

## Turkey, Russia end gas dispute, ink deal on TurkStream

Anadolu Agency, 27.05.2018



Turkey and Russia agreed on a 10.25 percent discount on gas prices concerning gas imports from Russia to Turkey in 2015-2016 by ending the arbitration case as well as signing an protocol to jointly end the second line of TurkStream by the end of 2019, Turkey's Energy and Natural Resources Minister announced Saturday.

Berat Albayrak, Turkey's Energy and Natural Resources Minister, said that Russia will pay \$1 billion to Turkey before 24 June elections thanks to the agreement on 10.25 percent discount on gas prices.

Turkey's state company BOTAS had appealed to the International Chamber of Commerce (ICC) to resolve the gas price issue with Russia's Gazprom in October, 2015. Before the arbitration, both sides discussed a likely 10.25 percent discount on the prices and did not manage to sign a deal on it. Albayrak stated that the gas dispute was not the only issue on which Turkey and Russia agreed. "We came to an agreement that Turkey and Russia will complete the second line of TurkStream by the end of 2019," he noticed. The first line of the pipeline reached Turkish shore at the end of April after a 930 kilometers deep-water offshore pipe-laying from Russian shore Anapa to Turkish shore Kiyikoy by the world's largest pipe-laying vessel, Pioneering Spirit. TurkStream's first line will carry 15.75 billion cubic meters of natural gas to Turkey which is planned to be pumped in December, 2019. The total capacity of the project will be 31.5 billion cubic meters, thanks to the second line that will go to Europe.

There was an uncertainty on the advancing of the land-based line of the project that will carry Russian gas to south European territory. After Albayrak's announcement, Gazprom said in a statement that a joint venture company named TurkStream Gas Transport will be created to construct the second line of TurkStream natural gas pipeline project. The joint venture will be between BOTAS and Gazprom. "Thus, we will be completing a giant project by the end of 2019," Albayrak confirmed.



# Southern Gas Corridor officially inaugurated

Anadolu Agency, 29.05.2018



The Southern Gas Corridor, which will feed Turkey and Europe with Caspian gas resources from the Shah Deniz-2 field, was officially inaugurated in a ceremony held at the Sangachal Terminal in Baku on Tuesday.

As one of the biggest projects in the world with an investment volume of around \$40 billion, the 3,500 kilometer-long Southern Gas Corridor includes the development of the Shah Deniz-2 oil field, South Caucasus Pipeline, Trans Anatolian Natural Gas Pipeline (TANAP) and the Trans Adriatic Pipeline (TAP).

The Azerbaijan presidency held the inauguration ceremony at the Sangachal Terminal with the participation of Azerbaijan President Ilham Aliyev, OPEC Secretary General Mohammed Barkindo and representatives of many other European countries. Speaking at the ceremony, Aliyev said the project would contribute much to regional development. He noted the project was developed in cooperation with Turkey, Bulgaria, Georgia, Greece, Albania, and Italy, and added that Bosnia Herzegovina, Croatia and Montenegro will join the project later. "We currently have 2.6 trillion cubic meters of proven natural gas reserves but I think that it is much more than this. We want to sell more gas to Europe. It is the most significant market for us. The Southern Gas Corridor has changed Europe's energy map," Aliyev noted.

TANAP, the biggest chain of the Corridor with 1,850 kilometers and 16 billion cubic meters of natural gas capacity, will be the first gas recipient by June 30. Turkey's ambassador to Baku, Erkan Ozoral, read Turkey's President Recep Tayyip Erdogan's message at the ceremony in which he hailed the project as a very good example of both regional and mutual relations. Erdogan said Europe and the U.S. have also supported the project, which "will create diversification of supplies to Turkey and Europe". Turkey will hold an opening ceremony for TANAP on June 12 with the participation of Erdogan, Aliyev and leaders of European countries. TANAP's first gas will be delivered on June 30 and will carry 1 billion cubic meters of natural gas through to the end of this year. Turkey will receive a total natural gas capacity of 6 billion cubic meters via TANAP and 10 billion cubic meters of natural gas will be sent to Europe via TAP. TAP is expected to be ready to receive first gas by 2020.



# TANAP to supply Turkey's cheapest gas: SOCAR Turkey

Anadolu Agency, 31.05.2018



Gas supplies to Turkey via the Trans Anatolian Natural Gas Pipeline (TANAP) project will be the cheapest out of all of the country's gas imports.

“TANAP gas will be the cheapest gas among Turkey's gas imports. Even though Turkey's national company BOTAS cannot announce the prices as they are confidential business information, we can say that TANAP is the cheapest one of all,” Aliyev, affirmed. TANAP's agreement carries the condition that the Azeri gas would be cheaper than Russian gas - another major gas supplier to Turkey.

Turkey currently imports gas from Azerbaijan's Shah Deniz-1 field, Russia, Iran and through LNG cargoes. Aliyev confirmed to Turkish media during the opening ceremony of 25th Caspian Oil and Gas Conference in Azerbaijan's capital Baku, that the opening ceremony for TANAP would be held on June 12 in the central Anatolian province of Eskisehir, where the project's compressor station is located. He said that TANAP, with a capacity of 16 billion cubic meters per year, would deliver 2 billion cubic meters to Turkey in the first year and volumes would gradually rise to 6 billion cubic meters by 2020. The remaining 10 billion cubic meters is planned for delivery to Europe via the Trans Adriatic Pipeline (TAP), which is expected to be ready to receive gas in 2020. Aliyev said that TANAP takes the lion's share of costs out of the \$40-billion Southern Gas Corridor project. He further confirmed that TANAP's cost significantly decreased thanks to falling oil prices and good management. He noted that the projected investment cost was \$11.7 billion while the realization of the investment stood at \$8 billion. BOTAS is an investing shareholder in TANAP as well as gas recipient from gas producers in the Shah Deniz-2 field. Turkish Petroleum also has a 19 percent share in both Shah Deniz-1 and Shah Deniz-2 oil production fields, Aliyev said.

“TANAP's current 16 billion cubic meters of gas delivery capacity can be increased to 31 billion cubic meters. We are currently working on our other offshore gas production fields but this does not mean that the project will deliver only Azeri gas. We can include gas from other sources like Iran or Iraq. This is a strategic project,” Aliyev noted. The 1,850-kilometer-long TANAP is the largest section of the 3,500-kilometer-long Southern Gas Corridor, which was officially inaugurated on May 29 during a ceremony held in Baku with the participation of Azerbaijan President Ilham Aliyev. SOCAR Turkey's investments of \$14.5 billion will be realized within 2018. He said these include \$8 billion for the TANAP and the company's STAR Oil Refinery, the second biggest investment, is due for an October launch in the Aegean region of Izmir. The \$6.3 billion investment in the STAR Refinery is expected to narrow Turkey's current account deficit by \$1.5 billion by alleviating raw material imports, including diesel.

# Iran sanctions and the oil market: three ‘what if’ scenarios

Rigzone, 25.05.2018



Earlier this month, President Trump ended the United States’ participation in the Joint Comprehensive Plan of Action (JCPOA) – better known as the “Iran nuclear deal” – that had lifted various sanctions on Iran.

Subsequently, the U.S. Department of the Treasury and other federal agencies have begun the process of re-imposing sanctions in an effort to put financial pressure on Iran’s rulers. The JCPOA, and the easing of curbs on outside investment in Iran’s oil and gas and petrochemicals sectors, had generated significant interest from multinationals.

However, the Trump administration’s decision has put plans by Total and others on hold. It has also generated criticism from other players on the world stage. Other parties in the JCPOA, particularly the European Union and the United Nations, have not announced plans to join the United States in re-imposing sanctions on Iran – but what if either or both pursue that course of action? To gain some perspective on possible oil market repercussions if the U.S. unilaterally re-imposes sanctions or is joined by the EU and/or the UN, Rigzone recently turned to Elif Kutsal, solution manager with McKinsey Energy Insights. Read on for her take on the three “what if” scenarios.

**Scenario 1:** Only the U.S. reinstates the sanctions. Market fundamentals are not expected to change structurally given that Iran doesn’t export crude oil or refined products to the U.S. and exports go mainly to Europe (20 percent) and Asia Pacific (80 percent). Therefore, if the sanctions are only limited to the United States, then this could cause short-term volatility in prices until a new/revised agreement framework is put in place. Despite recent exit signals by European players, potential capital availability from Asian national oil companies (NOC) and, as of now, the European Investment Bank is likely to offset any adverse effect on Iranian production growth.

**Scenario 2:** Europe joins the U.S. in re-instating the sanctions. Up to 400,000 barrels per day (bpd) of Iranian exports and production would be directly at risk. Limited Iranian access to capital and technology could further curb future production growth. Such a scenario could have a longer-term effect on prices, however other OPEC members have the spare capacity to compensate for the lost volumes and limit price fly-ups. Asian refineries are likely to keep buying Iranian crude, and capital availability from Asian NOCs should eventually replace some of the limitations in cash inflows.

Scenario 3: The UN reinstates sanctions (possible if Iran fully restarts its nuclear program). Under this scenario we could see Iranian exports and production decreasing by 1.2 to 1.3 million bpd. This is likely to disrupt global supply dynamics structurally and result in higher prices. Additionally, there could be serious consequences for the future production outlook in Iran with an outlook similar to pre-2016 levels, assuming access to technology and funding would be again restricted. “As of now, there is global pushback against the U.S. reinstating the Iranian sanctions, making the current situation markedly different from when the last round of sanctions was imposed,” concluded Kutsal. “It is important to keep this fact in mind when contemplating the effect of the sanctions on the global oil market.”

## Iran plans to develop 28 oil reserves in south

Anadolu Agency, 29.05.2018



The National Iranian South Oil Company (NISOC) received permits to hold tenders for 11 investment packages aimed at developing 28 oil reserves in the country’s south, Shana reported Monday.

NISOC CEO Bijan Alipour said on Monday his company, which contributed to over 80 percent of Iran’s crude oil output, had defined 29 investment packages to develop the reserves, the Oil Ministry’s news website said. Alipour said the projects would add 340,000 barrels per day to the company’s oil production capacity within a two-year period.

The chairman further said that an investment of roughly \$4.6 billion would be needed to materialize the projects, which “would guarantee generation of many jobs in the southwestern province of Khuzestan”. He added that 124 land projects, drilling operations for 282 new wells, 143 workovers, and 165 well stimulation operations would be carried out in order to develop the reserves. Moreover, 80 drilling rigs, including 60 development and 20 workover rigs, would be employed for the projects, he said.

# OPEC's Barkindo warns of underinvestment in global oil industry

Platts, 30.05.2018



The global oil industry should ramp up investment to ensure it can cope with future consumption growth and avoid supply shortages.

The Organization of the Petroleum Exporting Countries (OPEC) and other producers led by Russia last year began withholding 1.8 million barrels per day (bpd) of supplies to tighten the market and prop up prices that in 2016 fell to their lowest in more than a decade at less than \$30 a barrel. Both Russia and the OPEC leader Saudi Arabia have spoken about the need for a gradual increase in oil production.

As the goal of removing excessive oil stockpiles has now been achieved and the market has broadly been balanced. "The next critical phase before of us in the whole process is to sustain this accomplishment of market rebalancing and gradual recovery in investments and the return of confidence in our industry," Barkindo said. "One of the greatest and most prescient challenges before us is ensuring that there will be adequate levels of investment in a predictable fashion." Barkindo said the pace of investment has picked up this year but there were not enough robust investments in long-cycle projects that are "the base load of future supply and the foundation of this industry's future". He added that the required oil sector investment in the period to 2040 is estimated at about \$10.5 trillion to meet future oil demand expected to surpass 111 million bpd. "Every effort should be made to avoid a potential supply gap," he added.



## Lebanon begins offshore oil and gas exploration

Reuters, 29.05.2018



Lebanon's search for its first oil and gas reserves began on Tuesday after authorities approved an exploration plan submitted by a consortium of France's Total, Italy's Eni and Russia's Novatek.

Cesar Abi Khalil said in a televised statement that exploration started after authorities gave the go ahead. Lebanon hoped to launch a second offshore licensing round by the end of 2018 or early 2019. In February Lebanon signed its first offshore oil and gas exploration and production agreements with the Total-Eni-Novatek consortium for offshore Blocks 4 and 9.

Part of Block 9 contains waters disputed with neighbouring Israel but the consortium has said it has no plans to drill in the disputed area. Khalil said exploration of the two blocks would last up to three years and the first well is expected to be drilled in 2019, providing all government departments grant necessary licenses and permissions "on time and without delay".

Khalil has served as energy minister since December 2016 but is currently a caretaker minister because Prime Minister-designate Saad al-Hariri has not yet formed a government after parliamentary elections on May 6. Until drilling begins Lebanon will not know what reserves lie in its waters. Khalil said exploratory wells will be dug in the areas with the highest probability of commercially viable discoveries based on seismic studies.

## Serbia wants Russian gas via TurkStream

Anadolu Agency, 28.05.2018



Serbia wants to receive Russian gas through the TurkStream natural gas pipeline, Serbian Energy Minister Aleksandar Antic said on Monday.

According to Russian news agency Sputnik, Antic affirmed that with Serbia's anticipated economic growth, it aims to increase gas imports from Russia. He said Serbia has set its hopes on obtaining supplies via the TurkStream and on becoming a transit country for the pipeline. "The gas market is growing in Serbia and cooperation between Russian and Serbian energy companies are at a high level," Antic said.

On May 24, Alexey Miller, chairman of the Gazprom met with Antic and discussed trends in the development of the energy sector in southeastern Europe, paying particular attention to growing demand for Russian gas. According to preliminary data, between Jan. 1 and May 23, 2018, Gazprom delivered about 1 billion cubic meters of gas to Serbia, an increase of 5.8 percent against the same period of 2017. Serbia on average imports around 2 billion cubic meters of natural gas from Russia on an annual basis. The TurkStream natural gas project consists of two lines with a total of 31.5 billion cubic meters of capacity. The first line's offshore construction will serve Turkey while the second line is expected to send gas to Europe. Gazprom continues negotiations with Bulgaria, Italy and Greece for the second line of the project. Russian President Vladimir Putin announced the TurkStream in 2014, after dropping the South Stream project. Russia sought alternative routes for gas deliveries to bypass Ukraine and out of this, the TurkStream evolved, opening up a new transit route for Russian gas and helping Turkey's increasing gas demand.

## Russia just won big in the European gas war

Oil & Price, 28.05.2018



**There's been a lot of talk on both sides of the Atlantic about the U.S. pivot and efforts at locking in natural gas market share in Europe. Much of this comes amid President Donald Trump's so-called American energy independence push as well as both U.S. and several EU members thrust to wean Europe off of geopolitically charged Russian gas.**

**In fact, Trump has pushed for U.S.-sourced LNG to become so much of the EU's energy security that several European states, particularly Germany, have accused the president of playing energy geopolitics.**

It is cloaking American concern for European energy security under the guise and to the benefit of U.S. LNG producers. Now, however, Trump and U.S. LNG exporters will have an even harder time convincing key EU members to offset overreliance on Russian piped gas with U.S. LNG. Last week, Gazprom, the world's largest gas producer, and the European Commission resolved a seven-year anti-trust dispute after the Russian state-controlled energy giant agreed to change its operations in central and Eastern Europe. Per terms of the deal that was reached on Thursday, Gazprom will be banned from imposing restrictions on how its customers in central and Eastern Europe use gas. Meanwhile, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia will no longer be banned from exporting gas to another country. These countries originally sought to remedy over pricing problems for Russian gas. Going forward, customers in Bulgaria, Estonia, Latvia, Lithuania and Poland have the right to demand a price in line with those in Germany and the Netherlands. The deal has teeth since these customers can take their complaints to an EU arbitration body if Gazprom fails to live up to terms of the new settlement.





It's a win situation for Gazprom since its agreement avoids billions of dollars in penalties that could have been levied by the European Commission; while it also helps the firm solidify its hold on European gas markets. It's also a victory for Russia overall which has seen several LNG players, notably Qatar and the U.S., vie for market share at the expense of Russian gas producers. Even before the Gazprom deal, it would have been hard for U.S. producers to take significant market share in Europe away from Russia, mostly due to pure energy economics. Commodities data provider S&P Platts Global said on May 11 that U.S. LNG was still a rare visitor to European shores despite low LNG stocks -- especially in northwest Europe -- and high European hub prices. Just three U.S. LNG cargoes have landed in Europe since the turn of the year. Simply put, Russian pipeline gas is already a cheaper commodity for EU end users than imported U.S.-sourced LNG since liquefaction and transportation charges have to be added. However, U.S. LNG since is indexed to Henry Hub gas prices on the NYMEX it's considerably lower than other LNG producers that want to enter Europe since most other LNG cargoes have a higher cost oil-price indexation formula. The European Commission finding also comes as Washington turns up the heat on the EU to scrap Russia's Nord Stream 2 gas pipeline project that could be operational as early as the end of next year.

The Nord Stream 2 pipeline has been a source of contention for over a year, pitting the U.S. and a small number of European countries, including Poland, the Ukraine, Lithuania and others, on one side against Russia and other major EU members, led by Germany. Nord Stream 2 includes a 759 mile (1,222 km) natural gas pipeline running on the bed of the Baltic Sea from Russian gas fields to Germany. It would double the existing Nord Stream pipeline's current annual capacity of 55 bcm and is expected to become operational by the end of next year. Former-U.S. Secretary of State Rex Tillerson said in January that the pipeline is "not a healthy piece of infrastructure" for Europe's energy stability. Germany, for its part, has pushed back against this claim as has Russia who stands the most to lose if the pipeline project is not completed. Sandra Oudkirk, U.S. Deputy Assistant Secretary of State for Energy diplomacy, said two weeks ago the U.S. is worried the pipeline could open ways for Russia to install undersea surveillance equipment in the Baltic Sea.

After the European Commission's announcement over its Gazprom decision was reached in Copenhagen on Thursday, a U.S. envoy pleaded for Europe to consider carefully who it's relying on for gas, urging Europe both to take more LNG and to scrap the Nord Stream 2 pipeline that would give Russia a pipeline route to Germany that avoids countries like Ukraine that rely on transport revenue. "What price freedom?" Dan Brouillette, deputy U.S. energy secretary, told reporters in Copenhagen. "That's an important concept. We're talking energy security and not so much economics here." But for now, it seems that Europe, though it has been caught in the crosshairs of Russia's geopolitical maneuverings in the past when Moscow cut off gas supplies to Europe to push its own agenda, sees economic considerations and a stubborn short-sited energy policy over regional energy security concerns.

Gazprom's victory comes as Russia already sees its grip on European gas markets increase to record levels. The company already has a monopoly over Russia's network of pipelines to Europe and supplies close to 40 percent of Europe's gas. Meanwhile, Russia's gas exports to Europe rose 8.1 percent last year to a record level of 193.9 billion cubic metres (bcm), even amid concerns over Russia's cyber espionage allegations, and its activities in Syria, the Ukraine and other places. With Russia's vast natural gas pipeline network in place bringing gas from its massive fields to EU markets and with the advantage of pricing and even the geopolitical advantage since most EU members see U.S.-sourced gas as a tool of the Trump administration, Russian gas and the lack of energy security that accompanies that supply will remain a reality in both the mid to long-term.

## Rosneft studies gas line, integrated project in Kurdish Regional Government

Kallanish Energy, 29.05.2018



Russian state oil major Rosneft is expanding its footprint in the Middle East with plans to build a natural gas pipeline and an integrated gas project in Kurdish Regional Government, north of Iraq, Kallanish Energy learns.

The company last week signed an agreement with the semi-autonomous Kurdish Regional Government (KRG) to make a detailed analysis of potential gas cooperation options so Rosneft's investments can benefit from maximum efficiency. The parties started a partnership in the oil sector in Feb.2017.

It was followed by a contract for the purchase and sale of oil to Rosneft from 2017 to 2019. Then, in October they signed a production sharing agreement (PSA) for five production blocks in KRG, followed by a project to build an oil pipeline. Now, Rosneft will conduct a pre-front end engineering design (FEED) for the construction and operation of a gas pipeline. It's evaluating how it could participate in other areas such as E&P, transportation, trading and financing options – including third parties. "This is a key project to the monetization of the exploration and production opportunities Rosneft has been evaluating since signing a gas cooperation agreement with the Kurdish Regional Government of Iraq at the 10th Eurasian Economic Forum in Verona on Oct. 19, 2017," the firm said. KRG is expected to add some 3,500-5,000 barrels per day (BPD) to Rosneft's oil output by June. The firm expects the volume to ramp up to as much as 10,000 BPD by year-end.

## Norway's oil exploration rises more than expected

Reuters, 29.05.2018



Oil companies in Norway are raising their exploration spending more than expected, the head of the country's industry regulator told Reuters on Tuesday.

Firms such as Equinor and other operators are now expected to drill around 45 exploration and appraisal wells in 2018, up from an earlier forecast of around 35 for the year, Norwegian Petroleum Directorate (NPD) chief Bente Nyland said. In 2017, companies completed 34 wells off the coast of Norway, western Europe's top producer of oil and natural gas. As a result of the increased activity.

The NPD may have to revise upwards its forecasts for the oil industry's overall investments in Norway, Nyland said on the sidelines of a conference. Investments are likely to rise further in 2019 and 2020 as cost inflation returns to the industry, she added. Separately, Norwegian oil minister Terje Soeviknes said he expects to name the winners of new exploration acreage in Norway's 24th offshore licensing round in June.

## 30 new LNG contracts signed in 2017

Anadolu Agency, 28.05.2018



In the global LNG market, a total of 30 new contracts were concluded in 2017, according to the annual report of the International Group of LNG Importers (GIIGNL).

23 long and medium-term sales contracts, with durations of over five years were concluded in 2017. In addition, seven short-term contracts were signed with up to a four-year duration. The longest contracts were signed between Australia's Energy and Indonesia's Pertamina for 20 years. The start date for exports is 2019 when Woodside will send around 0.6 million tonnes of LNG per annum to Pertamina.

In addition, Italy's Edison and the U.S. company Venture Global have entered into an agreement in which Edison will purchase one million metric tons of LNG per annum from the Calcasieu Pass LNG export facility, which Venture Global in Cameron Parish, Louisiana, in the U.S. is currently developing. The remaining long-term contracts relate to importers; Japan, Taiwan and Pakistan and exporters; Qatar, Malaysia, Russia and the U.S.

One of the short-term contracts signed between Qatar and Turkey for 1.5 million tonnes of delivery per annum started from 2017 for three years. Japanese JERA and Taiwan's CPC signed a contract starting from 2018 to 2023 for a capacity of 0.3 million tonnes per year. Spain's Gas Natural Fenosa and Puerto Rico's PREPA signed a 1.47 million tonnes LNG agreement for three years from 2017 to 2020. In addition, four contracts were concluded for LNG cargoes. India's GAIL will receive 15 cargoes from Switzerland's Gunvor. Indian state-owned gas company GAIL signed a deal in 2017 with Gunvor that is valid for 2018 only to swap U.S. LNG cargoes for shipments from other sources. Also, the U.K.-based utility Centrica will supply between three and four cargoes of LNG per annum to Jamaica until 2020. "Centrica will deliver as many as three cargoes to Jamaica in the first year, and up to four cargoes in the second year," the report noted.

Furthermore, two more contracts concluded for multiple importer countries into global markets. The suppliers will be Woodside and Swiss Gunvor. Qatargas and Poland's PGNIG increased LNG volumes from to Poland from 1.1 million tonnes to 2 million tonnes per year from 2018 to 2034. According to calculations, more than 200 medium and short-term LNG contracts were in force by the end of 2017.

## Polish PM slams Nord Stream 2 gas pipeline

Anadolu Agency, 28.05.2018



Poland's Prime Minister Mateusz Morawiecki on Monday strongly criticized the planned natural gas pipeline linking Russia and Germany, saying it threatened European security.

Morawiecki's comments came as he addressed the spring session of the NATO Parliamentary Assembly in capital Warsaw. The prime minister called the Nord Stream 2 a "new hybrid weapon" aimed at the European Union, EU countries and NATO. "The Nord Stream 2 pipeline poses a threat to Europe's energy security and solidarity," Morawiecki said, adding this "poisoned pill of European security" could have far-reaching geopolitical consequences.

The planned project would help Russia increase its influence in Western Europe since it would allow the country to nearly double its direct gas supply to Germany bypassing countries such as Poland and Ukraine. The head of the government said the Nord Stream 1, the predecessor to the Nord Stream 2, allowed “Russia to modernize its army, which in turn enabled the annexation of Crimea”. “Therefore, one should consider what the second branch of the gas pipeline can lead to in the future,” he said. The \$11 billion project plans to carry 55 billion cubic meters of gas annually 1,230 kilometers under the Baltic Sea from Russia to northern Germany after it becomes operational in early 2020. Denmark and Ukraine also oppose the project, arguing that it would increase the EU’s dependency on Russian gas while maintaining that Europe should instead focus on diversifying its energy resources.

## Total to start offshore oil development in Angola

Energy Post, 18.05.2018



Zinia 2 is the first of several possible short-cycle developments on Block 17, company says. French energy giant, Total and its partners have taken a final investment decision to launch the Zinia 2 deep offshore development 150 kilometers offshore Angola, according to Total on Monday.

The Zinia 2 project will have a production capacity of 40,000 barrels per day (b/d). Zinia 2 is the first of several possible short-cycle developments on Block 17 that will unlock its full potential by connecting satellite reservoirs to the existing floating storage, production and offloading (FPSO) units.

Arnaud Breuillac, president of Total Exploration and Production said the project would allow the profitability of the block to be extended, with over 2.6 billion barrels already produced. “The project is also a good example of capex discipline and cost optimization: the work carried out to simplify the design while capturing deflation allowed the partners to cut the development costs by more than a half,” Breuillac said. Zinia 2 comprises nine wells in water depths ranging from 600 to 1,200 meters, tied back to the Pazflor FPSO with a budget of US\$1.2 billion. Total operates Block 17 with a 40 percent interest, alongside affiliates of Equinor, Exxon Mobil and BP, which hold a 23.33 percent, 20 percent, and 16.67 percent interest, respectively. The French company also announced that it has signed several agreements covering the group’s upstream and downstream activities in Angola, during an official visit to France by Joao Lourenco, the president of the Republic of Angola, Patrick Pouyanne, chairman and CEO of Total, and Carlos Saturnino, chairman of the Board of Directors of Sonangol, Angola’s national oil company.

# Turkmenistan's natural gas dilemma

Oil & Price, 30.05.2018



Amid much fanfare, Turkmenistan has intensified its spin campaign on TAPI, the long-delayed pipe dream of President Gurbanguly Berdymuhamedov which is supposed to supply Afghanistan, Pakistan and India with Turkmen natural gas.

Turkmenistan claims it is on the brink of securing the \$8 billion it needs for the construction financing, stating it is a mere matter of several months until they attain that point and that negotiations have been proceeding with numerous counterparties. Yet the upbeat atmosphere of Turkmen authorities and the project company is in a heavy contrast.

This May works have started in the Afghan province of Kandahar on de-mining the supposed TAPI route to allow for its construction. Yet on May 21, Taliban fighters have killed six sappers who have just begun their difficult task. Even though Turkmen authorities continue to treat the incident as if it was not something powerful enough to derail the development of the project, however, the event itself raises many questions whether the security issue has been dealt with properly. After Saudi Arabia got involved in Turkmenistan's energy sector, it was widely expected that Riyadh might use its geopolitical (and religious) clout to rein in Taliban antics, especially given that Turkmenistan is nowhere near an ideological foe for the Talibs.

Still, TAPI's route within Afghanistan is a nightmarish one – it passes through the provinces of Herat, Farah, Helmand and Kandahar. Kandahar already has a difficult reputation, having been the de facto capital of Taliban before the 2001 US invasion. Helmand is the current "hot" battleground after Afghan and US forces have started operation Maiwand 12 geared to weed out Taliban. Taliban has regrouped itself and struck back in the neighboring Farah and Herat provinces where it has embarked upon a large-scale murdering spree of Afghan security and government officials. It has been reported that weekly death tolls in these provinces of Afghanistan reach as high as 250 people. And confronted with such a challenge...cash-strapped Turkmenistan. The root cause of Turkmenistan's gas bottlenecks is its shrinking possibility to export its plentiful gas. Officials in Ashgabat can proudly boast of Galkynysh being the second largest gas field in the world, however, as things stand currently, China is the only viable export route for all the gas produced. Turkmenistan has traditionally been reliant on one export conduit – in the Soviet years up to the late 2000s it was Russia; this decade has witnessed a pivot towards China. Theoretically, Ashgabat could export gas to both Russia and China simultaneously, yet it could not play its cards right.



It is difficult to tell who is more culpable in the Turkmen-Russian breakup, perhaps it would be politic to say that both sides contributed to it. Up to 2009, Ukraine was typically supplied by natural gas coming from Turkmenistan (i.e. gas that Gazprom bought from the Turkmen state company for a fixed price and resold it to Ukraine with a slight margin), yet as Ukraine's gas supply contract was moved from fixed pricing to an oil-pegged one, the Turkmen burden became increasingly heavier for Gazprom. Turkmenistan was reluctant to move into the (uncharted) volatile territory of market-pricing and insisted on keeping \$240 per MCm as a sine qua non condition. With more flexibly priced Kazakh and Uzbek gas available on the market, Gazprom ceased all purchases of Turkmen gas in early 2016. Despite more or less regular political contacts between Moscow and Ashgabat, the issue has remained at square one ever since. Woefully for Turkmenistan, any export revenue would come in handy to the empty state coffers. For a second year in a row, the country is experiencing flour, bread and egg shortages, severely aggravated by water and fuel paucity. Yet as usual with autarkies, Ashgabat instead of fundamentally solving problem is cracking down on any form of dissent – lately security officials have been seeking out people who use state newspapers, to which they are obliged to subscribe, as toilet paper (every issue's cover has the President on it). If this were not enough, Turkmen officials are on the brink of being implicated in a regional Saudi-Iranian standoff, largely due to lackluster foreign policy decisions than to their volition.

Iran recently proposed a gas swap scheme, the viability of which is severalfold greater than that of TAPI. If Turkmenistan were to pump gas to Iran which in its turn would send an equivalent volume to neighboring Pakistan, it could avoid the pitfall of dealing with Afghanistan. Yet the proposal is highly unlikely to see any development. Undoubtedly, the scheme has many flaws - the inexpediency of dealing with sanctions-stricken Iran and risking the ire of Donald Trump, and most importantly, it would stir the wrath of Saudi Arabia which has been courting Central Asian nations to fend off any potential Iranian influence. Angering Teheran might backfire, too, as it could lend a helping hand to Taliban, perpetuating the quagmire in Afghanistan. Confronted with options that range from simply bad to outright horrible, Turkmenistan will have a hard time navigating its energy policy course. Potentially it could turn to Russia (which could be a face-saving variant), yet Moscow no longer needs Turkmen gas and is intent to market increasing quantities of its own. With China signalling a lack of interest to bring in additional Turkmen gas, it is a lethal balancing act for President Berdymuhamedov.

# Why U.S. oil exports are only heading higher

Oil &Price, 28.05.2018



Oil prices are falling, but American crude is suffering even worse than its international counterpart. The price differential between WTI and Brent continues to widen, briefly hitting \$9 per barrel, the largest discount in about three years.

Discounts of this magnitude are pretty rare, particularly after the U.S. began exporting crude oil several years ago. There is a self-limiting aspect to these price differentials. If WTI falls significantly lower than Brent, then American crude oil becomes highly attractive to foreign buyers. Refiners around the world move to purchase as many cargoes as possible, removing the surplus from the U.S.

The result is that there is pressure on the two benchmarks to converge once again. We saw this play out last year after the devastation from Hurricane Harvey, which decimated refining capacity in the U.S. and led to a buildup in crude oil supplies. The discount, which jumped from just a few dollars per barrel, widened to as high as \$8 per barrel, although only briefly. U.S. exports surged because of the marked down price, and by early 2018, the discount narrowed. However, the discount has spiked once again, although the situation could be a bit different than before. This time around, the discount isn't merely a manifestation of surging shale production at a time when OPEC is keeping the rest of the market tight, although that is certainly a major factor. But adding to those forces is a pipeline bottleneck in the Permian, which is leading to a higher volume of supply trapped in West Texas.

The Permian Basin alone has already added about 300,000 bpd in fresh supply so far this year, but the drilling frenzy is running hard up against a midstream wall. Total production could hit as high as 3.277 million barrels per day (mb/d) in June, according to the EIA, adding 78,000 bpd month-on-month. However, the problem is that the region only has about 3.175 mb/d of pipeline, rail and local refining capacity combined, according to Genscape. That means that the Permian pipeline system is essentially maxed out. There is now a rush of demand for trucking oil from West Texas to the Gulf Coast, a bizarre side effect of the bottlenecks that have cropped up. Moving oil by truck is costly, so Permian drillers that have not already secured pipeline capacity are being forced to discount their product in order to secure sales. It isn't just Permian bottlenecks. Falling production in Venezuela and the prospect of outages in Iran have tightened the market elsewhere, keeping Brent higher than WTI. "It's a function of U.S. oversupply and OPEC policy," J. Alexander Blackman, an executive at Standard Delta, told the WSJ last week.



Of course, a \$9-per-barrel discount relative to Brent suggests that everyone is going to want to buy U.S. crude oil on the cheap, which means that exports could spike in the coming weeks. U.S. oil exports already hit a new record at 2.566 mb/d for the week ending on May 11, before dipping a bit in the most recent week. But, the trend is clearly up – last year, exports bounced around between 0.5 and 1.5 mb/d, hovering close to the upper end of that range in the second half of the year. For most of 2018, U.S. weekly oil exports have been hovering around the 2 mb/d range. Exports could average around 2.3 mb/d in June, one prominent oil executive told Reuters. The wider the discount between WTI and Brent, the more U.S. oil will find its way to Asia, despite the long distances. And at \$9 per barrel – the largest in three years – there will be tremendous pressure working to push more barrels out from U.S. ports to buyers around the world. That is, as long as U.S. shale drillers are able to find a way to get their oil from West Texas to the coast.

## US LNG price up to 40% higher than Russian gas

Reuters, 27.05.2018



The price of liquefied natural gas (LNG) from the U.S. is at least 30-40 percent higher than Russian pipeline gas, Russia's Energy Minister Alexander Novak said on Saturday.

According to Russian news agency Tass, Novak said that the U.S. wants Europe to buy its LNG but the price of which is at least 30-40 percent higher than Russia's piped gas. Russia's President Vladimir Putin said on Friday that Russian pipeline systems linked to consumers in Europe don't have competitors. "All our pipeline systems connected to main consumers in Europe"

"It is do not actually have competitors if Europe certainly wants to remain competitive and does not want to buy at an exorbitant price from some other producers," Putin said. Russia remained the EU's top supplier, covering 43 percent of total supplies, followed by Norway with 34 percent and LNG imports with 12 percent in 2017. The U.S. LNG mainly goes to Asian market through spot contracts. However, in the coming years with more projects coming online, the U.S. is expected to become one of the main gas suppliers for Europe.

## US oil production rises 19 times in 20 weeks

Anadolu Agency, 01.06.2018



The U.S.' crude oil production increased for the 19th time in the last 20 weeks, according to the country's Energy Information Administration (EIA) data released on Thursday.

Crude oil output rose by 44,000 barrels per day (bpd) to reach a new record high level of 10.77 million bpd for the week ending May 25, the data showed. Production of crude oil rose by 24,000 bpd from the previous week in the state of Alaska, and 20,000 bpd from other states during the same period, the data showed. The U.S.' crude oil production is expected to average 10.7 million bpd this year, and 11.9 million bpd next year.

Meanwhile, commercial crude oil inventories decreased by 3.6 million barrels, or 0.8 percent, to 434.5 million barrels for the week ending May 25, the EIA data showed. The market expectation was a decline of 0.4 million barrels for commercial crude oil inventories. In the previous week, commercial crude stocks rose by 5.8 million barrels. Strategic petroleum reserves, which are not included in commercial crude oil stocks, fell by 0.6 million barrels, or 0.1 percent, to 660.8 million barrels during that period. Gasoline inventories, on the other hand, increased by 0.5 million barrels, or 0.2 percent, to 234.4 million barrels. Gasoline stocks rose by 1.9 million barrels during the previous week.

## Brent oil falls to \$75 level at week beginning May 28

Anadolu Agency, 28.05.2018



International Benchmark Brent crude traded at \$75.27 per barrel at 09.23 GMT+2 on Monday while American benchmark West Texas Intermediate (WTI) saw prices of \$66.31 per barrel.

On Friday, Brent crude traded at \$76.75 per barrel at 15.35 GMT+2 while WTI saw prices of \$68.77 per barrel. Last week, U.S. crude oil and gasoline inventories showed a surprise weekly rise against the market expectation of a decrease, triggering a decline in crude prices. On Thursday, Brent fell 1.1 percent, while WTI lost 1.6 percent.



In addition, the number of oil rigs in the U.S. increased by 15 this week, according to oilfield Services Company Baker Hughes data released on Friday. The oil rig count in the country rose to 859 for the week ending May 25, from 844 in the previous week, the data showed. This marked the 15th weekly increase in the number of oil rigs in the past 18 weeks. After the rise in the number of oil rigs, crude oil prices extended losses. In the meantime, the Organization of the Petroleum Exporting Countries (OPEC) and participating non-OPEC producing countries achieved the highest conformity level of 152 percent in April, OPEC announced late on Friday. "This demonstrates the commitment of participating countries to the restoration of market stability, which is intended to serve the long term interests of producers, consumers and the global economy," OPEC said.

On Friday, Russian Energy Minister Alexander Novak and his Saudi counterpart Khalid Al-Falih met in St. Petersburg and hinted that both countries could ease the production cut agreement that began to be implemented in January 2017. Experts believe that the two countries could gradually increase their crude production levels in order to compensate for falling oil output in the global market stemming from Venezuela and possibly Iran if U.S. sanctions are re-implemented.

## Announcements & Reports

*The rise of renewables and energy transition: what adaptation strategy for oil companies and oil-exporting countries?*

**Source** : OIES

**Weblink** : <https://www.oxfordenergy.org/publications/rise-renewables-energy-transition-adaptation-strategy-oil-companies-oil-exporting-countries/>

*Monthly Crude Oil and Natural Gas Production*

**Source** : EIA

**Weblink** : <https://www.eia.gov/petroleum/production/>

## Upcoming Events

*4<sup>th</sup> International LNG Congress*

**Date** : 04 – 05 June 2018

**Place** : Berlin, Germany

**Website** : <http://lngcongress.com/>

*Bucharest International Energy Charter Forum*

**Date** : 06 – 07 June

**Place** : Bucharest

**Website** : Bucharest International Energy Charter Forum

*Supported by PETFORM*

*Energy Trading for Central and South Eastern Europe 2018*

**Date** : 13 – 14 June 2018

**Place** : Budapest, Hungary

**Website** : <http://www.energytradingcsee.com/>

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## *14th Russian Petroleum & Gas Congress (RPGC2018)*

**Date** : 18 – 19 June 2018  
**Place** : Moscow, Russia  
**Website** : <https://www.clocate.com/conference/14th-Russian-Petroleum-and-Gas-Congress-RPGC-2018/27847/>

## *27<sup>th</sup> World Gas Conference*

**Date** : 25 - 29 June 2018  
**Place** : Washington DC  
**Website** : <https://wgc2018.com/?src=Upstream>

## *Eastern Unconventional Oil & Gas Symposium 2018*

**Date** : 05 July 2018  
**Place** : Washington DC  
**Website** : <http://www.euogs.org/>

## *Offshore Oil & Gas and Chemical Industry Technology and Equipment Exhibition*

**Date** : 23 - 25 August 2018  
**Place** : Shanghai  
**Website** : [http://sh.cippe.com.cn/en/For\\_Visitors/Venue\\_Time/](http://sh.cippe.com.cn/en/For_Visitors/Venue_Time/)

## *Gastech*

**Date** : 17 – 20 September 2018  
**Place** : Barcelona, Spain  
**Website** : <http://www.gastechevent.com/>

## *The European Autumn Gas Conference*

**Date** : 07 – 09 November 2018  
**Place** : Berlin, Germany  
**Website** : <http://www.theeagc.com/>