRDC will train TANAP's staff to ultimately run and manage the entire competency and development program in-house, ensuring a transfer of skills and the long-term sustainability of the program.

International Human Resources Development Corporation has been a global leader in training and competency management for the oil and gas industry for more than 45 years, offering the best Instructional Programs, e-Learning and Knowledge Solutions, and Competency Management products and services available to the industry today. The company is headquartered in Boston, USA with offices in Houston, London, Amsterdam, Abu Dhabi, Kuala Lumpur, Jakarta, and Lagos.

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The gas will be delivered to Turkey in 2018 and after completion of the Trans-Adriatic Pipeline's construction the gas will be delivered to Europe in early 2020. TANAP shareholders are Azerbaijan's state oil company SOCAR (58 percent), BOTAS (30 percent) and BP (12 percent).

The geopolitical role of Turkey in the EU's diversification policy

Natural Gas World, 12.05.2017



Turkey's profile in global and regional affairs has risen dramatically. The country's shift from defensive isolationism to becoming a major player in Middle Eastern, Caucasian and European affairs owes as much to an ideological break from the past in domestic governance and the revising of the security-centric mind-set of the old establishment as it does to the realisation of its geopolitical value.

It is no secret that whilst Turkey has often struggled to maintain secure and reliable energy relations with its neighbours.

And policy makers are acutely proactive in attempting to formalise and develop such links in the hope of turning the country into a crucial juncture for oil and gas from the Middle East, Iran, the Caspian, and the Mediterranean, to transit for sale in the EU.

Efforts to realise this goal have been continually hampered by the financial and political restraints of its potential partners, not least the strict sanctions placed on Iran, and that country's falling out of favour with Turkey's allies to the West.

Studies show that the Middle East and Caspian Region are home to 73% of the world's proven oil reserves, and 72% of its natural gas. Turkey is geographically located between this energy-rich region and energy-poor Europe.

Due to this positioning, the country is a natural bridge between source countries and consumer markets, and can play a vital role in the energy security of Europe and diversification of supply sources. Additionally, the Turkish Straits, the waterway connecting the Black Sea to the Mediterranean, also have special significance in energy security, as approximately 3.7% of the world's oil consumption are shipped through them on a daily basis.

The Oil & Gas Journal estimates that Turkey's own proven oil reserves total 295 million barrels, located mostly in the country's South-Eastern region. Turkey's proven natural gas reserves mark a total amount of 7 bcm.

In December 2014, a new Strategic Plan from the Ministry of Energy and Natural Resources of Turkey (2015-2019) was introduced by Taner Yıldız, former Turkish Minister of Energy and Natural Resources. The new strategic five-year plan aims to increase the share of wind, solar, hydroelectric and biomass resources in Turkey's energy production facilities. Turkey is planning to construct the world's largest solar energy centre and aims to meet about 50% of its electricity needs from renewable sources by 2030.



The main pillars of the Strategic Plan are to provide supply and demand security, raw material supply security, diversification of energy sources, an increase in natural gas storage capacity and an increase in the share of renewable energy available.

Furthermore, the plan encourages greater attention to energy efficiency, environment-friendly energy policies, development of national technology and scientific research, as well as furthering the pursuit of an active role both in the regional and world energy market.

Throughout last year, Turkey placed importance on domestic and renewable energy resources for electricity production. At the same time, consumption of natural gas is increasing and using natural gas in homes and industries has been found to be more beneficial than using natural gas for electricity production.

The European Union (EU) holds relatively meagre energy reserves: about 1% of world's proven oil reserves and about 2% of the world's proven natural gas reserves, as well as 4% of world's proven coal lay within its territory. By 2020, it is expected that up to two-thirds of the EU's energy consumption will be imported.

The EU is the second-largest consumer of energy in the world, taking around 17% of the world's total energy output. The EU's total primary energy consumption (TPEC) is comprised of natural gas (23.8%), oil (30%), nuclear (14.4%), coal (18.2 %), and renewables (12.6%).

Europe is the world's largest market importer of natural gas, a situation that is unlikely to change in the immediate future, given that over the last decade its own production capacity has decreased year on year. Europe's share of gas imports has grown from 48.9% in 2000, to 62.5% in 2010. Most of the natural gas imported by the EU is supplied via pipelines, but during last few years the share of LNG has increased and reached at least 15% of all gas imports by 2011.

Russia is the EU's main natural gas supplier and its contribution to overall imports in 2015 alone amounted to 30%, or 161.5 bcm. Natural gas plays a crucial role in Europe's energy mix and makes up 23% of primary energy consumption. In 2015 it was found that gas fuel was mainly applied to power generation (31.7%), household use (27.2%), and the service sector (10.8 %). The IEA predicts that European natural gas consumption will increase to 618 bcm by 2035.

Looking into the future, the EU is planning to invest more in energy infrastructure, which the EU Commission estimates will require around 89 million EUR in investment by the end of the decade. The EU is in the process of investing around 9.2 billion EUR in infrastructure projects between 2014 and 2020, hoping to strengthen intra-European networks and extend the overall pipeline systems beyond their current size by a huge 135,000 km.

By 2014, in the wake of the Ukrainian crisis, the EU faced the reality of its overwhelming dependency on Russia for energy supplies and thus planned the formation of an Energy Union. The Energy Union aims to create an internal, sustainable, common and single market among member states, as well as a body capable of monitoring bilateral energy cooperation between countries to ensure a balanced diversity of supply. According to Miguel Arias Cañete, EU Commissioner for Climate Action and Energy, the Energy Union is not to be created on the basis of being in opposition to any country's individual aims, but aims at securing energy for all member states.



After the Ukrainian crisis, when Russia was accused of using natural gas as a political tool, the European Commission published a plan for reducing its energy dependency, especially on Russia, as soon as 26 May 2014, with the Communication 'European Energy Security Strategy'.

According to this document, the European Commission outlines once more the need to boost the EU's energy security, particularly in terms of natural gas supplies. The suggested strategy is structured on eight key pillars aimed at creating closer ties between member states following the principle of solidarity, while at the same time respecting national energy choices.

The European security environment has a multi-dimensional structure, including European, Mediterranean and Middle Eastern security fronts. In this regard, the security of energy supplies would form yet another part of the continent's security perception. Turkey is able to play a key role as a stabiliser in the region by controlling a reliable stream of energy resources to Europe. Furthermore, Turkey expects a contribution from energy partnerships with the EU.

In line with one of the Energy Union's main pillars, the EU is attempting to diversify its energy sources. In this regard, it has at least five options; 1 – The Middle East and North Africa, 2 – Russia and Central Asia, 3 – Central Africa, 4 – Oil and shale gas resources, and 5 – North American LNG. Many of these sources can be transited via Turkey's territory – especially natural gas from Central Asia, (Azerbaijan, Turkmenistan), Iran, Iraq Kurdistan, and the Eastern Mediterranean (Cyprus, Israel, Egypt).

As the struggle between the West and Russia has deepened over Ukraine, the EU has begun to consider its options vis-à-vis weakening Russia's monopoly on the European natural gas market. The easing of US and EU sanctions against the Iranian energy sector over the last year has encouraged Iran to declare its readiness to supply natural gas to Europe.

Iran's role in delivering gas to Europe represents a potential alternative in the diversification of the European energy sector. Iran is trying to bring more foreign companies into its energy sector, whilst holding the second largest natural gas reserves in the world (33.6 trillion cubic metres).

Instability in the Middle East, especially in Iraq, means that the proposed and already operating pipelines, which mark an extension of the EU-proposed Southern Gas Corridor, seem to be increasing the significance of Turkey in the transportation of Iranian gas to the European market.

The most logical route for Iranian gas is via Turkey. It should be noted that at present, Turkey is the only Iranian gas importer. If sanctions were to be eased and foreign companies able to invest in Iran's energy sector, the country could supply 10-20 bcm of natural gas to Turkey and Europe by the early 2020s.

The capacity of Iran's oil and gas production decreased dramatically under the sanctions placed on the country by the EU and the United States following an international dispute over Iran's attempts to build a nuclear program.

However, after the 2015 P5+1 agreement the country has begun to reinvigorate its oil and gas production and export capacity. Tehran is seeking target markets for its renewed oil and gas production and Europe is interested.



But now Iran has officially stated that gas transportation to Europe is no longer their priority because of the continent's waning economic value. In May 2015, Rokkendir Javad, CEO of the National Iranian Oil Company, said that "Given the gas-price decline in Europe, the economic viability of the project has probably decreased. Besides, the market share of single shipments of LNG has grown." According to the minister of petroleum, the gas price in Europe has made infrastructure projects such as pipelines economically unviable.

However, within the natural gas sector Iran could be an option for Europe to reduce dependency on Russian gas, and this is an issue which Iranian oil officials have repeatedly mentioned. It should be noted that the country's own high consumption of gas together with the amount of gas injected into storage tanks as well as existing exports (to Oman, Iraq and Pakistan) means that the volume of gas available for export elsewhere is severely reduced. Another barrier in this area is the lack of necessary infrastructure for gas exports to Europe.

Turkmenistan holds the world's fourth largest natural gas reserves and wants to play a key role in Eurasian energy security. The country aims to raise its natural gas production to 250 bcm by 2030, of which 200 bcm shall be exported. Saparmyrat Nyýazow, the first President of Turkmenistan, is aiming to use the country's natural resources in its development and accordingly prepared the 'Economic, Political and Cultural Development Strategy to 2020'.

During Berdimukhamedov's administration, this was extended to the oil and gas sector's 2030 Development Plan. This plan has two strategic priorities: 1) Ensure Turkmen energy resources have access to new markets (including refined products) through a multi-vector gas transportation system; 2) Implementing modern technologies to improve oil and gas production. The Turkmen government acknowledges the need to import expertise and machinery for exploration and deep drilling to meet production targets.

Turkmen natural gas has the potential to reach Europe via lines going through Iran-Turkey, Russia, or Azerbaijan-Georgia-Turkey. However, in seeking ways to realise its potential for exporting gas to Europe, Turkmenistan faces an enormous challenge. Iran and Russia could soon collectively dominate the Turkish and European natural gas market and neither will be interested in such a strong position being diluted, even slightly, by another country's entry into the market.

Turkmenistan is planning to export 20-30 bcm gas to Europe. This is of far greater importance for Turkey. Trans-Caspian projects are expected to supply Turkey with additional natural gas resources (Turkey's natural gas demand will increase by 77% from now until 2030) and also help the country to achieve its goal of becoming a regional energy hub between Central Asia and Europe.

Due to the ongoing Kurdish minority issue in the Southeastern part of Turkey, which also affects Iran and Syria, Ankara is interested in supporting the financial interdependence of the Kurdish Regional Government (KRG) of Iraq, by signing a deal with the KRG to export petrol.

However, this would not travel through the Baghdad-controlled Kirkuk-Ceyhan Pipeline, but through a bypass expanding from central KRG (Taq-Taq field) to the Turkish border where it would be connected to the line leading to Ceyhan. During 2016, Turkey imported about 700000 barrels per day, according to KRG Natural Resources Minister Ashti Hawrami and is planning to increase that volume in the years to come.



Such an import of oil from KRG would help in Turkey's ambition to become an energy hub. Turkey and KRG are planning to build a second oil pipeline to Ceyhan port and another natural gas pipeline aiming to feed Turkish power plants. Turkey is interested initially in importing up to 353 bcm of natural gas annually but hopes to double this quantity over time. However, Turkey has a problem with the Iraqi central government in importing oil and gas from the KRG in North Iraq.

Over the last decade huge amounts of natural gas reserves have been discovered in the Eastern Mediterranean. This region has thus become a centre of attention for oil and gas companies as well as countries with adjacent shorelines.

The biggest natural gas reserve has been found in the Exclusive Economic Zone (EEZ), which is shared by Israel and Egypt. Another reserve was found by US and Israeli companies near the Cypriot coastal shelf and soon became the cause of renewed tension between Turkey and Greece as the main reserves are located closer to the Turkish enclave of Cyprus.

In 2015, the Italian energy company Eni found the Zohr gas field, an offshore natural gas field located in the Egyptian sector of the Mediterranean Sea. The field is located in the Shorouk concession, a concession with an area of 3,765 square kilometres (1,454 square miles), for which Eni was awarded the drilling rights in 2013.

After the discovery of this 'supergiant field', it was estimated that Egypt could become energy-independent and would as a result be able to use energy diplomacy in improving relations with Israel and its Arab neighbours. The Discovery of this field also has geopolitical repercussions.

The Zhor field is close to other gas fields in the region such as Aphrodite (Cyprus) and Leviathan (Israel), which will make possible a coordinated development of the fields, using economies of scale to put in place a competitive regional gas export infrastructure.

Egypt already has LNG export infrastructure in place in Idku and Damietta, which is currently sitting idle. Putting this into use would allow gas to be exported from Zhor and other Egyptian fields not used in the home market. Domestic demand is increasing and it is fair to assume that some export capacity would be left for Israeli and Cypriot gas.

In December 2010, the Leviathan gas field was found in the Eastern Mediterranean off the coast of Israel. This gas field is located 1,645 metres deep, in the Levantine basin about 130 kilometres west of Haifa, Israel and holds an estimated 622 bcm of gas.

It is expected that gas production from this field might be initiated as early as the first quarter of 2019, and it is also estimated that the initial phase of supply will provide for the domestic market as well as exports to both Jordan and Egypt.

With the aim of benefiting from the EU's search for greater natural gas alternatives, in November 2014 Israel proposed that EU countries should invest in an underwater pipeline from Israel to Cyprus island, then on to Crete and mainland Greece, from where the gas could then be pumped to European Countries. But it is estimated that such a pipeline project requires around \$10 billion in investment. However, there is another route, which could facilitate exporting Israeli gas to the EU from Turkey.



The distance of a line from Israel to Turkey would be around just 500 kilometres, which is less than half of the distance of the first option. Such a project could cost the more favourable sum of \$2 billion.

This depends greatly on Turkey solving its long outstanding political problems with Cyprus, because in the event that the transporting of Israeli gas is given the go-ahead, this could form yet another bone of contention around the island's sovereignty.

According to Ambassador Matthew Bryze, over the next 4-6 years the Eastern Mediterranean gas may be able to play a key role in Turkey's efforts to diversify its supplies of gas away from Russia. In the short term, Turkish companies would be more than willing to divert 8-10 bcm of the gas for domestic consumption.

Cyprus island has a proven gas reserve of around 142 bcm located in the Aphrodite field and also plans to exploit the contents of its deep waters in the Eastern Mediterranean. However, there is an ongoing dispute over defining the ownership of its continental shelf and the Exclusive Economic Zone between Greece and Turkey.

By March 2015, Greece had initiated an international tender to access the feasibility of a proposed pipeline that would link Israel's gas field to Europe via Greece. But due to financial as well as topographical issues, such a pipeline is not feasible at present. Firstly, seismic activities in Greek waters present major construction and transport risks. Secondly, the pipeline's required length of around 675 kilometres, at depths of about 800 to 2000 metres, would make the project cost-prohibitive.

A pipeline from Cyprus to Crete alone would cost around \$20 billion. Furthermore, as natural gas demand in the EU is supplied at a flat rate, if the Eastern Mediterranean sought to compete with other suppliers in general and GAZPROM especially, it would have to sell at a comparatively lower rate, which places more risk on the prospect of recovering the investment.

It seems that exporting Cypriot gas from Turkey is the best option. Turkey's energy demand is increasing and it must, therefore, diversify its energy sources to reduce dependency on one sole supplier.

According to the Strategic Plan of the Turkish Ministry of Energy and Natural Resources (2015-2019), diversification of energy resources is a top priority. In addition, Turkey is interested in using its geographic position in the region to become an energy transit country and regional hub for oil and gas from the Caspian Basin, Central Asia, and Iran, to European markets.

At the end of 2015, and especially after the Ukrainian crisis, the EU decided to give more attention to the diversification of its energy resources. Diversification of energy is one of the main pillars of the Energy Union.

This has led to talks between the EU and other powers, aimed at investigating the utility of investing in such plans as the Southern Gas Corridor and TANAP projects, as well sourcing supplies from the Shah Deniz 2, none of which will be realised quickly. At present, there are no further realistic choices available in the short-term.



However, further ahead and though progress has been slow, with only Azerbaijan being active in forwarding its Southern Gas Corridor plan, the EU's eyes are firmly set south-east, on Turkmenistan, the KRG and Iran. The only real route for transporting gas from these countries into the EU is through Turkey, but the EU is strictly against the use of Russian infrastructure or Russian resources for transit purposes.

However, there is a huge reserve of supplies in the Eastern Mediterranean and this could conceivably be transited from Turkey to the EU. Turkey's energy demand is increasing and such a reserve is ideal to help the country diversify its own needs, as well as those of Europe.

For exporting Cypriot natural gas via Turkey and also transiting Israeli gas via Cyprus, Turkey and Greece will have to work harder to solve the issue of the EEZ and the Turkish Cyprus problem. As energy analyst Necdet Pamir has mentioned, the EEZ can ensure both the avoidance of any conflict in exploration or drilling operations for offshore oil and gas in the region; and exporting routes from such region is also very important.

Turkey is interested in using its geographical position to play a key role in the energy market. The geostrategic position of Turkey is also mentioned as an integral part of former Turkish Prime Minister Davuto lu's famous political piece, 'Strategic Depth' and the Justice and Development Party has incorporated Turkey's geographical position into its calculations on foreign policy.

However, Turkey needs more investment in infrastructure to increase the capacity of its refineries and natural gas storage facilities. It could be argued that energy would help Turkey to improve its relations with the EU and enhance its candidacy status. Both sides could use the increased energy and diversification of energy resources to strengthen beneficial relations and gain mutual advantage from an energy agreement.

That said, many of these plans are still in the early stages of development, and it will take years for them to come to fruition. However, in the meantime it remains to be seen what advances will be made in the short term, and how quickly Turkey's ambitions as a transit country materialise.

Turkey considers new rules on gas storage

Argus, 10.05.2017



Turkey plans new rules for allocating daily gas injection and withdrawal capacity at the 2.84bn m³ Silivri storage facility. Companies booked their annual capacity at Silivri last year, but injections this year have proven difficult for some because of capacity limitations and the lack of rules on the distribution of daily injection capacity.

Under the rules, each firm's injection capacity would be calculated based on its available capacity — its booked capacity minus its inventory — as a proportion of available capacity at the site. A firm's daily withdrawal capacity would be calculated using the same proportionality principle.

No company would be allocated more than 50pc of available daily capacity, unless there is no demand for the remaining 50pc. Companies can submit their views on the proposed rules by 17 May, with regulator EPDK to then take a final decision.

Silivri's maximum injection capacity is 16mn m³/d, while the maximum withdrawal capacity is 25mn m³/d. EPDK set this year's storage obligation at 6pc of contracted annual receipts for pipeline gas importers. Firms with long-term LNG contracts — currently only state-run Botas — remain exempt from storage obligations.

Spot LNG importers only have a storage obligation if the volume that they sell to distribution firms exceeds the amount of spot LNG imported, in which case they need to reserve 2pc of the amount exceeding spot LNG imports. "A new obligation was introduced for wholesale trading firms that have held a license for at least five years. These are required to reserve 2pc of volumes sold to distribution firms." Companies must fully meet their obligations by 1 November.

With demand weakening in recent weeks, there is an incentive to inject as much as possible as import costs are expected to rise in the third quarter. But injection capacity is not always available, and existing legislation does not regulate its daily distribution.

Given current contractual import volumes, Botas will reserve 2.18bn m³ of the 2.84bn m³ of capacity for 2017, while private-sector importers will reserve 600mn m³. The remaining 60mn m³ will be made available for wholesale firms. The first 500mn m³ phase of the 1bn m³ Tuz Golu underground gas storage site will become operational this winter, but only Botas is currently injecting cushion gas to the facility. Botas operates both Silivri and Tuz Golu.

Is the hydrocarbons crisis the final nail in the coffin?

Hurriyet Daily News, 17.05.2017



Since the two sides in Cyprus Island have agreed the status quo is unacceptable and have decided to replace this with a power-sharing arrangement based on the political equality of its inherently constitutive communities, then both sides should behave in a way that is compatible with the power-sharing objective and not in a way that helps sustain the status quo.

The Cyprus issue has transcended its borders with the discovery of offshore natural gas. The complex nature of overlapping hydrocarbon claims, burdened with the multiple problems of our region and on-going grievances between stakeholders, make the issue more complicated.

We have seen what unilateralism, non-settlement, or the absence of an agreement on how to proceed, could lead to in 2014-2015. The lesson from that experience was that the critical need for cooperation on hydrocarbons could be the new “catalyst” for settlement, as well as being the “strong glue” of the broader security structure of the region. The current round of negotiations that kicked off in May 2015 was based on this logic and premise.

In early 2016, without regard to the experience of 2014-2015 and at a time when settlement talks were supposedly making progress, the Greek Cypriot side decided to open up a third licensing round. The Turkish Cypriot side and Turkey promptly made their protestations but, without prejudice to their rights, tolerated this move with the expectation that an agreement would be reached before the licensing process was completed and put into effect.

Such unilateral initiatives are incompatible with the spirit and objective of the current talks, for which the window of opportunity is now closing, and carry serious implications for both the Turkish Cypriot side and Turkey. These need to be looked at separately.

As a politically equal party engaged in power-sharing negotiations and as a co-owner of hydrocarbon resources, the Turkish Cypriot side cannot accept to be sidelined in the negotiations about the future of these resources.

To address this challenge, the Turkish Cypriot side has had an ongoing constructive offer since 2011 that aims at facilitating cooperation on the subject throughout the island. Such cooperation at the practical level would also help the political settlement process and at the same time could open up the door for cooperation with Turkey.

The sharing of the water from Turkey could also be among the subjects to be addressed. It has not been possible to give life to this constructive proposal, and despite the imminent crises, the Greek Cypriot side refuses to discuss the hydrocarbons issue at the talks.

As for Turkey, which is another key stakeholder, customary international law provides that if a conflict arises between the interests of a coastal state and any other state/states, the conflict should be resolved on the basis of equity, bearing in mind the relevant circumstances and the respective importance of the interests of the involved party or parties.

Being one of the countries with the largest population and longest coastline on the Mediterranean (569 miles), Turkey is entitled to a corresponding share of its resources under the principle of "equity." Parts of EEZ plots 1, 4, 5, 6 and 7 declared by the Greek Cypriot side overlap with the continental shelf declared by Turkey.

Unless unilateralism on hydrocarbons is promptly seized and steps taken in the direction of cooperation, starting with the two co-owner communities, this issue could put the final nail in the coffin of bi-communal and bi-zonal federalism and could turn the discovery into a curse. There are lessons to be learnt from the latest Turkish and Israeli rapprochement.

Turkey's BOTAS gas imports surge in February

Argus, 11.05.2017



Turkish state-run trading firm Botas' gas imports surged in February on strong demand, with Russian pipeline shipments and LNG deliveries rising most sharply.

Botas' imports rose to 156.3mn m³/d in February. Russian deliveries climbed most sharply, as the Western Line and Blue Stream have the most flexibility to handle higher flows. Iranian receipts rose slightly, probably encouraged by the 13.3pc discount to the price formula that Turkey was granted after international arbitration in November. But there was a drop in deliveries from Azerbaijan, the costliest in Turkey's portfolio of pipeline gas suppliers in the first quarter.

LNG imports rose in February, with spot deliveries boosted by the start-up of the country's first floating and storage regasification unit (FSRU) and the expansion in sendout capacity at the Egegaz-run Aliaga terminal in December.

Countries of origin for spot LNG deliveries were at their most diverse in February since at least January 2014, and included a first cargo from Equatorial Guinea and a first reload from the UK. Russian deliveries to Turkey's private-sector importers rose to 31.3mn m³/d from 27.3mn m³/d, with Enerco Enerji posting the largest increase, followed by Bosphorus Gaz and Kibar Enerji.

Exports from Turkey to Greece rose to 1.2mn m³/d from 0.5mn m³/d, but were down from a peak of 2.8mn m³/d in January. Demand rose strongly in February, driven by higher power, residential and industrial consumption. Residential demand was up most sharply thanks to the cold weather, with gas burn for power at its highest for February since at least 2013.

Among industrial users, gas use by refineries was up most sharply, at 5.3mn m³/d from 0.3mn m³/d, after Turkey's only refiner Tupras' reported strong output growth in the first quarter. Petrochemicals producers' February gas consumption fell to 2.6mn m³/d from 6.1mn m³/d.

Comptroller: Tamar gas agreement cost IEC \$2b too much

Globes, 17.05.2017



Faults in the process of formulating an agreement between Israel Electric Corporation (IEC) (TASE: ELEC.B22) and the Tamar natural gas reservoir partners caused \$820 million-1.5 billion in excess costs that could have been foreseen.

This was the main conclusion of the State Comptroller's report on the process of signing the agreement. It now appears that the damage is actually \$2-2.3 billion. The audit was conducted in September 2015-March 2016, following which supplementary checks were made by the Ministry of Finance and the Ministry of National Infrastructure, Energy, and Water Resources Israel Natural Gas Authority.

Following the discovery of the Tamar reservoir in January 2009, the Tamar partners and IEC began negotiations, leading to the signing of a letter of intent in December 2009. The letter contained a price formula linked to a basket of fuels and the US Producer Price Index (PPI), excluding food and energy, as is the prevailing practice at IEC.

The formula included a floor price of \$4 per heating unit for the purchase of 2.7 BCM a year for 15 years. IEC forecasts in early 2012 predicted that the price of gas would vary in the \$5.20-6.60 per heating unit range over the period of the agreement.

The letter of intent constitutes one of the main targets of the critique, because according to the State Comptroller, the excellent formula in it was replaced later by linkage to the US Consumer Price Index (CPI).

As of 2012, this change added \$1.5 billion to the cost of the gas deal, and constitutes one of the defects that electricity consumers will have to pay for, which the State Comptroller's report states "is liable to affect public welfare." The State Comptroller's report later states that beyond a renewed discussion of the price eight years after the beginning of the agreement, "no measures ensuring the return of the additional cost were taken."



The initial draft agreement between the parties was drawn up in 2010, one month before the appointment of the Sheshinski Committee to Examine Fiscal Policy on Oil and Gas Resources in Israel. The agreement contained a clause protecting against taxation by giving the Tamar partners the right to raise the price.

This clause was removed from the agreement following the publication of the Sheshinski Committee's recommendations in January 2011 and clarification of the royalties situation. A month later, the negotiations between the parties were speeded up, and discussions by the IEC board of directors steering committee dealing with the agreement show that on this point, the Tamar partners demanded a high price to compensate them for the increase in the government take.

"While the negotiations were taking place in 2011, the supply of gas from Egypt was disrupted, and stopped completely in April 2012," the State Comptroller's report states. "In addition, changes in the route of the gas pipeline to Israel's shores made the pipeline longer, and added to the costs.

As a result, the ninth draft agreement in August 2011 contained the new formula, and the 11th draft, formulated in October, stated that 1% would be added to the linkage each year until 2019, and 1% would be subtracted from the linkage starting in 2020.

IEC told the State Comptroller that the Tamar partners had demanded 2% a year be added on top of the increase in the US CPI, and that in exchange for a compromise on the price, the company had managed to ensure itself an adequate supply.

IEC added that the agreement, which was finally signed in March 2012, was that best that could have been achieved, given the shortage of Egyptian gas and the depletion of the Yam Tethys reservoir, which "strengthened the monopoly power of the Tamar partners... the only possible and practical solution for ending the energy crisis and renewing the supply of natural gas to the Israeli economy was rapid development of the Tamar reservoir."

According to the State Comptroller, because of the fall in energy prices in recent years, the damage caused by the change in the gas price formula was \$2-2.3 billion, more than could have been foreseen.

"The alternative formula of linkage to the US CPI reflects a high probability of a continued increase in gas prices, independently of developments in the energy market," the Comptroller wrote, "since the US CPI has risen by a relatively stable rate of 2.3% a year for the past two decades."

The Tamar partners attributed the price increase to several factors: a rise in the price of oil between the time the letter of intent was signed and the signing of the final agreement; the striking down of the National Outline Plan for building a facility for receiving gas on the Dor shore, which increased costs; the Sheshinski tax, which is projected to lower revenue from the reservoir by NIS 40 billion; the decisions by the Antitrust Authority director general, which restricted the partners; and the 50% ceiling on exports of gas from the reservoir.

The State Comptroller stated that the 2009 letter of intent reflected relatively competitive negotiations, and the formula in it “can therefore be a criterion for assessing the natural gas price when there is more than one supplier.” On the other hand, the protection against taxation clause indicates “the intention of making the public pay all or part of the costs of the fees set by the Sheshinski Committee.” Although the State Comptroller accepted part of IEC’s arguments about the effect of factors beyond its control, he noted that these “do not justify raising the price of gas in the deal, in comparison with the letter of intent.” The Public Utilities Authority (electricity) explained that the linkage to the US index was a hedge against a rise in fuel prices.

The State Comptroller commented that although hedging is an acceptable tool for reducing risk, “the hedging mechanism included in the deal imposes the increase in costs on the consumers, instead of on the Tamar partners.”

These opinions were backed by an opinion obtained by the Public Utilities Authority (electricity) from two experts, who wrote at the time that the method was an unacceptable and unreasonable one that “saddles the gas consumers with the risks, and leaves almost no risks to the gas producers.” The State Comptroller adds that the mechanism in the letter had a hedge against a steep rise in energy prices.

Concerning the addition and subtraction from the change in the US index, the State Comptroller wrote that according to a calculation by his office, “A 1% drop in the CPI in the second half of the period of the agreement does not offset the 1% rise in the first half of the period of the agreement.

The calculation shows that according to the known figures when the agreement was signed, this mechanism makes the Tamar deal \$370-640 million more expensive in current values.” The State Comptroller notes that this mechanism is not customary in gas agreements, and should be changed.

Russia and Saudi Arabia back extending oil output cuts

Financial Times, 16.05.2017



Oil jumped after Saudi Arabia and Russia said they backed extending an Opec-led agreement to cut output until March 2018, intensifying their push to shrink excess inventories that have kept a ceiling on prices.

Saudi energy minister Khalid al-Falih and his counterpart Alexander Novak pledged on Monday to do “whatever it takes” to reduce global oil stockpiles and balance the market. Output from the US and other countries outside the cartel has surpassed Opec’s expectations and offset drastic supply curbs from some of the world’s biggest producers aimed at bringing to an end the worst oil crash in a generation.



Saudi Arabia, the world's biggest oil exporter and de facto Opec leader, and Russia, the largest producer, have been forced into taking further action after prices erased all their gains since the output cut deal came into effect in January.

It was expected that Opec and other producers such as Russia would extend the agreement, reached late last year, until the end of 2017. But the move to prolong the deal until March of next year surprised market analysts. Prices briefly rose more than 3 per cent after a joint statement was released from the ministers, who had met in Beijing and discussed oil output policy.

Brent crude, the global benchmark, was up \$0.96 to \$51.80 in late trading in New York. West Texas Intermediate, the US marker, rallied \$1.02 to \$48.86 a barrel. Both energy ministers emphasised their commitment to "stabilising the global oil market, reducing volatility, and ensuring the balancing of supply and demand in the near and long term".

They recommended that the next round of reductions should be on the same terms as the first deal, when producer nations agreed to cut almost 1.8m barrels a day for the first six months of 2017. Opec ministers are due at the end of this month to meet in Vienna to discuss the extension of output curbs, seeking to reach agreement among all participating members inside and outside the cartel. The May 25 meeting is when a final decision will be made on the nine-month extension. The ministers from Saudi Arabia and Russia were optimistic that "a wider circle of countries" outside the current group would join in implementing the cuts.

The ministers said the existing supply curbs helped to accelerate inventory declines in industrialised nations in April and May, and had driven a drop in oil at sea on tankers. "But we're not where we want to be in reaching the five-year average [levels]," Mr Falih added at a briefing in Beijing alongside Mr Novak. "We've come to the conclusion that the agreement needs to be extended."

Russian president Vladimir Putin, who was also in Beijing for an international conference, said extending oil output cuts for a further nine months was the right move to ensure stable oil prices. "I very recently . . . met behind closed doors all the leaders of our biggest oil and gas companies, along with the energy minister. We discussed this theme, and we supported such a proposal," he said.

Opec revised up output growth from US shale and others outside the group by 58 per cent to almost 1m barrels in 2017, and latest estimates show the world will require just 31.9m b/d of the cartel's crude on average this year.

This means that demand for Opec's oil is only 200,000 b/d higher than current output levels, according to the data from consultants and energy analysts submitted to the group, despite deep output cuts that are at least six times as large.

Global energy agencies, including Opec's own research arm, still believe the oil market will rebalance in the second half of 2017, assuming production does not rise further. But Libya and Nigeria, which have been exempt from output cuts and whose production is set to recover in coming months after disruptions, present a risk to the existing agreement.

Analysts at consultancy Energy Aspects said: “[The] agreement should put claims that an extension looked unlikely to rest, and underline Russia’s commitment to the deal.” But clarity on export levels for individual countries is necessary to sustain any price rises, they said.

Kuwait joins Saudi Arabia, Russia to seek oil cuts into 2018

Bloomberg, 16.05.2017



Kuwait joined Saudi Arabia and Russia in supporting an extension of oil-output cuts by OPEC and other global producers through the first quarter of 2018 to help trim global stockpiles.

An extension of the cuts at already agreed-upon volumes is needed to reach the goal of paring world inventories to their five-year average, Kuwait’s Oil Minister Issam Almarzooq said Tuesday in an emailed statement. “There are positive signals that have started to show, as April and May monthly reports are showing that global stockpiles have fallen significantly,” Almarzooq said.

Russia and Saudi Arabia, the largest of the 24 producers that agreed to cut output for six months starting in January, said on Monday that they favor a nine-month extension of the reductions. Oman, a non-OPEC producer like Russia, expressed support the same day for curbs to continue until the end of March. OPEC is due to meet with fellow producers on May 25 to decide on the extension. Talks are under way to persuade three to five additional countries to take part in a new deal, Russian Energy Minister Alexander Novak told reporters in Moscow. Novak declined to identify the nations.

Surging U.S. output has raised concern that the cuts are failing to reduce a glut. Oil has surrendered about half its gains since the producers’ accord to cut output late last year. Members of the Organization of Petroleum Exporting Countries agreed in November to cut 1.2 million barrels a day of oil production. Several non-members, including Russia, agreed in December to contribute a combined 600,000 barrels a day of output reductions.

Amid the cutbacks, production in the U.S., which isn’t part of the agreement, has risen to the highest level since August 2015. U.S. crude inventories are finally showing some signs of shrinking, falling for the past five weeks from record levels at the end of March.

“Extending the cuts for another nine months may not eliminate the glut in the market,” said Sadad Al-Husseini, a former executive vice president of exploration and development at Saudi Arabian Oil Co., the state producer also known as Saudi Aramco.

“There are no fast solutions to end this situation, and the only solution possible is to let oil prices work their way” to clear the oversupply, Al-Husseini said from the Saudi city of Dhahran. The deliberations come as two OPEC members exempt from the cuts boost output. Libya’s crude production has risen to more than 800,000 barrels a day, the most since 2014, while Nigeria’s 200,000-barrel-a-day Forcados pipeline is ready to export again after almost continuous halts since February 2016. It’s unclear whether the countries would still be exempt if the deal is prolonged.

OPEC still fundamentally misunderstands US oil industry

Forbes, 12.05.2017



A new report from OPEC estimates crude oil production from non-OPEC nations will increase by 950,000 barrels per day during 2017. This is a dramatic increase from last month’s estimate of a non-OPEC rise of 580,000 during the year.

This new, much higher estimate has raised concerns within the OPEC cartel that its efforts to balance the global supply/demand equation will require it to either extend its current production limitations into 2018, or to agree to even deeper cuts in its member countries’ own production levels. Based on these concerns, the new report urges all non-OPEC nations to limit their own production:

A large part of the excess supply overhang contained in floating storage has been reduced and the improvement in the world economy should help support oil demand. However, continued rebalancing in the oil market by year-end will require the collective efforts of all oil producers to increase market stability, not only for the benefit of the individual countries, but also for the general prosperity of the world economy.

The report singles out U.S. shale producers as the main culprit for the lingering over-supply situation. This is not surprising, given that overall U.S. oil production has risen by a whopping 800,000 bopd since last October, as U.S. producers have activated more than 250 new drilling rigs and implemented higher drilling budgets for 2017.

This expectation that U.S. producers are somehow going to join together with the national oil companies and controlled markets of OPEC, Russia and other countries to intentionally limit production betrays the same fundamental misunderstanding of the nature of the U.S. oil and gas industry that created the global supply glut and resulting price collapse in the first place.

To review, back in 2014, Saudi Arabia, concerned about the loss of market share it had absorbed as the U.S. shale revolution almost doubled U.S. overall production from 2009 through early 2014, embarked on a strategy in which it would intentionally crash the global crude price by dramatically increasing its own production and exports.



The thought at that time was that, by crashing the price of oil, drilling in the U.S. would collapse, and producers who were focused on drilling these capital-intensive horizontal shale wells would by and large go out of business. Even better, because the 2014 break-even price of the average U.S. shale well was in the range of \$70/bbl, the U.S. industry would remain depressed so long as the price remained below that level. This strategy had the shortcoming of only being half-right. Drilling in the U.S. did indeed collapse, as the oil rig count dropped like a stone, from more than 1,600 to fewer than 400 in very short order.

While few companies ultimately went out of business, well more than 200 U.S. upstream companies have gone through the bankruptcy process, with the assets of some being absorbed by other producers. So that part was right to a large extent.

But what the Saudi market share strategy failed to understand was the impressive nimbleness and aptitude for rapid innovation possessed by the U.S. oil and gas industry. They did not anticipate that service companies and shale producers would be able to so dramatically lower costs and increase recoveries over the past three years through the development of new technologies, the strategic capture of economies of scale, and refinement of internal processes.

Because of that, they also did not anticipate that the break-even cost associated with drilling shale wells in the U.S. would fall to as low as \$40/bbl in the Permian Basin, and into the \$50/bbl range in some other major shale basins. Saudi Arabia and the other OPEC countries more recently also failed to understand the urgent need for U.S. producers to drill wells in order to remain going concerns.

They apparently had never heard the old oil industry saying that “if you aren’t increasing your production, you’re going out of business.” This saying may be old, but it remains as true in the U.S. today as it was a century ago.

Thus, leading into 2017, the previous two years of little drilling had led to a pent-up sense of urgency within most U.S. upstream companies to significantly increase their drilling budgets for 2017 and the swift activation of more than 250 additional drilling rigs that has led to the rapid rise in overall U.S. production. Not to brag (ok, to brag just a little), I tried to warn everyone at the first of the year that this exact scenario was going to take place here in the U.S. this year. Here’s what I wrote last December 28:

Domestic producers will drill themselves back into a lower price situation- try as they might to maintain a price for oil in the \$55/bbl range, OPEC and Russia can’t control the way U.S. producers will react to this higher price paradigm. Nor can anyone else, for that matter. We should expect U.S. producers to activate another ~200 drilling rigs during the first four months of 2017, a trend we’ve already been experiencing since OPEC reached its agreement on November 30, as the U.S. rig count rose by 70+ during December alone. Combine another 200 or so rigs with steadily rising expected ultimate recovery rates from each well, and we should look for overall U.S. oil production to rise by about half a million barrels per day over the first half of the year. The likely result will be higher price volatility and a probable resulting fall-back to prices in the high- or even mid-40s.



Obviously, no one at OPEC was listening. Go figure. This current expectation by OPEC that U.S. producers will somehow jointly agree to artificially limit their own overall production also betrays an ongoing fundamental lack of understanding about the nature of America's oil and gas industry.

First, the U.S. upstream industry consists of literally thousands of individual companies, every one of which has its own discreet management team, its own business plan, and its own goals. More to the point, the great majority of these companies are partnerships or corporations, every one of which has its own discreet set of investors it must satisfy in order to remain in business. The thought that these thousands of companies could behave in the same way as OPEC nations, most of whose industries are government-controlled, is not a realistic proposition.

Second, and even more to the point, the corporations among these U.S. companies are legally prohibited by U.S. anti-trust laws to even attempt to engage in cartel-like behavior. It's not legal. Third, there is simply no mechanism in U.S. law or regulation at the federal level, outside of the implementation of martial law in a national emergency, that would allow the U.S. government to order the country's oil and gas producers to artificially limit their drilling and production.

Some states - like Texas, North Dakota and Louisiana - do have the regulatory ability to implement production quotas on wells within their borders, but that is a political hot potato that none of the regulatory bodies are going to want to touch. Bottom line, U.S. industry cooperation in any sort of global production limitation agreement not only won't happen, it can't happen.

OPEC and the rest of the global oil industry finds itself in its current position due to a fundamental lack of understanding about the nature of the U.S. industry that existed in 2014. Nothing is going to really change until that lack of understanding is remedied. OPEC's latest monthly report demonstrates we have yet to arrive at that point.

European majors enjoyed further modest natural gas price recovery in Q1

Platts, 17.05.2017



Europe's majors saw their global realized gas prices in the first quarter of 2017 continue to rise, with the big five all registering year-on-year and quarter-on-quarter increases.

The rises followed higher wholesale gas prices compared with Q4 -- in Europe prices were driven by increased demand in the first month and a half of the year on colder weather across the continent. Global realized prices among the top five European producers -- Shell, BP, Total, Statoil and Eni -- also follow an improvement in prices in Q4 last year, which saw the start of a realized price recovery from the multi-year lows in Q2 and Q3 of 2016.



“The macro environment was favorable for the majors during Q1, 2017,” analysts at Morgan Stanley said. “European spot gas prices, which had already seen a 30-40% improvement in Q4, continued to rise by a further 2-5% quarter-on-quarter.”

Statoil saw its European average realized gas price rise to \$5.46/MMBtu, while BP and Shell’s European prices came in at \$5.25/MMBtu and \$4.94/MMBtu, respectively. But while prices continued to rise, they failed to keep pace with the average gas price for the quarter on the European hubs. According to Platts assessments, the Dutch TTF spot price averaged \$5.77/MMBtu in Q1, up from \$5.41/MMBtu in Q4, 2016, while the UK NBP spot price averaged \$6.00/MMBtu in Q1 compared with \$5.62/MMBtu in Q4, 2016.

In terms of global realized prices, BP saw the biggest jump on the quarter in Q1 to \$3.50/Mcf (\$3.40/MMBtu), an increase of 13.6%. That was a result in part of the increase in US gas prices, where BP is highly exposed in terms of gas production.

This was echoed by the increase in the US realized gas price by Statoil, which went up to \$3.40/Mcf from just \$2.60/Mcf in the final quarter of 2016. “Average invoiced North American piped gas sales price increased by 45%, mainly due to a general increase in Henry Hub prices,” Statoil said.

Statoil’s total gas output was up 8.1% on the year in Q1, due mostly to raised production from its Norwegian portfolio, including the swing Oseberg field. Oseberg produced at an average rate of 17.5 million cu m/d in January, its highest monthly level since February 2015, suggesting Statoil is still using Oseberg as a swing field, turning up output when prices are high (as they were at the start of Q1) and keeping production down when prices are low.

This is part of its long-held “value over volume” strategy that shows no signs of ending any time soon. European gas prices have now come down from their highs in the first quarter, but are still relatively robust. Austria’s OMV -- a key gas player in central Europe -- sounded an upbeat note despite the abundant supply picture.

“The gas market environment in Europe continues to be characterized by oversupply,” it said in its Q1 earnings statement. “However, average gas prices on European spot markets are expected to show an increase in 2017 compared to 2016, since there was a cold winter in Europe in the first quarter of 2017,” it said.

OMV said its realized gas price in Q1 was \$5.02/Mcf, up from \$3.98/Mcf in the final quarter of 2016. Italy’s Eni, meanwhile, said it was on track to break even in its gas and power segment this year after years of losses having better leveraged its long-term contract position and secured some logistics cost reductions.

CEO Claudio Descalzi has said Eni has renegotiated its long-term natural gas import contracts to better reflect market conditions, including an increased link to European hubs. Eni said it also wants to expand its market share in gas in Europe having registered a 5% increase in sales in non-Italian markets -- mainly in Germany, Austria and Turkey.

“Eni plans to retain market share in the large customers and retail segments, increasing the value of the existing customer base by developing innovative commercial initiatives, integrating services and optimizing operations,” it said.

US shale groups refuse to lie down and die

Financial Times, 16.05.2017



Since taking over as secretary-general of Opec last year, Mohammad Barkindo has been trying to build contacts with the biggest threat to the oil producers’ cartel: the small and mid-sized US shale companies that have been the most potent new force in the energy industry in the 21st century.

“They have a very rich story to tell: how they were able to engineer this revolution. I think they should be commended for doing what they did,” Mr Barkindo told a conference. “A lot of them have been reduced to tombstones, unfortunately.” The bad news for Opec, however, is that many of those fallen companies have refused to stay in their graves.

Failures of North American exploration and production companies soared after oil prices started falling about three years ago, with 114 seeking Chapter 11 bankruptcy protection in 2015 and 2016, according to Haynes and Boone, the law firm. But like monsters in a horror movie, these businesses have proved exceptionally hard to kill off.

Of the 10 largest US exploration and production companies to have gone into Chapter 11, eight have emerged and are still operating, having shed billions of dollars of debt. As Michael Watford, chief executive of Ultra Petroleum, which emerged from Chapter 11 in April, put it on a call with analysts this month: “In many ways, we are the same, but in other ways we are better.”

These corporate survivors have generally been forced to cut output, but many are now planning to grow. They have often kept their pre-bankruptcy management teams, retained with generous incentives.

The tenacity of shale companies is a testament to the leniency of US bankruptcy laws, and the exuberance of the capital markets. New bond finance for US E&P companies slowed for a while in 2016, but has subsequently rebounded, while equity capital raising was at a record high last year.

When Saudi Arabia, Opec’s de facto leader, decided to allow oil prices to fall in the autumn of 2014 by not curbing production, it was a deliberate attempt to squeeze higher-cost producers including US shale companies out of the market. Opec anticipated these producers would run up heavy losses, which in turn would cut off their access to capital.



But as it has turned out, US shale companies have been able to cut costs and increase productivity dramatically. Their losses, while substantial, were not large enough to scare investors away. The wave of bankruptcies has made the industry stronger, by wiping out onerous debt burdens, and by leading to assets being transferred to companies that have capital to invest. Oklahoma City-based SandRidge Energy, for example, filed for Chapter 11 last May, at the lowest point of the industry's activity. It emerged in October with \$3.7bn of debt eliminated, and relisted on the New York Stock Exchange.

Last week it reported net income of \$51m for the first quarter of 2017, compared with a loss of \$324m during the same period in 2016. Over the past year, it cut its production costs per barrel by about 27 per cent, and wiped out its debt interest payments, which had been \$81m in the first quarter of 2016.

Production has fallen, but James Bennett, SandRidge's chief executive, told analysts last week he expected oil output to start growing in the second half of 2017. It had just one rig running for most of the first quarter, added a second towards the end of the period, and expects to start up another around the middle of the year.

Another company enjoying a second life is Halcon Resources, which like SandRidge went into a "prepackaged" bankruptcy last July, emerging in September. Halcon similarly posted a rebound in profitability: it swung from a net loss of \$567m for the predecessor company in the first quarter of 2016 to a profit of \$189m for the successor group during the same period of this year.

Halcon, too, has been pursuing growth. It recently added a second rig running in the Williston basin of North Dakota, and announced in January that it was spending about \$840m to buy assets in the Permian region of Texas, currently the hottest part of the US for shale oil development.

The companies that emerge from bankruptcy are likely to be under greater pressure to grow rapidly, because of the change in the composition of their investors, according to Charles Beckham of Haynes and Boone. Many have held debt-for-equity swaps, which means that bond investors have become shareholders.

"The new owners are not going to be nearly as patient with managements as the old shareholders were," says Mr Beckham. "They are going to want performance to be turned around quickly." Not every company that comes out of Chapter 11 is determined to grow. Samson Resources, which went into bankruptcy in September 2015, sold off many of its assets before emerging as Samson Resources II in March, and said last week it was also looking to dispose of its drilling rights in east Texas and northern Louisiana. But these deals still strengthen the industry, because the oil and gas reserves end up with companies that have the financial muscle to develop them.

Opec has already been unsettled in recent weeks by the stubbornly high level of oil inventories. The revenant shale companies, evidence of the relentless vitality of the US industry, are a reason for the cartel and all other oil producers to be nervous.



Announcements & Reports

UK Storage encounters a Rough patch

Source : OIES

Weblink : <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/05/UK-Storage-encounters-a-Rough-patch.pdf>

European Gas Pricing Dynamics

Source : OIES

Weblink : <https://www.oxfordenergy.org/publications/european-gas-pricing-dynamics/>

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

Iraq Petroleum 2017

Date : 22 – 23 May 2017

Place : London, United Kingdom

Website : <http://www.cwciraqpetroleum.com/>

Turkmenistan Gas Congress

Date : 23 May 2017

Place : Turkmenbashi, Turkmenistan

Website : <http://www.oilgas-events.com/TGC>

ISTRADE

Date : 25 - 26 May 2017

Place : Istanbul, Turkey

Website : <http://petroturk.com/>



24th Caspian International Oil & Gas Exhibition

Date : 31 May – 03 June 2017
Place : Baku, Azerbaijan
Website : <http://www.caspianoilgas.az/en-main/>

Astana Expo 2017

Date : 01 June – 31 August 2017
Place : Astana, Kazakhstan
Website : <https://expo2017astana.com>

Future Oil & Gas

Date : 06 – 07 June 2017
Place : London, United Kingdom
Website : <http://www.futureoilgas.com/>

Offshore West Africa

Date : 06 – 08 June 2017
Place : Lagos, Nigeria
Website : <http://www.offshorewestafrica.com/index.html>

Big Gas Debate 2017

Date : 14 June 2017
Place : London, United Kingdom
Website : <http://www.theenergyexchange.co.uk/big-gas-debate/>

Supported by PETFORM

ETCSEE 2017

Date : 14 - 15 June 2017
Place : Prague, Czech Republic
Website : <http://www.energytradingcsee.com/>



International Conference on Oil & Gas Projects in Common Fields

Date : 02 July 2017
Place : Amsterdam, The Netherlands
Website : <http://www.waset.org/conference/2017/02/amsterdam/ICOGPCF>



Cuba Oil & Gas Summit 2017

Date : 02 July 2017
Place : Havana, Cuba
Website : <http://www.cubaoilgassummit.com/>

22nd World Petroleum Congress

Date : 09 - 13 July 2017
Place : Istanbul, Turkey
Website : <http://www.22wpc.com/22wpc.php>

European Gas Conference

Date : 20 - 21 September 2017
Place : Amsterdam - The Netherlands
Website : <https://www.icisconference.com/europeangas>

European Gas Summit

Date : 26 - 27 September 2017
Place : Rotterdam - The Netherlands
Website : <https://www.platts.com/events/emea/european-gas/index>

7th Iraq Oil & Gas Conference

Date : 28 – 30 November 2017
Place : Basrah, Iraq
Website : <http://www.basraoilgas.com/Conference/>