Oil & Gas Bulletin

▸ *17.01.2014*

Turkey won’t interfere in internal Iraqi oil row

Hürriyet Daily News, *14.01.2014*

Turkey has encouraged Baghdad and Arbil to reach a solution on the mechanisms for pumping KRG oil to world markets via Turkey, the latter’s energy ministry has said, taking heed of Iraq’s warning over the exports.

“We will not be engaged in a business violating the [Iraqi] Constitution. We would not (act in violation) of Iraq’s integrity and sovereignty,” Energy Minister Taner Yildiz said on Jan. 14. “This is an internal problem of our Iraqi brothers and Turkey is the safest way if the oil to be extracted from the south or north of Iraq is offered to the world market,” he said. “If oil is going to come, we will transport it.”

The Kurdish Regional Government (KRG) last week said crude had begun to flow through its independent pipeline to Turkey, and that exports were on track to begin at the end of this month, rising in February and March. In an interview with Reuters on Jan. 12, Iraqi Prime Minister Nouri al-Maliki threatened to cut the Kurdish region’s 17 percent share of the federal budget if exports via the pipeline went ahead without central government consent. Yildiz also underlined that Turkey was currently importing more oil from Iraq than it was buying from Iran, saying he “hopes Turkey’s Iraqi brothers would not overlook that.”

“Could you say our relationships are bad? We have a remarkable trade volume.” He also said the KRG-Turkey oil alliance would benefit all Iraqi people. Al-Maliki dubbed the KRG-Turkey deal a constitutional violation which they “will never allow, not for the Kurdish region, nor the Turkish government.” Turkey must not interfere in an issue that harms Iraqi sovereignty,” he said. “The Iraqi government holds Turkey legally responsible on this subject and reserves the right to demand resultant losses,” Iraqi Deputy Prime Minister for Energy Hussain al-Shahristani said.

The minister also responded to reporters’ questions about some local media reports claiming the Baghdad government had begun changing some pipeline plans slated to pass through Turkey in retaliation for the Kurdish oil exports. Iraq’s State Oil Marketing Organization will alter the routes of five pipelines set to export Iraqi gas to global markets from Turkey to Israel and Syria, daily Aksam claimed in a report published Jan. 14. “Are you going to transport oil through today’s Syria? That pipeline would not operate even for a day,” Yildiz said. “They can steer [oil] through Israel or Syria but we promise a stable country,” he the minister said. “We are respectful of other projects, but we are interested in projects that we do.” In response to Baghdad’s warning, the KRG said Jan.

Iraq denounces Kurdish oil exports via pipeline to Turkey

Today's Zaman, *11.01.2014*

Iraq's Oil Ministry expressed "deep regret and astonishment" on Friday over plans announced by the autonomous Kurdish region to begin piping oil to Turkey without central government approval, and US Vice President Joe Biden called Iraqi Kurdish leader Barzani to discuss the matter.

The first crude has begun to flow and exports are expected to start at the end of this month before rising in February and March, the Kurdish Regional Government (KRG) said on Wednesday. The Oil Ministry expressed astonishment at the move, describing it as a "flagrant violation of the Iraqi constitution."

It also rebuked the Turkish government for allowing the Iraqi-Turkish pipeline system to be used to pump and store crude oil produced in the KRG without Baghdad's approval. On Thursday, Biden urged Barzani to work with the governments of Iraq and Turkey to resolve the conflict over the region's oil, The Associated Press reported. Citing the White House, the report said Biden called Barzani on Thursday and encouraged him to talk with Baghdad to develop a way forward. The Iraqi Oil Ministry said in a statement that the planned oil exports breached a Dec. 25 agreement between the Iraqi government and the KRG that called for experts from both sides to discuss how crude from the KRG could be exported under the auspices of Iraq's State Oil Marketing Organization (SOMO).

The KRG's bid to sell oil and gas independently has infuriated officials in the Iraqi capital as Baghdad has long insisted that the central government retains sole authority over managing Iraq's energy resources. Iraq's constitution mandates that all Iraqi oil revenues go through the central government in Baghdad, and the KRG then receives 17 percent, although it frequently complains that it has received less than that. The ministry on Friday threatened legal action against any companies that trade in "smuggled" oil or gas from Arbil without going through SOMO. Companies that have taken the risk of exploring for oil in Iraq's Kurdish region welcomed the KRG announcement of expected exports as a signal they might begin to generate export income from their investments, despite Baghdad's objections.

"We have been waiting to read these words and hear these words since 2007," said Todd Kozel, CEO of Gulf Keystone, which has Kurdish government approval to exploit what it says is one of the world's largest onshore exploration fields. Shares in several oil companies involved in the KRG rose on Thursday, including London-listed Genel Energy, Norway's DNO, Hungary's MOL and Britain's Petroceltic and Afren. The KRG has blossomed economically under self-rule as the only part of Iraq to escape the violence unleashed after the US invasion that toppled Saddam Hussein in 2003. Although the early flows are predicted to be modest, its oil exports have the potential to redraw export routes across the region.

KRG confident of compromise with Baghdad over oil export

Today's Zaman, *13.01.2014*

KRG is confident it can soon find a compromise with Baghdad in a row over oil exports from the autonomous region via a new pipeline to Turkey, a spokesman said on Monday.

KRG last week said crude had begun to flow through its independent pipeline to Turkey and that exports were on track to begin at the end of this month, rising in February and March. In an interview with Reuters on Sunday, Iraqi Prime Minister Nouri al-Maliki threatened to cut KRG'S 17 percent share of the federal budget if exports via the pipeline went ahead without central government consent.

A delegation led by Kurdish Prime Minister Nechirvan Barzani is due in Baghdad soon to discuss the issue, which stems from a fundamental, longstanding disagreement over how to manage Iraq's resources and divide the proceeds. KRG spokesman Safeen Dizayee said the Kurds were awaiting Baghdad's response to several unspecified proposals and were committed to an accord reached in the Iraqi capital on Dec. 25. "The framework was already agreed in Baghdad – it's more a matter of the technicalities," Dizayee told Reuters, adding he was optimistic and foresaw no major stumbling blocks. "It's just a matter of sitting down and agreeing on it."

The details of the Dec. 25 agreement have not been disclosed but it called for joint committees to resolve the dispute. Crude from KRG used to be shipped to Turkey through a pipeline controlled by Baghdad, but those exports dried up a year ago due to a row over payments for oil companies operating in the region. Since then, the Kurds have trucked smaller quantities of crude to Turkey while laying their own independent pipeline, angering Baghdad, which claims sole authority over oil exports. Previous rounds of talks have borne little fruit, but industry sources say a bargain is still on the cards. Baghdad summons Turkish diplomat over Kurdish oil

Iraqi Deputy Prime Minister for Energy Hussain al-Shahristani summoned Turkey's charge d'affaires in Baghdad, Efe Ceylan, on Sunday to reiterate Iraq's objection to Ankara's role in the exports from the KRG. According to Reuters, Shahristani said in a publicly issued statement that the government of Iraq holds the Turkish side legally responsibility for its interference to the internal affairs of Iraq and reserves the right to demand compensation for any and all damages.Shahristani also reportedly claimed that Ankara had prevented representatives of the Iraqi Ministry of Oil from supervising exports from Turkey's Mediterranean port of Ceyhan as had previously been agreed.

Maliki threatens to cut funds if Kurds pipe oil to Turkey

Today's Zaman, *12.01.2014*

Iraqi Prime Minister Nuri al-Maliki promised on Sunday there would be no military assault on Falluja, to spare the city more carnage, and said Sunni Muslim tribesmen would be given time to expel Al Qaeda-linked fighters.

Iraqi Prime Minister Nuri al-Maliki threatened on Sunday to cut central government funding for Iraq's autonomous Kurdish region if the Kurds pursued a drive to pipe oil exports to Turkey without Baghdad's approval. The Kurdish Regional Government said last week that crude had begun to flow to Turkey and exports were expected to start at the end of this month and then rise in February and March.

"This is a constitutional violation which we will never allow, not for the region nor for the Turkish government," Maliki told Reuters in an interview. He reiterated Baghdad's insistence that only the central government has the authority to manage Iraq's energy resources. "Turkey must not interfere in an issue that harms Iraqi sovereignty," Maliki said. The central government and the Kurds differ over how to interpret the constitution's references to oil and how revenues should be shared. The Kurdish share was set at 17 percent after the US-led invasion in 2003, although the Kurds frequently complain that they get less than that. Maliki said the Kurds had not met their budgeted commitment to export 250,000 barrels per day of oil, with the revenue going to the national treasury, but that so far the government had not retaliated by reducing their share of the budget.

"We did not do that as we did not want to affect the Kurdish people and we were looking to find acceptable solutions...that would preserve national unity and the national wealth, but this year the situation looks difficult," Maliki declared. Referring to a dispute over the costs of oil companies operating in KRG, he said: "We have been telling these companies...give us the oil and we will pay your costs, but they did not deliver, so there will be no payments." Maliki said it was unfair to expect Baghdad to pay the oil firms' costs, plus the Kurds' 17 percent budget share, when the oil revenue was not being channeled through the government. In October 2012, the Kurds agreed to export an average of 250,000 bpd in 2013 if Baghdad paid the operators in the region.

As the wrangling went on, the Kurds stopped pumping oil via the Baghdad-controlled pipeline to Turkey, instead exporting smaller quantities by truck and taking the revenue directly. KRG has prospered over the past decade, largely escaping the violence unleashed in the rest of the country after the US invasion that toppled Saddam Hussein. Kurdish leaders say they prefer the region to remain part of a federal Iraq, rather than seeking secession, but oil is a highly sensitive issue in volatile relations with Baghdad. Companies that have risked exploring for oil in KRG had welcomed its plans to pipe oil to Turkey as a signal they might begin to generate export income from their investments, despite Baghdad's objections. Those companies include Gulf Keystone, Genel Energy, Norway's DNO, Hungary's MOL and Britain's Petroceltic and Afren.

Turkey discovers high gravity oil at border

Hürriyet Daily News, *14.01.2014*

Turkish state-run petroleum company TPAO has discovered oil at a high gravity well in the eastern province of Sirnak's Silopi district located on the Iraqi border of the country. "The oil at the well is at the value of the neighboring country's (Iraq) oil but the test studies for the daily capacity will be completed within this week," TPAO Batman Regional Director Gökhan Akin said.

The TPAO began oil exploration operations at the Caliskan-1 well in Silopi six months ago. High-gravity oil was found at 2,900-meter depth as a result of the drilling activities conducted one kilometer away from Hezil Creek.

Akın said this was the first discovery of high gravity oil at the border. "Sometimes water is also encountered in high-gravity oil and the capacity of it will be cleared within a week," he stressed, celebrating the TPAO for the discovery succeeded in tough working conditions.

Biden calls Iraqi Kurdish leader amid oil conflict

Today's Zaman, *11.01.2014*

Vice President Joe Biden is urging the leader of Iraq's self-ruled northern Kurdish region to work with the governments of Iraq and Turkey to resolve a conflict over the region's oil. Biden called President Massoud Barzani on Thursday, the same day his Kurdish regional government announced it has unilaterally started sending crude to Turkey.

Iraq's government and ethnic Kurds in northern Iraq are locked in a long-running dispute over oil rights. The White House says Biden encouraged Barzani to talk with Baghdad to develop a way forward.

Genel Energy ups production one third after KRG pipeline

Hürriyet Daily News, *15.01.2014*

Genel Energy expects to increase production approximately 50 percent in 2013, fueled by the assumptions regarding the volume of oil exports through the newly constructed pipeline from the KRG into Turkey.

The gross production from the Taq Taq field averaged 77,000 barrels per day and the Tawke field averaged 39,000 barrels a day, in which Genel has 44 and 25 percent shares respectively, the company said in an update statement. The production in KRG has remained at 44,000 barrels, falling slightly short of the 45,000 barrels target, but the revenues from oil sales totaled $350 million the statement read.

As sales were at $333 million, the London-listed company maintained increasing revenues even slightly**.** “Production volumes at Taq Taq in the past two months were hit by a fire in a tanker loading station during November. At Tawke, meanwhile, ‘price sensitivity issues’ in the domestic market meant production volumes were lower in the fourth quarter,” the company explained. “The energy agreement between KRG and Turkey and the completion of the KRG independent pipeline infrastructure has paved the way for steadily rising oil export volumes from Taq Taq and Tawke over the course of 2014,” Genel CEO Tony Hayward was quoted as saying in the report.

Due to rising production and exports via the new pipeline, Genel says this year it will generate revenues of $500-600 million. The energy company also highlights that a gas sales agreement between the Turkish government and the KRG was signed in November. The deal foresees gas exports in the order of 4 billion cubic meters per year from 2017, rising to 10 billion cubic meters by 2020. “Production from the Miran and Bina Bawi gas fields, owned by Genel, are expected to underpin the gas sales agreement,” the firm forecasted.

Natural gas privatized below price: Turkish court

Hürriyet Daily News, *12.01.2014*

Turkey's Court of Accounts has ruled that Turkey's second largest natural gas grid, Baskentgaz, was privatized for below its value. After three unsuccessful tender attempts and a number of regulations to enhance the allure of Ankara's natural gas grid Baskentgaz, the Torunlar Food Company won the tender on Jan. 26, 2013 with a $1.16 million offer.

The report prepared by the court criticized this amount as too low and said that not all details had been added to the value of the asset. The report said a protocol issued in 2010 had increased the company's gas transportation potential by around 2 billion cubic meters in a year.

This was because of the transferring of the operational rights of some facilities that used to be owned by the Turkish state pipeline company, Botaş. The court also argued that a legal change introduced in November 2012 had extended the borders of the metropolitan municipality, increasing the grid's subscriber numbers and likely increasing its revenues as well. "Thanks to this regulation, the buyer company has earned a significant income advantage both because of the rise in subscriber numbers and the gas demand of industrial facilities located in these districts," the report read.

Prime Minister Recep Tayyip Erdogan had previously also criticized the $1.16 million Baskentgaz privatization amount, along with the privatization of Turkey's toll roads and bridges for a record bid of $5.72 billion. Despite the toll and bridges tender being cancelled following Erdogan's remarks; the Privatization Administration ruled that there was no problem with the Baskentgaz sale. Aziz Torun, the director of the executive board of Torunlar Food Company, had said at the time that the company's offer was higher than their expectations.

TANAP under strict Erdogan oversight

Today.Az, *14.01.2014*

Turkish Prime Minister Recep Tayyip Erdogan gave instructions to perform all obligations, which fall on the country on implementation of the Trans-Anatolian pipeline (TANAP) project, Turkish local media reported on January 14. This indicates that TANAP is one of the strategic important projects for Turkey.

The TANAP project, jointly developed by Azerbaijan's state energy company SOCAR, Turkish state pipeline company Botas, and energy company TPAO, will deliver gas from Azerbaijan's giant Shah Deniz field to the Turkish-Greek border via eastern Turkey.

The initial capacity of the pipeline will be 16 billion cubic meters of gas a year. TANAP will connect to the Trans Adriatic Pipeline (TAP) on the Turkish-Greek border. SOCAR has started choosing a location for the construction of TANAP. The process is done in collaboration with the Turkish Botas Company specialists. Earlier SOCAR head Rovnag Abdullayev said Turkey's share in the TANAP project can be increased in future. Turkey owns a 20-percent share in the project, while the rest of the shares belong to Azerbaijan.

Azerbaijan contributes to Europe's energy security with diversification

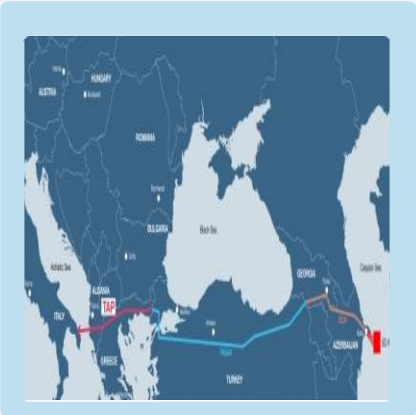
Trend.Az, *13.01.2014*

The projects on production and supply of gas from the Shah Deniz field show once again that Azerbaijan contributes to the energy security of Europe not only through the diversification of supply routes, but also by diversifying supply sources, Azerbaijan Minister Mammadyarov said.

Speaking about the importance of TANAP and TAP projects, the minister stressed that the Azerbaijani President Ilham Aliyev said at the signing ceremony of the final investment decision on the second phase of the Shah Deniz field's development, on Dec. 17, 2013 in Baku, that this project will change the energy map of the region and Europe.

SOCAR sets sights on Balkans via Greece

Natural Gas Europe, *16.01.2014*



SOCAR's recent entrance into the Greek market via its DESFA acquisition seems to be Azerbaijan's first step into the Balkan region. According to recent statements from SOCAR VP Nassirov, the company aims to use Greece as a staging point into the whole region of Southeastern Europe.

The Azeris are looking into increasing the consumption of natural gas in Greece through investments in its local transmission network. Concurrently, a second business plan is being prepared that calls for a further upgrade of the Revythousa LNG terminal and the construction of a second LNG installation in the North of the country.

Last but not least, the interconnection with all neighbouring countries is eyed by SOCAR as a crucial investment. SOCAR projects in countries such as Bulgaria mainly rely on pushing forward the Trans-Adriatic Pipeline (TAP) and connecting its gas flow through the interconnector system that is already being prepared. Likewise, SOCAR is a fervent supporter of the Ionian-Adriatic Pipeline (IAP) that will shift gas from TAP and in Albanian territory to Montenegro-Bosnia and Croatia, in essence linking up with the central European gas system. Already company managers are talking about "billions of dollars" worth of investments, emphasizing the long-term commitment of SOCAR in securing a firm place in Southeast Europe. It is playing well and advancing its role as a diversifying source of gas in contrast with the traditional supplier, Gazprom.

The aim to establishing an LNG terminal is also a sign of an extrovert export strategy by SOCAR, which sets its eyes on international markets for that kind of gas. Before it was bought by SOCAR, DESFA had drafted mid-term planning between for 2013-2022 that budgeted €1.662 billion in investments including a €159 million upgrade of the Revythousa LNG terminal. The remainder of the investments will go towards the expansion of the transmission system and establishing an underground gas storage facility. Along with SOCAR's involvement, the investment budget could certainly increase and provide a strong push towards the creation of a natural gas hub and free market in Southeast Europe, which for the coming years will experience a variety of gas-related projects that will greatly boost gas supply and ease market tensions while ensuring energy security.

Over the coming generation, Azerbaijan will rapidly increase its share in the European natural gas import mix. However, its quantities are not simply enough to cover demand across the Continent and for a prolonged period. Thus it is safe to assume that SOCAR's ambitions are mostly concentrated on securing a strong placement in the region between Greece and Croatia, whilst keeping a steady flow of exports to Turkey with some additional quantities delivered to world markets via LNG that is projected to offer competitive pricing for the foreseeable future.

Azerbaijan defines route for pumping additional oil volumes

Today.Az, *14.01.2014*

Azerbaijan's state energy company SOCAR decided to tran sport oil through the Baku-Tbilisi-Ceyhan oil pipeline instead of the Baku-Novorossiysk pipeline. The issue of pumping oil via the Baku-Tbilisi-Ceyhan pipeline has almost been decided, an unnamed official at SOCAR told Agency.

SOCAR and Russian state-owned oil company Rosneft have not yet found a mutually acceptable solution on the work of the pipeline, he added. Talks are still underway. The source said around two million tons of oil, which SOCAR previously planned to pump via the Baku-Novorossiysk oil pipeline, will be pumped via the Baku-Tbilisi-Ceyhan pipeline every year.

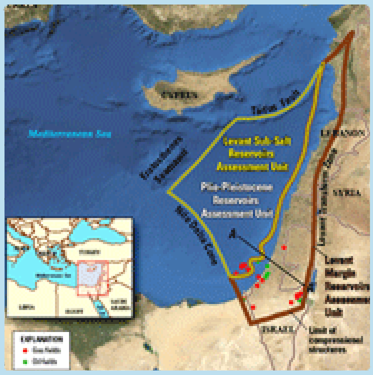
The contract for transiting Azerbaijan's oil via the Baku-Novorossiysk pipeline through the territory of its giant northern neighbor, in effect for 17 years, was revoked in early May. If the sides fail to come to an agreement, pumping Azerbaijan's oil through the pipeline will be suspended in mid-February 2014 in accordance with the agreement. The pipeline has been operating for many years, and, therefore, necessary technical procedures should be carried out after the completion of the pumping process. Each of the parties may conduct certain works on their sections. SOCAR also has the opportunity to transport up to five million tons of additional oil via the BTC, the source added. All the issues related to pumping additional oil via the BTC by SOCAR have almost been decided on.

Following the suspension of oil pumping via Baku-Novorossiysk, it will be transported through BTC, the source said. Besides Novorossiysk, oil from Azerbaijan is delivered to the Georgian Black Sea port of Supsa, and from there to the Mediterranean coast of Turkey via the BTC pipeline. Both routes can fully meet the needs for pumping Azerbaijani oil. The Baku-Novorossiysk pipeline transports the oil produced by SOCAR independently, as well as from onshore fields developed within joint enterprises. Azerbaijan's oil is being shipped from the Novorossiysk port under the name of the Russian export blend, URALS. Urals is traded on world exchanges at a price of $4 or $5 per barrel lower than the Azerbaijani crude.

SOCAR said earlier that Baku will continue to transit oil through the pipeline if it is economically feasible. Otherwise, the supply will come to a halt. The company exported about 1.75 million tons of oil via the northern Baku-Novorossiysk pipeline in 2013 compared to 2.06 million tons in 2012. Around 169,360 tons of oil was exported via the northern pipeline Baku-Novorossiysk in December 2013 compared to 167,000 tons in December 2012. The Baku-Novorossiysk pipeline (also known as the Northern Route Export Pipeline) is a 1,330-kilometer oil pipeline, which runs from the Sangachal Terminal near the Azerbaijani capital Baku to the Novorossiysk terminal at the Black Sea coast in Russia.

Eastern Mediterranean gas: potential for breakthroughs?

Hürriyet Daily News, *11.01.2014*



Recent gas discoveries in Israel and Greek Cyprus provide both domestic and geopolitical benefits. Domestically, these new hydrocarbon discoveries will provide Israel and Greek Cyprus lower domestic energy prices and a chance to develop new energy intensive industries.

Geopolitically, these massive natural gas fields will allow both countries to achieve energy independence and strengthen relations with neighboring countries, potentially creating historic diplomatic breakthroughs with a crucial neighbor, Turkey. Exports of this natural gas will be crucial to achieving these breakthroughs.

Israel seeks multiple export options to mitigate the risk of any one country suspending exports and to maximize commercial leverage to secure the highest prices for sales of its gas. These factors will likely drive Jerusalem to select two export options: a liquid natural gas (LNG) terminal and a pipeline to Turkey. In Israel, locating an LNG terminal on shore may be politically impossible, given intense public concerns about potential environmental damage and loss of life that could result from a terrorist or military attack on such an attractive target. A more feasible LNG option could be exports from a terminal located in a neighboring country. That leaves Greek Cyprus as the most promising location.

Since summer 2013, disappointing drilling results have made clear that Greek Cyprus lacks sufficient discovered gas reserves to ensure the commercial viability of an LNG terminal. Consequently, Greek Cyprus is looking to Israel to provide early volumes of Leviathan gas to help realize an LNG terminal on the island. Israel, on the other hand, is unlikely to agree to ship its gas to any other country for export until Israel has developed another export option over which it enjoys more control. A pipeline from the Leviathan field to Turkey would be by far the cheapest and most economically efficient way. More ambitiously, a pipeline link from Turkey's Mediterranean coast could also enable Leviathan gas to enter the European Union via the Southern Corridor.

From Turkey's perspective, the Israel-Turkey pipeline is highly attractive for economic and political reasons. Economically, Leviathan gas would help Turkey diversify away from its heavy dependence on more expensive Russian and unreliable Iranian gas. Politically, an Israel-Turkey pipeline would make Turkey a new gateway for natural gas into Europe, and perhaps one with hub-based pricing.
At the same time, an Israel-Turkey pipeline faces two serious political obstacles. First, Israel and Turkey have yet to normalize their relations following their steep decline as a result of the Mavi Marmara incident in June 2010. However, it is possible for the two countries to reach, a package solution in which framework agreements on both the pipeline and diplomatic normalization could be reached in tandem.

Second, Turkey and Israel need the permission of Greek Cyprus to build a pipeline across the Greek Cypriot continental shelf. Securing such permission currently seems impossible, given the lack of diplomatic relations between Turkey and Greek Cyprus. But both Turkey and Greek Cyprus have sent strong signals in late 2013 that they want to restart U.N.-brokered talks on a comprehensive settlement of the Cyprus Question. With a modest amount of progress in the U.N. talks, it is possible that politics could align sufficiently to allow an Israel-Turkey pipeline to catalyze an historic breakthrough. Choreographing this complex double-export solution will require considerable diplomatic, commercial, and financial skill, as well as active diplomatic support by the U.S. and/or the EU. A prerequisite will be a political agreement among the governments of Israel, Turkey, and Greek Cyprus to pursue these two projects in tandem.

SOCAR launches horizontal well in Caspian Sea

Today.Az, *13.01.2014*

Azerbaijan's state oil company SOCAR has commissioned the first horizontal well in the shallow-water part of the Guneshli field in the Azerbaijani sector of the Caspian Sea. The company reported that the well's daily debit is 260 tons of oil and 20,000 cubic meters of gas. The well is on the balance of the 'May 28' Oil and Gas Production Unit of SOCAR.

SOCAR plans to drill 20 new wells to increase production in the shallow part of Guneshli oil and gas field. The deep-water part of Guneshli field is being developed by SOCAR jointly with foreign companies in the Azeri-Chirag-Guneshli block of oil and gas fields.

Failed attempt to introduce competition to the Israeli natural gas market

Natural Gas Europe, *13.01.2014*

The Leviathan partners will be forced to allow the entry of a new player into the domestic natural gas market. Israel's gas field is currently controlled by Texas-based Noble Energy Inc and Israel's Delek Group Ltd. The most substantial fields offshore Israel are the Leviathan and the Tamar.

Noble Energy has a 36 percent operated working interest at Tamar, a field offshore Israel with gross mean resources of 10 trillion cubic feet (Tcf) of natural gas. Tamar was discovered by Noble in 2009 and was the largest deep-water natural gas discovery in the world that year. The Leviathan has gross mean resources of 18 Tcf of natural gas.

Delek owns 45% of Leviathan and Noble controls 40%. Delek and Noble together own 67% of Tamar and 85% of Leviathan. An agreement between the Leviathan partners and the Antitrust Authority is expected to be announced soon. Under the agreement, Delek and Noble will be selling some of their new discoveries to oil and gas companies that will compete against the Tamar and Leviathan gas fields for domestic customers only - according to published details of the pending agreement.. The new player(s) will not be allowed to export the natural gas of the newly bought gas fields. While Israel's Antitrust Authority's intention was to introduce conditions that will allow real and fair competition in the Israeli market, the yet to be published agreement between the Authority and the Leviathan partners is already attracting criticism for failing to achieve its purpose.

The buyer will own a total of less than 8% of Israel's proven gas reserves. The company will have to bring the gas from the bought offshore gas fields onshore for sales in the domestic market only which will involve high infrastructure costs. The deal will be sealed in two years' time allowing enough time for the Leviathan partners to direct their gas domestically to Israeli customers. Under the pending agreement between the Authority and Delek/Noble, the partners will be selling the Karish and Tanin gas fields (which respectively hold an estimated 50 billion and 30 billion cubic meters in natural gas reserves) and a negligible quantity of natural gas from the Leviathan. The introduction of a new player into the domestic market may prevent the accusation of the Leviathan partners forming a "cartel".

Whether the agreement will in reality make a difference in is contestable. In October 2013, the Supreme Court ratified a June 2013 cabinet decision to export 40% of Israel's natural gas. The sale of Israeli gas to export markets - starting by immediate neighbors - will generate billions of shekels in revenues. Speculations related to the first destinations of Israeli gas have somehow ended when Israel recently signed a deal to export gas to the Palestinian Authority. Israel has also declared it will be building a pipeline to Jordan that is expected to be completed by 2016 to supply the Jordanian market with natural gas. Israel may also be exporting gas to neighboring Egypt suffering from domestic shortfalls due to export obligations and a growing domestic demand.

He said it remained to be see what the next steps would be. The SEEP project showed how efficient it could be to create a virtual corridor to get existing resources to the locations of use. “These corridors require the clear identification of existing parts of the corridor and the identification of the places where they need to be supplemented.” The EU, he said, had recently accepted a strategy for projects to be supported, which included five Hungarian gas projects. The role of Greece was also set to increase, and Turkey had won itself a position as a transit power. He added: “Hungary, because of its existing pipelines and geographical position, is a very important hub because we play a part in transiting existing resources.”

Iran sets up ad hoc committee to study changes in Iran-Pakistan pipeline

Natural Gas Asia, *13.01.2014*

Iran has set up an ad hoc committee to study the idea of changing the time frame of launching Iran-Pakistan pipeline.

In an interview to Iranian news agency Shana, Iran’s deputy minister of petroleum for international affairs and trading, Ali Majedi, said that Iran and Pakistan agreed with setting up a bilateral committee to follow gas pipeline project on a regular basis and find a solution for the long-delayed construction of the pipeline inside Pakistan’s territory. Shana said the two sides are slated to meet in late January to discuss pipeline related issues and present their views to Iran and Pakistan’s petroleum ministers.

Last week, media reports said that Pakistan would request Iran to set a new time frame for completion of Iran-Pakistan (IP) natural gas pipeline project. The controversial pipeline project has been delayed due to sanctions on Iran. Iran has already completed 907 kilometers of its 1,227-kilometer share of the pipeline.

Iran, Russia negotiating big oil-for-goods deal

Today's Zaman, *11.01.2014*

Iran and Russia are negotiating an oil-for-goods swap worth $1.5 billion a month that would let Iran lift oil exports substantially, in defiance of Western sanctions that helped force Tehran to agree a preliminary deal to end its nuclear program.

Russian and Iranian sources close to the barter negotiations said final details were in discussion for a deal that would see Moscow buy up to 500,000 barrels a day of Iranian oil in exchange for Russian equipment and goods. "Good progress is being made at the moment with strong chances of success" said a Russian source.

"We are discussing the details and the date of signing a deal depends on those details." The Kremlin declined comment. "Our desire is to sign the deal as soon as possible," said a senior Iranian official, who declined to be named. "Our officials are discussing the matter with the Russians and hopefully it will be inked soon, regardless of whether we can reach a (nuclear) agreement in Geneva." It is not clear whether the deal would be implemented before the nuclear agreement, outlined in Geneva in November between Iran and six world powers, is finalized. Nor is it clears how Moscow will justify to other powers a barter deal that could jeopardize the nuclear negotiations by easing the economic pressure on Tehran. Russia is one of the countries involved in the nuclear talks but, unlike the United States and the European Union, has not imposed sanctions on Iran.

Technical nuclear talks between Iran and the European Union started on Thursday. The November deal was designed to halt Iran's nuclear advances for six months to buy time for a final settlement by May. US and European sanctions have cut Iran's oil exports by more than half over the past 18 months to about one million barrels a day. Russia has no sanctions on Iran. Russian purchases of 500,000 bpd of Iranian crude would lift Iran's oil exports by 50 percent and provide a major boost to its struggling economy. At current oil prices near $100 a barrel Iran would earn about an additional $1.5 billion a month. "Iran has to find a way to accommodate more exports: this is the reason behind this," an Iranian official said. "Both sides should rush for it.

Russia will be able to guarantee a large amount of trade with its neighbor and Iran will be able to overcome its export difficulties." No details were available about the equipment and goods on offer from Russia. Given Russia is a major oil exporter; the Iranian oil would likely be exported from Iran on Russia's account, with Russian goods and equipment bartered in exchange. Most Iranian oil goes to Asia. Iran's biggest oil buyer is China, importing about 420,000 bpd in 2013. Unlike Iran's other oil buyers, China has not cut purchases much, despite efforts from the United States. Other major Asian buyers of Iranian oil including Japan, South Korea and India have cut imports sharply under pressure from Washington. Turkey and South Africa also have reduced or eliminated imports.

Iran requests India to allow open multiple bank accounts

Trend.Az, *16.01.2014*

Iran has requested the ministry of finance and the Reserve Bank of India to allow it open accounts in multiple banks to facilitate better non-oil trade between the two nations, Times of India reported. At present, only UCO Bank facilitates transactions with Iran and those are oil related.

According to Iranian Ambassador Ansari, as the UCO Bank account deals with only oil transactions, the Persian Gulf nation needs to open accounts in different banks for better non-oil trade between the two countries. We want to remove this monopoly of UCO Bank. This is why we are looking for diversifying our banks and make business more competitive.

Definitely it would be in the benefit of Indians as well as the Iranians, Ansari told reporters on the sidelines of an interactive programme organized by Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI). “We request the RBI to give us permission to deal with more Indian banks in this country. This proposal has been given to ministry of finance as well as the RBI,” he said. India had since July 2011 paid in Euros to clear 55 percent of its purchases of Iranian oil through Ankara-based Halkbank. The remaining 45 per cent due amount was remitted in rupees in accounts Iranian Oil Company opened in Kolkata-based UCO Bank.

Tougher sanctions blocked the payments in Euro through Turkey from February 6 last year but the rupee payments for 45 per cent of the purchases continued through UCO Bank. “UCO Bank account is just for oil business which is nonsense” Ansari said, adding the trade relation between the countries expanded beyond oil and Iran is keen to look for alternative channels in terms of opening accounts in multiple banks to facilitate more business. “This (having only one bank for transactions) is something we are really trying to get it removed which seems to be an obstacle for both promotion and relation between two sides,” the envoy said.

On bilateral trade with India, he said it may go over $15 billion during the current fiscal as against over $14 billion in the last fiscal.Exports from India to Iran are increasing year-on-year, leading to healthy balance in the trade, Ansari said.On the possible oil import cut by India next year, he said it is up to the Indian government to take decision on the quantity of oil imports.He, however, felt that it would be economically cheaper for India to import crude from Iran due to proximity between the two nations.He said there is a proposal to build north-south rail corridor in Iran which would boost trade in the region.

Northern Alexandria gas project to start in 2016

Natural Gas Asia, *15.01.2014*

BP's Northern Alexandria Gas Project is expected to start production in the summer of 2016, said Head of Egyptian Natural Gas Holding (EGAS) Taher Abd El-Reheem, and reported Al-Borsa newspaper.

EGAS began negotiating plans with BP and BG Group (BG) that involve linking the Northern Alexandria Gas Project to the Al-Borlos treatment plant, said Daily News Egypt quoting from Al-Borsa news report. All parties look to implement these plans before the completion of Metoubas's station in Kafr El-Shiekh, which has a daily production capacity of 900 million cubic feet.

The project, which involves producing and treating gas in Idku, was met with several difficulties due to the failures in negotiations between the BP and BG, the news report said. Total cost involved would be about $10 billion, with the production phase set to launch in 2014, operating in the deep sea 80 kilometres northwest of Alexandria, Al-Borsa said. Based on the agreement, BP is to act as a contractor for EGAS. Thus, all production revenues will be given to the state, while BP will receive $3.1 to $4 per MBTU. The agreement allows amending the pricing scheme every five years, with no cost recovery period for the foreign partner.

Risks and conditions for the energy strategy of Greece

Natural Gas Europe, *17.01.2014*

Risk, be it financial, political or military, is and has been inherent within the oil industries' activities. The oil majors have learnt this the hard way through numerous cases where they experienced these risks materializing, eliminating the value of their investments in the process.

Nevertheless, as in most industries, the risks are justified by the benefits and in the case of big oil & gas, experience shows that the benefits are high. Greece being in the midst of an economic crisis is in the very positive position of having good prospects for a substantial amount of natural gas reserves in its onshore and offshore area.

Being a member of the European Union, which seeks to diversity its natural gas dependence away from Russia, Greece has a lot to gain from this development, especially if it manages to coordinate with Greek Cyprus, whose oil reserves have now been certified, in a setting a common energy strategy. One of the most likely alternatives, with large benefits for the country is the channeling of these potential energy reserves through the recently agreed TAP pipeline, which crosses the territory of Greece and Albania reaching across the Adriatic Sea in Italy, and which is expected to carry 10 billion cubic meters per year to European markets. Such additional use of the pipeline could greatly increase the already large profits which are expected from its primary use as a mean of transporting natural gas from the Caspian Sea to Europe.

In a similar level, the final decision of the government of Greek Cyprus, concerning the construction of either a liquefaction plant or a pipeline, will have a further positive effect for Greece. In the case of the construction of a liquefaction plant, Greece will be able to further utilize the LNG unit at Revithoussa, while in the second case the benefits will be even greater as the country will be able to meet its domestic demand and then export to the rest Europe through Italy, via its connection to the TAP pipeline. Further benefits will occur through the potential development of an underground gas storage unit in the "South Kavala" gas filed which is currently peeing planned, and is in very close proximity to the agreed pipeline TAP. Despite these developments, the South-eastern Mediterranean remains an area characterized by high levels of risk.

The geopolitical interests are in direct correlation with the continuous conflict of the countries around the Mediterranean basin, which means that the various risks that are included in this project remain high. The Greek state must ensure the creation of a safe environment, which will guarantee the necessary stability to attract oil & gas exploration companies. Despite the initial positive messages and optimistic estimates of potential oil reserves, in the next few years everything will depend on the extent that Greece will establish the environment of an energy producer country, ready to take on board the responsibilities associated with promoting energy investments from large private companies.

The forums has been created in order to capitalize on the multi-faceted experience in energy issues, in order to further assist the process of making the country a strategic energy player within the wider Mediterranean. lbeit there have been already some notable efforts from the Greek government, it is very important that these efforts will be intensified. Despite the major deposits which have been discovered in the Mediterranean basin, large quantities have also been discovered in several African countries. At the same time, the fact that these deposits belong to Greece and Greek Cyprus, two member states of the EU, further increase their strategic importance, as these can help improving independence and the energy security of the European Union.

South Stream construction should continue despite EU objections

Natural Gas Europe, *15.01.2014*

Russian Ambassador to the EU Vladimir Chizhov has said that Serbia should adhere to the bilateral agreement on South Stream with Russia, despite objections that are coming from the EU, and underscored that a halt to works on that gas pipeline is out of the question.

Serbia should stick to the intergovernmental agreement, Chizhov told Tanjug after a discussion on the EU-Russia relations held at the European Policy Center in Brussels on Monday.

During the discussion, Chizhov mentioned the dispute over South Stream as one of the points at which the interests of Moscow and Brussels clashed after the European Commission concluded that the agreements Russia had signed with six EU member states are not in line with EU regulations. The Russian ambassador said that Moscow’s position is that EU regulations, formulated in the so-called Third Energy Package, cannot be the single criteria for determining the regularity of the gas pipeline.

EU-Russia: depoliticizing natural gas

Natural Gas Asia, *14.01.2014*

In his appearance at South Stream: the Evolution of a Pipeline in Hungary, Adnan Vatansever, Lecturer, Kings College London spoke of the nuances of EU-Russia gas relations, providing a context to their relations, addressing disruptions in supply, price disputes and how Gazprom would adapt to Europe's new, forthcoming market realities.

He started by putting EU-Russian gas relations into context. "Hardly any other type of relationships has been so much on the spotlight on the world scale as EU-Russian gas relations," he said, offering US - Middle East oil relations as a comparable.

Europe was the largest importer of hydrocarbons and Russia the largest exporter in terms of gas and the second largest exporter of oil in the world – and most of its exports went to Europe. Mr. Vatansever added, "So the magnitude of the relationship we are talking about is very substantial and as a result that relationship is quite important and most importantly this relationship is there to stay for quite a few decades a lot of investments have been already sunk and Europe's indigenous supplies are declining and basically you can imagine that 2 decades from now probably energy relations between Europe and Russia will still be quite significant."

He noted that despite imports of coal and uranium from Russia, there had not been tensions regarding those supplies, in contrast to the natural gas tensions. "It is partly because of the nature of the gas market; it is a market for which you can't say that there is a world market as in the case of coal or oil. Still markets are very regional and prices are very different even though there is some progress on integration across regional markets. You can assign part of the blame to both Europe and Russia," he explained. Meanwhile, according to Mr. Vatansever, one could observe the variety of discrepancies among the prices paid by Russia's natural gas customers, across both regions and countries, leading some to accuse the Russians of using energy prices as a political tool.

He added, "On the other hand, when you look at it from Moscow's perspective Gazprom has quite often seen itself as unwelcome in Europe, especially in terms of its acquisitions of different assets in the downstream market and there has been a very consistent effort on the European side to reduce the dependence on gas, but his has been regarded as something very politicized from Moscow as well. So, on both sides there has been politicization which actually leads to tensions in the gas relations." While natural gas was incredibly important for Russia, he said that it was dwarfed by the country's oil exports, which applied to EU-Russian oil relations. "The trend is that gas is going to become increasingly more significant in terms of export revenues and overall in terms of sales for Russia in the upcoming 2 decades as oil is peaking in Russia or as it is expected to peak soon," he explained.

Mr. Vatansever touched upon what he termed the “overstated risk” of physical disruption in EU-Russia gas relations – that there was anxiety that gas might suddenly be cut off. “I think this is not very well justified,” he opined. “There have been a few occasions that this has happened in the past 4 decades. Even in those cases it would be probably hard to put the sole responsibility on the Russian side, as it has been a part of much more complex pricing negotiations and transit negotiations with Ukraine. ”However, he said this could also be considered a credibility issue for Gazprom. This made disruption unlikely, according to him. Projects like Nord Stream would further minimize such risks; with the help of new interconnections, it and similar projects would also bring more liquidity to the market.

Meanwhile, how would Gazprom adapt to the new gas market transformations? For the past 3-4 years he said there had been multiple disputes that were not likely to disappear, like over gas pricing. He said, “One country can pay significantly lower than the other and that is not really justified by geographic distances but probably by market power that belongs to Gazprom.” He believed pricing disputes would continue and that several trends would be apparent, but explained that Gazprom was facing serious market challenges on all of the five fronts where it was either selling its gas or aiming to sell gas. The first, he said, was LNG, that Gazprom had got into the game late; second, negotiations with China had not reached the desired result.

“Both of these could be things that provide some breathing room for Gazprom in the future when it negotiates with European clients, at least if it will have new significant sources of revenues from elsewhere.” In Europe, demand was not really growing as fast as it was expected to in the past, said Mr. Vatsanever, while the CIS market was actually shrinking mainly because of Ukraine’s demand and also the domestic market which used to go grow by 2-3% before the 2008 crisis, but was now growing much more slowly. Meanwhile, Soviet-era fields were cheap to produce, but places like Yamal, he explained, were much more costly to extract the gas, while fields in western Siberia were declining, adding up to hard times for Russia’s gas industry.

He added, “On the other hand, there is transportation which may add more costs, like building North Stream and South Stream which could be quite positive for energy security but at the same time will involve much higher cost for delivering the gas to Europe, especially if the rate of utilization of this part remains below what is projected.” The tax burden on gas would likely go up in this decade, according to Mr. Vatsanever, who said of the USD 208 billion of taxes from the oil and gas sector in 2012, 89% was from the oil sector but only 11% from the gas sector. “As the production of the oil sector is peaking the government is trying to find ways to incentivize production, so you can expect that the burden on the gas sector will probably go up,” he said, explaining that it had been low in part because of lower domestic prices, a sort of subsidy from Gazprom.

While the discrepancies between Russian domestic gas prices and European gas prices had been traditionally huge, but now this gap had been narrowing for the past three years. “Gazprom is making profit on an average sale in its domestic market and it is quiet a significant development until a few years ago all the profit would come from sales to Europe and domestic sales would be on average were making loss.” Would Gazprom benefit from that, he asked, given the growing supply of gas coming from independents? It would benefit some because domestic prices were likely to be much higher that they used to be in the ‘90s or in the 2000s. And how was Gazprom adapting to the market transformations in Europe?

Mr. Vatsanever contended that the company needed to adapt in terms of market liberalization, not just regarding the Third Energy Package but also the new Gas Target Model, which could lead to new rules for allocation of capacity. He offered: “This is a process that people in Moscow have regarded as one that is directed against Gazprom. It is important to remember that it all started in the ‘90s, pretty much as a process that aimed to raise competition within the European gas market. It was not against Gazprom but against the largest energy companies in Europe, such as companies in Germany, Italy and France.” It would be important, he said, to narrow the gap on the divergent perceptions of the Model of Moscow and Brussels.

Secondly, building more liquidity in the European market though big investment into infrastructural projects such as storage and pipelines was going more slowly than expected; he called it important for depoliticizing gas supplies as countries would have access to a greater variety of sources. “It would mean more competition for Russian gas which, from Gazprom’s point of view, may not be positive news, but overall it would help to put the relationship on a more stable basis so in the longer run it should be quite positive,” he explained. Finally, ensuring competition, he said, was crucial.

European Commission decisions were likely to impact suppliers like Gazprom. Mr. Vatsanever commented: “It is is going to be a difficult process to manage, especially with suppliers but it is also a process that provides some opportunity on both sides. For Europe it would be an opportunity to give an assurance that no major market participant is using an excessive market power and, on the Russian side (or any other supplier side), it could be an assurance that as long as you play according to the same rules you have the same rights.” He cited the Joint Advisory Gas Council as important for pushing market transformations forward between the EU and Russia, but concluded that this was a process that should not be rushed

EU to continue Gazprom antitrust investigation

Natural Gas Europe, *16.01.2014*

The European Union intends to continue investigating Gazprom’s position, despite the offer made by the Russian gas supplier last month. “Plan A is to continue working on the Statement of Objections and, when it is ready, to adopt it,” EU Competition Commissioner Joaquin Almunia said.

A Statement of Objections is a formal step in Commission antitrust investigations in which the Commission informs the parties concerned in writing of the objections raised against them. According to the EC’s Article 102 Investigations, the EC may then take a decision on whether the conduct is compatible or not with European antitrust rules.

Last month, Gazprom proposed changes to its business, including its existing position in Central and Eastern European gas markets. Almunia reckoned that the offer "opened the possibility" of settling the case. In August, European Commission opened formal proceedings to investigate alleged Gazprom's anti-competitive practices. At the moment, EU regulators are studying Gazprom's practices in the Old Continent, over allegations of dominant position abuse. Also on Wednesday, the South Stream project showed its intention to proceed with the operations. South Stream Transport signed an option agreement for the storage and handling of pipe segments with the Port of Varna and the Port of Burgas in Bulgaria. "This brings additional business to Bulgaria and at the same time ensures timely implementation of the South Stream Offshore Pipeline," Oleg Aksyutin, CEO of South Stream Transport, commented in a note.

Total speeds up UK shale gas race as first oil major to enter market

Reuters, *13.01.2014*

France's Total on Monday became the first oil and gas major to enter Britain's shale gas market by acquiring a 40 percent interest in two licenses in northern England for up to $48 million.

Total's involvement, which follows shale gas acquisitions by utilities Centrica and GDF Suez, is a major boost to Britain's growing but controversial shale gas industry, seen as one of Europe's strongest prospects for unconventional oil and gas development. The investment is tiny in oil industry terms, and especially small in the context of the tens of billions of dollars spent every year by Total.

However, having such a large player as a partner will be a feather in the cap of industry minnows Dart Energy, Egdon Resources, Gas and CORP Oil & Gas UK Ltd, with which Total will partner. Britain's Gas will be the operator of the initial exploration program and Total will take over ownership of the projects as they reach the development phase, the companies said. The news confirms a Reuters report over the weekend. Shares in the small-cap firms rallied on Monday morning, with Egdon Resources up 45 percent, Gas 13 percent higher and Dart Energy also up 13 percent. Britain's shale gas resources are estimated to be large enough to reverse the country's rising dependency on imports, but few wells have so far been drilled to see how much gas is extractable.

The British government also sees the prospect of shale gas exploration as an attractive way to boost revenues and has allowed handsome tax breaks for companies involved in the nascent industry. Environmental groups strongly oppose shale gas fracking, a method whereby chemicals and water are injected underground at high pressure to break rock formations. "It's ironic that a French-owned company is seeking to drill the UK for shale gas when it's banned from fracking in France due to environmental concerns," said Thomas, senior campaigner at environmental group Friends of the Earth.

Italy's Eni pulls out of Polish shale gas exploration

Reuters, *14.01.2014*

Italy's Eni will follow other foreign energy companies and pull out of Polish shale gas exploration due to unclear regulation and difficult geology, local daily Biznesu reported.

The newspaper quoted unnamed sources as saying Eni would let its three concessions in northern Poland fade out, leaving Chevron and ConocoPhillips as the only global players left in Poland's shale sector. "We do not comment on press speculation," an Eni spokesman said. The government, hoping shale gas will ease Poland's reliance on energy imports from Russia, is proposing new legislation to ease conditions for investors.

Yet hopes that Poland could lead a U.S.-style shale gas boom in Europe are fading as energy companies say Warsaw's draft proposals do not go far enough to cut bureaucracy. On Monday, Poland's supreme audit chamber (NIK) blamed the environment ministry's administrative inefficiency for delays in the shale industry. The prime minister recently replaced environment minister and his chief geologist in a move seen as an attempt to bolster shale exploration. Marathon Oil and Talisman Energy last year followed Exxon Mobil in pulling out of the country.

Ukraine met gas obligations to Europe in 2013

Natural Gas Europe, *14.01.2014*

The volume of natural gas sent from Ukraine to Europe last year was in line with national obligations, a director at a Ukrainian transport company said.

"In 2013 Ukrtransgas promptly and completely fulfilled all applications for the transportation of natural gas to European and Ukrainian consumers," Andrei Datsiuk, director of the central control department at Ukrtransgas, was quoted as saying Saturday by the National News Agency of Ukraine. Ukrtransgas said 3 trillion cubic feet of natural gas went through the Ukrainian gas transit system last year to countries in Western Europe, a 3.2 percent increase.

Russia extends gas export lead over Norway as price cuts pay off

Today's Zaman, *14.01.2014*

Russia widened its lead over Norway as Europe's biggest gas supplier in 2013, with demand bolstered by a bitterly cold winter helping sales of its discounted gas while production problems trimmed Norwegian output.

Russia, whose capacity to supply gas to Europe far outweighs that of Norway, lured back customers after issuing multi-billion euro price discounts. It also boosts production from its huge Bovanenkovo gas field. In 2012, Norway spooked its Russian rival with an aggressive pricing policy selling gas to European buyers at cheaper spot-indexed prices and forcing the gas export giant to react.

Fired up to defend its dominant position in Europe, Russian exporter Gazprom agreed to loosen its pricing policy and paid more than $4 billion in the first half of 2013 to European clients who had complained about expensive gas prices linked to the oil market. On the back of the price cuts, cold weather and more production, Gazprom's supplies to Europe including Turkey rose 16 percent to a record high 161.5 billion cubic metres (bcm) last year from 138 bcm in 2012 while Norway's fell by 5 percent to 102.5 bcm. Excluding Gazprom's sales to Turkey, Russia supplied around 133 bcm to Europe in 2013, widening its lead over Norway to about 30 percent.

Russia supplies around a quarter of Europe's gas needs and is the dominant, sometimes sole, supplier in many former Soviet bloc countries, triggering a European Commission probe into whether Gazprom has blocked rivals and over-charged customers in eastern Europe. The European Union is also seeking alternatives to Russian gas supplies in the eastern Mediterranean and in Central Asia. Norway's gas exports hit a record high in 2012 of 107.6 bcm due to spot-indexed pricing and higher production from its biggest gas field. That year, higher exports had allowed it to edge within just a few percentage points of Russian volumes shipped to Europe, excluding Turkey.

Lukoil sees 4.9% gas production increase

Natural Gas Europe, *13.01.2014*

Russia's Lukoil disclosed its forecasts on 2013 production. It expects gas volumes around 25.8 billion cubic meters. 'The gas production volume will grow by 1.2 billion cubic meters, or 4.9%, as compared with 2012,' reads a note on Monday.

According to the company, it produced 70% in Russia and the remaining 7.7 billion cubic meters overseas. The company set a number of priorities for 2014. One is the implementation of projects "Kandym Early Gas" and "Complete Development of Hissar" in Uzbekistan. The company also intends to implement exploration programs in Romania, the Baltic Sea and the Northern Caspian Sea

Russia to ask for EC concessions on South Stream project

Natural Gas Europe, *15.01.2014*

Russia will ask the European Commission to grant concessions for the South Stream project, according to Permanent Representative of the Russian Federation to the EU, Ambassador Vladimir Chizhov. "South Stream is trans-border and is on the territory of Russia and crosses the Black Sea and countries that are and are not part of the EU, such as Serbia.

That is why special treatment is needed for it," Chizhov said on Monday. Energy Minister Alexander Novak and EU's Commissioner for Energy Gunther Oettinger are expected to meet on 17 January.

According to Russia's Ministry of Energy, they will also discuss the South Stream project. "The six EU countries participating in the project have delegated the right to hold talks with the Russian government on their behalf to the European Commission… Oettinger will arrive in Moscow on Friday," Chizhov confirmed. But the declarations of Chizhov indicate that a solution could still be far. In December, Prime Minister Dmitry Medvedev said that the agreements signed by Russia and European countries for the construction of the South Stream are acts of international law that should benefit from a rule of precedence.

Shell 'eyes North Sea asset sales'

Upstream Online, *14.01.2014*

Shell is looking to sell off some of its North Sea field interests as it targets asset divestments totalling $15 billion. It follows the recent appointment of new chief executive Beurden who is expected to take a more investor-friendly approach than his predecessor Peter, likely to involve generating cash from asset sales as Shell seeks to boost returns for shareholders while carrying out major investments.

The Anglo-Dutch supermajor said in October that it would step up divestments "significantly" in 2014 and 2015 to keep cash flowing in, having made record capital expenditure last year of $45 billion that was $5 billion over guidance.

A source close to the company told the Financial Times it would divest mature upstream assets in the North Sea and elsewhere, more of its refining portfolio and some projects that have not yet reached final investment decisions and "make sense for others to develop". Shell has already announced strategic reviews of its loss-making US shale business and Nigerian assets, which have been dogged by rampant sabotage and oil theft. The company announced last year that it was selling its position in the Eagle Ford and Mississippi Limeshale plays in the US, while also deciding not to proceed with a gas-to-liquids plant in Louisiana with a multi-billion dollar price tag.

Analysts and bankers believe some of the company's Nigerian oil blocks plus a 23.1% stake in Australian group Woodside Petroleum - worth over $6 billion at current prices - could be put on the block, Reuters reported. "It wouldn't surprise me if Shell were to sell some North Sea assets," Santander analyst Jason Kenney said. "In the North Sea, something like 80% of its production comes from 20% of its asset base so there's a long tail of smaller positions." Shell, once one of the biggest players in the British offshore sector, still reportedly produces more than 12% of the UK's oil and gas, with interests in more than 50 fields, while it also holds assets off Norway.

In recent years, the company has sharply reduced its North Sea presence by selling older assets to smaller companies that specialize in extracting more resource value from mature fields. Kenney said he expected Shell under Van Beurden to focus on capital discipline, better returns and selling peripheral assets. Some analysts have suggested the supermajor could go even further, with JP Morgan Cazenove analyst Fred Lucas stating in a note the company could divest as much as $30 billion in non-core assets. Shell has insisted that it intends to meet its spending target of $130 billion between 2012 and 2015, despite last year's record outlay, but this is dependent on making asset disposals. Major oil companies such as Shell and Statoil are facing increasing investor pressure to hold down spending as costs rise and prospects for oil prices wane.

BP energy outlook sees 41% rise in world energy use to 2035

Oil&Gas Journal, *15.01.2014*

BP PLC's Energy Outlook 2035, released Jan. 15, forecasts that world energy consumption will increase 41% between 2012 and 2035. Countries outside of the Organization for Economic Cooperation and Development, especially China and India, are believed to contribute to virtually all of this growth.

Global energy intensity in 2035 is 36% lower than what it was in 2012, while energy per capita use will increase by 14%. According to the outlook, all fuels experience growth, with the fastest in renewables. By 2035, 14% of world electricity is from renewable sources, up from just 5% in 2012.

Among fossil fuels, natural gas is fastest (+1.9% p.a.), followed by coal (+1.1% p.a.) and oil (+0.8% p.a.). Out to 2035, more than a third of global liquids will be supplied by the US, Russia, and Saudi Arabia. Natural gas supplies will reach nearly 500 bcfd by 2035, of which 20% will be from the US. BP projects that, between 2012 and 2035, US energy production will rise 24%, significantly outpacing consumption growth of just 3%. By 2035, US will be energy self-sufficient by producing 101% of its energy needs, up from 69% in 2005. Over the forecast period, consumption growth in natural gas (+21%) and renewables in power generation (+277%) offsets large decline in oil (-18%), coal (-12%) and nuclear (-17%) demand.

According to the outlook, natural gas will hold a 35% share of the US energy mix in 2035, replacing oil as the leading fuel in US energy consumption. Oil's share will fall from 36% to 29%. Fossil fuels still account for 80% of US energy demand in 2035, down from today's 85%. Renewables in power generation will increase to 8% from 2%. Rising US production of oil (+37%) and natural gas (+45%) will outpace declines in coal (-20%). Tight oil output will triple to 4.5 million b/d in 2035. Shale gas production should more than double to 65 bcfd, reaching nearly 70% of the total. BP's projections on European energy markets are out to 2030. The region's energy demand is expected to rise just 5% by 2030, according to the outlook. And the region's energy intensity is expected to decline 29%.

Demand for fossil fuels declines 7% with losses in oil (-15%) and coal (-33%) overwhelming gains in gas (+26%). Renewable demand expands 180%, rising to 13% of market share by 2030 from 5% in 2011. European energy production is expected to drop 1%, according to BP's projection. Production of all fossil fuels will drop, led by oil (-50%), coal (-29%), and gas (-21%). Despite a 4% decline, nuclear power is forecast to overtake gas as the dominant domestic energy source for the region. Import dependence increases from 46% today to 49% by 2030 and Europe will remain the largest net importer of natural gas in the world. During 2012 to 2035, China's energy production is expected to rise 61% while consumption grows 71%, BP projects.

The country's energy production as a share of consumption is expected to fall to 80% by 2035 from its current 85%, driving import dependence to 20% from 15%. BP expects that China's share in global demand will rise to 27% by 2035, and China will become the world's largest energy importer, exceeding Europe. Among China's energy mix, coal's dominance is forecast to decline to 52% in 2035 from 69% today and natural gas is forecast to rise to 12%, while oil's share is expected to remain unchanged at 18%. According to the outlook, China will overtake the US as the world's largest oil consumer by 2027. The country's oil and gas import dependences will be 76% and 41% in 2035, respectively, up from 57% and 25% in 2012.

By 2035, India's energy demand growth of 132% will outpace each of the BRIC (Brazil, Russia, India, and China) countries, BP forecasts. India's demand for all fossil fuels will rise, led by gas (+183%), oil (+121%), and coal (+108%). India is expected to become increasingly import-dependent despite its gains in nonfossil fuel production. The country's oil imports are expected to rise 169%, accounting for more than 60% of the net increase in imports. Brazil's energy production as a share of consumption is forecast to rise to 106% by 2035 from 92% today, transforming the country from an energy importer to an exporter. Fossil fuels will account for 54% of Brazilian energy consumption in 2035, compared with a global average of 81%.

Russia will remain the largest net exporter of energy, satisfying 4% of global energy demand by 2035. The outlook forecasts that tight oil production will commence post-2020 and gradually climb to 7% of the country's total by 2035. The Middle East will remain the world's largest oil producing region, and its share of global supplies will expand to 34% in 2035 from 32% today, BP forecasts. By 2035, oil production from the Middle East is expected to expand by 22%. The region will maintain its leading role as the world's top oil exporter, but the capacity to export is expected to decline, with 55% growth in domestic use through 2035. Its share of interregional exports will remain about 50%.

Shell, Gazprom Neft start Siberia drilling

Upstream Online, *13.01.2014*

Shell and Gazprom Neft have kicked off pilot shale oil exploration under their joint venture partnership in Siberia. The pair's Russia-based joint venture Salym Petroleum Development said it had started drilling the first of five pilot horizontal wells this year and next year.

SPD said it plans multi-stage fractures of all five wells in Upper Salym, West Siberia in a bid to tap shale oil potential in the prospective Bazhenov formation. Chief executive Oleg Karpushin said he hoped the pilot programme would lead to a decision to mount large-scale development of shale oil potential in Upper Salym.

Kashagan oil group awaits test results in February to give restart date

Reuters, *14.01.2014*

A consortium developing Kazakhstan's giant Kashagan oilfield, which was shut down in October due to pipeline leaks, said it expects by next month to have the results of steel tests and inspections needed to establish a date for output to resume.

Kashagan, the world's biggest oil find in decades and the most expensive standalone oil project, took an estimated $50 billion and 13 years to start output last September. It was shut down the following month, however, due to pipeline leaks that investigators said were caused by stress linked to the presence of hydrogen sulphide gas.

The results of the tests on the steel samples carried out at TWI laboratory in Britain and other specialized laboratories are expected in late January or early February, the North Caspian Operating Company said in a statement on Wednesday. It had said earlier that the specifications of the pipes used at Kashagan fully meet the requirements of the NACE standards and best practices in international oil and gas field development. NCOC said it was now inspecting the oil pipeline, running from D Island in the Caspian Sea to the Bolashak oil processing plant, using an intelligent PIG device. It had earlier completed inspection of a pipeline carrying gas produced from the oilfield. "The findings are expected in one month's time," it said. During a PIG inspection on Jan. 11, a problem was detected in the onshore part of the oil pipeline near the plant, NCOC said.

"The respective section of the pipeline was isolated and excavated, confirming the presence of a seep in the area of a weld." "The date of the restart of production depends on the required repairs, which can only be assessed once the results of the crack analysis and the results of the PIG inspections are available," NCOC said. International oil majors Exxon, Royal Dutch Shell, Total, Eni and Kazakh state oil company KazMunaiGas each hold a 16.81 percent stake in Kashagan. Japan's Inpex has 7.56 percent, and China National Petroleum Corp (CNPC) acquired 8.33 percent in 2013 as ConocoPhillips exited. The Kashagan project aims to produce up to 1.66 million barrels a day - as much oil and OPEC member Angola - from a reserve almost as big as Brazil's, regardless of harsh weather and technological complexity.

Kyrgyzstan agrees on gas price with Kazakhstan and Uzbekistan

Trend.Az, *13.01.2014*

Kyrgyz National Company KyrgyzGas agreed on the price for gas supplies from Kazakhstan and Uzbekistan, the company reported this week. KyrgyzGas concluded negotiations and reached an agreement on natural gas supplies in the first quarter of 2014 with Uzbek Company Uztransgaz, the company said.

Kyrgyzstan will buy 25 million cubic meters of Uzbek natural gas for $290 per 1,000 cubic meters in this period, according to the agreement. Moreover the company has a contract with Kazakh KazTransGas on supply of 100 million cubic meters of gas in the first quarter of 2014.

The price for Kazakh gas is determined at $224 per 1,000 cubic meters.

TAPI pipeline framework being prepared on 'fast-track' basis

Oil&Gas Journal, *15.01.2014*

The framework for the TAPI pipeline project is being prepared on a "fast-track basis" with officials of the four stakeholder nations: Turkmenistan, Afghanistan, Pakistan, and India, according to India's petroleum and natural gas minister.

Speaking at Petrotech 2014, M. Veerappa Moily said the aim is to bring gas from Turkmenistan to the Indian border by August 2017. He said a transactional advisor for the project has been appointed and a sale and purchase agreement has been drawn. "Apart from gas, this TAPI pipeline would usher in peace among the nations as well," Moily said. At 1,680 km and built with 56-in.

OD pipe, TAPI would transport gas from Turkmenistan's Daulatabad field to Fazilka, Punjab, at a capacity of 27 billion cu m/year, with part of this total drawn off in Afghanistan and Pakistan.

India looks at Canada for oil, LNG

Natural Gas Asia, *13.01.2014*

India is seriously looking to source energy products like crude oil and LNG from Canada in order to diversify its energy source, reports Press Trust of India quoting country's oil minister M Veerappa Moily. During an industry event in New Delhi, Moily said India was seeking a long-term supply contract with Canada, adds Press Trust.

"We are keen to engage with Canada for oil and gas and LNG opportunities," he said. "We seriously consider Canada as a destination for investments by our national oil companies." Currently majority of India's energy supplies come from Middle East and the government wants into newer sources.

Financial Express, a business daily, reports that three Indian companies, Indian Oil Corporation, ONGC Videsh and Hiranandani Group have firmed up plans for their Canadian forays, seeking a play across the value chain ranging from crude oil sourcing, acquiring upstream assets and setting up LNG and crude oil terminals. ONGC Videsh is scouting for oil sand assets, Hiranandani Group subsidiary H-Energy is investing $4.4 billion to set up LNG and crude oil export terminals. IOC will, for the first time, source crude oil from Canada,

Bahrain plans LNG plant

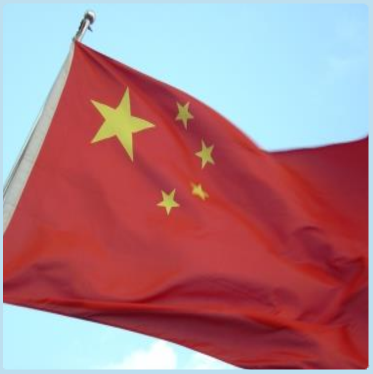
Natural Gas Asia, *15.01.2014*

Bahrain is planning to build a liquefied natural gas (LNG) plant, reports Bahrain's Daily Gulf News. According to the newspaper National Oil and Gas Authority (Noga) has already conducted the feasibility study for the project.

The plans were disclosed by country's Finance Minister and Minister in Charge of Oil and Gas Affairs Shaikh Ahmed bin Mohammed Al Khalifa at the in New Delhi during ongoing Petrotech 2014, reports Daily Gulf News. The minister said that Bahrain would soon start importing gas to meet soaring gas demand.

China’s 2014 oil demand, imports to grow faster-CNPC research

Reuters, *15.01.2014*



China’s implied oil demand will grow quicker this year at around 4 percent as new refineries start up, the country's top oil firm forecast, after slowing economic growth likely led to its weakest rise in five years in 2013.

China, the world’s second-largest oil user and a key factor in global prices, has driven oil demand growth for most of the past decade and its slowing consumption has helped rein in prices despite a plunge in exports from OPEC member Iran due to sanctions and prolonged outages in Libya. The forecast by CNPC saw the nation’s oil demand rising to 10.36 million barrels per day (bpd).

The forecast, in an annual report released by CNPC’s research institute on Wednesday, also saw the country’s net crude imports growth accelerating 7.1 percent to 298 million tonnes, or 5.96 million bpd this year.CNPC's demand forecast is more bullish than the International Energy Agency’s, which in December predicted Chinese oil demand growing 382,000 bpd this year, or 3.7 percent from 2013. It wasn’t immediately clear how CNPC tallies the oil consumption figures. The forecast growth in net crude imports would translate into incremental imports of 370,000 bpd versus the 2013 level reported by Chinese customs. That means China’s dependence on foreign crude would rise to 58 percent this year, based on CNPC’s forecast on refinery throughput at 509 million tonnes.

“Domestic refining capacity will grow rapidly, driving crude oil demand...while domestic crude oil production would only rise 2.2 percent,” the report said. Reuters calculates implied oil demand by adding refinery throughput with net imports of refined fuel, but excludes changes in inventory. China rarely publishes oil inventory data, making it hard to gauge real demand. Decades of breakneck economic growth pushed China ahead of the United States as the world’s top net oil importer in September, the U.S. EIA has said, a position China is set to keep through 2014.Refinery throughput is likely to climb 5.1 percent from last year, CNPC said. China is due to release its official 2013 national refinery output data next week.

Two greenfield refineries, each owned by PetroChina and Sinochem Corp with combined capacity of 440,000 bpd, are slated to open in the first quarter, following repeated delays, providing most of the additional demand for crude imports this year .CNPC also pointed out that China did not add any new capacity to the strategic petroleum reserves over 2013 with total SPR space remaining at 141 million barrels, another factor behind a slower growth in crude imports last year. Implied natural gas consumption will grow 11 percent from a year earlier to 186 billion cubic metres this year, the CNPC institute said, with imports to expand 18.9 percent to 63 bcm. China, the world’s top energy guzzler, is boosting use of the cleaner fuel faster than oil, both by quickening domestic exploration and raising imports.

Japan, Mozambique to discuss LNG development in the East African Nation

Natural Gas Asia, *15.01.2014*

Japan and Mozambique will launch "high level" talks in summer focusing on LNG developments in the East African nation, reports Platts.

The agreement was reached during a meeting between METI's Director of Petroleum and Gas Division Ryo Minami and Mozambique's Deputy Minister of Mineral Resources Abdul Razak Noormahomed on Sunday on the sidelines of Japanese Prime Minister Shinzo Abe's visit, Platts reports quoting Minami. According to Platts, many Japanese utilities are in talks to buy LNG Anadarko-led block known as Area 1 in Mozambique.

Mozambique has witnessed many natural gas discoveries in last few years. Eni and Anadarko currently have right to export LNG and both these firms are in discussions with the government about developing an LNG plant.

CNOOC commences production from Liuhua 19-5 gas field

Natural Gas Asia, *15.01.2014*

CNOOC Limited announced Tuesday that the Liuhua 19-5 gas field has recently commenced production. Liuhua 19-5 is located in the Pearl River Mouth Basin of the South China Sea with an average water depth of about 185 meters.

This project was designed to share the existing producing facility of Panyu 30-1 gas field, and two new producing wells were drilled. Liuhua 19-5 is expected to hit its peak production of 29 million cubic feet per day in year 2014. Liuhua 19-5 is an independent oil field in which the CNOOC holds 100% interest and acts as the operator.

China's 2014 oil demand, imports to grow faster

Reuters, *15.01.2014*

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China, the world's second-largest oil user and a key factor in global prices, has driven oil demand growth for most of the past decade and its slowing consumption has helped rein in prices despite a plunge in exports from OPEC member Iran due to sanctions and prolonged outages in Libya. The forecast by CNPC saw the nation's oil demand rising to 10.36 million barrels per day (bpd).

The forecast, in an annual report released by CNPC's research institute on Wednesday, also saw the country's net crude imports growth accelerating 7.1 percent to 298 million tonnes, or 5.96 million bpd this year. CNPC's demand forecast is more bullish than IEA, which in December predicted Chinese oil demand growing 382,000 bpd this year, or 3.7 percent from 2013. It wasn't immediately clear how CNPC tallies the oil consumption figures. The forecast growth in net crude imports would translate into incremental imports of 370,000 bpd versus the 2013 level reported by Chinese customs. That means China's dependence on foreign crude would rise to 58 percent this year, based on CNPC's forecast on refinery throughput at 509 million tonnes.

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Gas production, consumption up in US, down in OECD Europe

Oil&Gas Journal, *14.01.2014*

During a decade before 2005, natural gas production remained relatively flat in both US and European member countries of the Organization for Economic Cooperation and Development. OECD Europe gas consumption rose steadily over the period, outpacing production growth by 2%/year, but it was flat in US.

This situation has been changed after 2005, according to a recent analysis from the US Energy Information Administration. Since 2005, gas production from shale plays has increased rapidly in US, twice as fast as gas consumption growth, reaching 24 tcf in 2012.

Gas consumption, though not rising as fast as production, still grew by 16% over that same time period to 25.2 tcf in 2012. Use of gas from electric power generation accounted for most of the consumption gains. Net imports of gas have been reduced by 58% during those years. However, total natural gas production in OECD Europe has decreased slightly since 2005, with the UK contributing to most of the decline. Production in UK dropped to 1.4 tcf in 2012, to less than half the level of production in 2005, offsetting gains of Norwegian production.

Petronas announces first oil from KBM cluster

Upstream Online, *13.01.2014*

Malaysian state-owned oil company Petronas has announced first oil from the Kapal, Banang & Meranti cluster fields off Malaysia. The KBM cluster is operated by Malaysian company Coastal Energy KBM and has been developed with joint venture partners under a risk service contract (RSC).

Production started from the cluster on 16 December. This is the third RSC that has achieved oil production, after the Balai cluster and Berantai fields, according to Petronas. According to the company, this is an eight-year development with Kapal in its first development and production phase.

Announcements & Reports

► *Medium Term Coal Market Report 2013*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=461

► *BP Energy Outlook 2035*

Source : BP
Weblink : http://www.bp.com/content/dam/bp/pdf/Energy-economics/Energy-Outlook/Energy_Outlook_2035_booklet.pdf

► *Energy Deals 2013 Annual Review*

Source : PwC
Weblink : http://www.pwc.com.tr/tr_TR/tr/publications/industrial/energy/assets/enerji-sektorundeki-birlesme-ve-satin-almalar-2013.pdf

► *Drilling Productivity Report*

Source : Energy Information Administration
Weblink : http://www.eia.gov/petroleum/drilling/pdf/dpr-full.pdf

► *Ecuador Country Analysis Brief*

Source : Energy Information Administration
Weblink : http://www.eia.gov/countries/analysisbriefs/Ecuador/Ecuador.pdf

► *Monthly Oil Market Report*

Source : Organization of the Petroleum Exporting Countries
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_January_2014.pdf

Upcoming Events

► *International Petroleum Technology Conference*

Date : 19 – 22 January 2014
Place : Doha – Qatar
Website : http://www.iptcnet.org/2014/doha/index.php

► *European Unconventional Gas Summit 2014*

Date : 28 – 30 January 2014
Place : Vienna – Austria
Website : http://www.theenergyexchange.co.uk/event/european-unconventional-gas-summit-2014#tab-country1

► *CIPPE 2014*

Date : 19 – 21 March 2014
Place : Beijing – China
Website : http://www.cippe.com.cn/2014/en/

► *Unconventional Gas Aberdeen 2014*

Date : 25 – 26 March 2014
Place : Aberdeen – UK
Website : http://www.unconventionalgasaberdeen.com/

► *8th Atyrau Regional Petroleum Technology Conference*

Date : 1 – 2 April 2014
Place : Atyrau – Kazakhstan
Website : http://www.oiltech-atyrau.com/

► *TUROGE 2014*

Date : 9 – 10 April 2014
Place : Ankara – Turkey
Website : http://www.turoge.com/

► *13th Uzbekistan International Oil & Gas Exhibition*

Date : 13 – 15 May 2014
Place : Tashkent – Uzbekistan
Website : http://www.oguzbekistan.com/

► 5th Turkmenistan Gas Conference

Date : 21 – 22 May 2014
Place : Ashgabat – Turkmenistan
Website : http://www.turkmenistangascongress.com/

► 21st Caspian International Oil & Gas Exhibition

Date : 3 – 6 June 2014
Place : Baku – Azerbaijan
Website : http://www.caspianoil-gas.com/

► 4th Erbil Oil & Gas International Exhibition

Date : 1 – 4 September 2014
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/

► South Russia Oil & Gas Exhibition

Date : 2 – 4 September 2014
Place : Krasnodar – Russia
Website : http://oilgas-expo.su/

► 2nd East Mediterranean Oil & Gas Conference

Date : 9 – 10 September 2014
Place : Paphos – Greek Cyprus
Website : http://www.eastmed-og.com/Home.aspx