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BOTAS ex-ceo says Putin's Turkish Stream will beat EU's pipeline

Neurope, *26.05.2015*

Vladimir Putin wants to show Europe that he can complete the Gazprom-backed Turkish Stream pipeline before the EU wraps up the Southern Gas Corridor, Gokhan Yardim told.

"Mr Putin is very pragmatic man and he has Gazprom in his hand to do the projects," said Gokhan Yardim. "After coming agreement with Erdogan he didn't see any problem to build the first line. Because two ships are in Black Sea, line pipes are there. He wants to show Europe that if he wants to do he can before TANAP and TAP," he added, referring to the TANAP, comprising of the Southern Gas Corridor that the EU hopes will reduce reliance on Russian gas.

The first section of Turkish Stream will be laid by Italy's Saipem under the contract concluded for the construction of the now-scrapped South Stream project, which was to have linked Russia with Central Europe via the Black Sea and the Balkans. Gazprom said recently it will begin construction of Turkish Stream pipeline in June. But Yardim noted there was no announcement that any intergovernmental agreement (IGA) was signed. He added that Moscow and Ankara have simply signed a memorandum of understanding in December 2014 that Turkey, Gazprom's second biggest customer in the region after Germany, will buy "that gas by shifting existing 14 billion cubic metres from the western line (Ukraine, Moldova, Romania Bulgarian line) contract to Turkish Stream, including Private companies Contract". According to Gazprom, the new pipeline will deliver 14 billion cubic metres per year to the Turkish market and another 49 billion cubic metres per year to Europe via a new hub on the Turkish-Greek border. From there, the so-called Tesla pipeline would move gas further across the territory of Greece to the former Yugoslavian Republic of Macedonia (FYROM), Serbia, Hungary and Austria.

Putin and Greek Prime Minister Alexis Tsipras have discussed the construction of the so-called Greek Stream pipeline across Greek territory. But Yardim noted that recent violence in FYROM may upset plans to build the pipeline across the Balkan state. "Considering Greek Stream and onto Europe you know Macedonia is mixed suddenly. It may affect the Greece, Macedonia, Serbia, Hungary and Austrian route definitely," he said. He said Greece may try to revive the Interconnector Turkey Greece Italy (ITGI) to transport Russian gas to Italy. Yardim said that the first Turkish Stream line will supply Turkey with 14 billion cubic metres of gas from the existing contract with some additional 2-3 billion cubic metres after 2019. "It's good for Turkey," he said. He also noted that after building the first Turkish Stream line, the "existing Bulgaria Turkey line will be empty and it can be used for reverse flow to Bulgaria and it may be transported to Greece by [Bulgaria-Greece Interconnector] BGI with limited capacity".

Azerbaijan, Iran, Turkmenistan etc. contenders to bring gas to Europe through Turkey or not?

Natural Gas Europe, *25.05.2015*

What countries will be able to use Turkey as a bridge to bring Caspian and Middle-Eastern gas to Europe?

For Simone Tagliapietra, an expert in international energy issues, only one country is a definite prospect to route gas to Europe through Turkey. "If there is one certainty about the Southern Gas Corridor, this is Azerbaijan," said Mr. Tagliapietra. Given the country's current track record it already delivers gas to Turkey through the South Caucasus Pipeline and is set to send gas from its Shah Deniz field there is no doubt in Mr. Tagliapietra's mind as to the viability of Azerbaijan's future through Turkey.

"The construction of the Trans Anatolian Pipeline, which will connect the South Caucasus Pipeline to the Turkish-Greek border is already initiated," he says. "The construction of the Trans Adriatic Pipeline, bringing gas to the Italian market, will follow." In addition to those infrastructure projects, gas sales agreements have already been signed between Italy, Greece, and Bulgaria. "For these reasons, we can consider secure the prospect of 10 billion cubic metres of gas a year from Azerbaijan by 2019 to the European market." After 2020, Mr. Tagliapietra said that more volumes could become available from Azerbaijan to for Europe. "That will depend on the government, on the offshore fields of the country, and many technical barriers [which] might postpone such a process to 2025 or even later." The prospects for using Turkey as a bridge for other countries is not so certain, however.

Turkmenistan, for example, despite purportedly having large gas reserves, could also potentially use Turkey to route its gas to Europe—but it depends on a number of factors, the expert said. "Turkmenistan is quite a peculiar case. It's a big country with a level of reserves, which is actually very volatile because in 2006, British Petroleum estimated the level of Turkmen reserves at 2 trillion cubic metres, while today it is estimated at 18 trillion cubic metres—a major gap that will provide you with some idea of how much Turkmenistan's gas reserves are currently still under-explored." That's not the only issue standing in the way of Turkmenistan exporting its gas to Europe through Turkey either. In the past, though attempts have been made to do so, these attempts have all failed. "There was talk of the Trans-Caspian Pipeline connecting Turkmenistan and Azerbaijan and then piping in the gas to Europe and that failed due to political reasons—the opposition of Russia and Iran, particularly, using the legal instrument of the legal statures of the Caspian Sea, which not clear yet. These legal points prevents the construction of the infrastructure," Mr. Tagliapietra says.

Those difficulties have made Europe a less attractive prospect for Turkmenistan. Instead, it has turned to China to deliver its gas there. Currently, an agreement is in place between Turkmenistan and China to export 65 billion cubic metres a gas a year by 2020. “Still,” he muses, “considering the big reserves of the country, exports to both China and Europe will be possible.” Another contender for routing Turkish gas is Iran—but again, there is no certainty about the country Mr. Tagliapietra calls “the big elephant in the room of the international gas market.” “It’s a country that owns 34 trillion cubic metres of gas reserves. The big paradox is that the country is a net importer of gas since 1997.” Because of varying factors—the international sanctions that have prevented Iran from developing its gas market and unattractive legal framework Iran offers—Iran may after a time be in a position to supply gas to Europe—but only if a new legal framework will be put in place.

Moreover, once the current sanctions against it are lifted, Mr. Tagliapietra says, the country may have different priorities for its gas than Europe does. First off, “with the new wave of investments in the aftermath of the nuclear deal, the country will most likely channel the gas produced to domestic consumption, in order to keep prices low, and in order to enhance the competitiveness of the economy, which is currently in a very serious state. “Secondly the country will most likely use the gas to replace the oil it currently burns to create electricity in order to export oil, which is far more lucrative than gas” Couple that with a prior commitment to supply Oman with 10 billion cubic metres a year for 25 years by 2017 and the poor political relations between Iran and Turkey, and the case becomes less certain still. Currently, the two countries are currently under international arbitration because Turkey blames Iran for piping low-quality gas. And, “even during wintertime, Iran is not able to supply gas to Turkey according to its contract because it needs those volumes for its own domestic market,” the expert explains.

So if not Iran, how about its neighbour? Recently, the Iraqi government announced that its Kurdish region has reserves of between 3 and 6 trillion cubic metres. If true, this could be a serious contender, Mr. Tagliapietra says, given its good relationship with Turkey. Still, though geopolitics could prove to be the main barrier again. “Until a stable security situation is reached, it’s not possible for international markets to operate properly in the region. If the EU is willing to go there and negotiate a future contract or a platform to deliver it to the European market, Turkey will be very much needed.” That just leaves one serious prospect, which could be in a position to use Turkey to supply its gas to Europe: Israel. “Unfortunately, over the past year, all the wells in Cyprus have proven dry, so Cyprus is not currently a real prospect for Eastern Mediterranean,” Mr. Tagliapietra says. “But Israel, which has a consistent level of reserves, estimated at 1 trillion cubic metres, certainly is.”

There are two possible barriers in the case of Israel though, he explained. First is the antitrust case involving Texas-based Noble Energy and Israel’s Delek, which is preventing investment in the Leviathan and Tamar fields. “The second barrier is the lack of infrastructure,” he explains. “Over the past year, we had huge talks about all the possibilities for pipelines, LNG facilities and so on, but no solution has been found. A pipeline to Turkey might make a lot of commercial sense, just because of the Turkish market, but politically this prospect is unfeasible currently due to the tensions between Ankara and Tel Aviv.” Azerbaijan might be a certainty to route its gas through Turkey to Europe. For all the other contenders, it’s anyone’s guess who might be the next to cross that bridge.

Erdogan opposes compromise on Turkey's position on gas resources in Cyprus Island

Natural Gas Europe, *26.05.2015*

Recep Tayyip Erdogan strongly opposed any compromise on the country's position on natural gas resources surrounding areas of the Turkish Republic of Northern Cyprus and Greek Cyprus. In an opening address at the 6th World Forum on Energy Regulation, Erdogan said that Turkey is the key country to ship natural resources to energy markets.

Erdogan said that Turkey's geographical position is in the centre of East-West and North-South energy corridors and must be a catalyst to increase partnerships in the energy sector. "Turkey will be the strong bridge which will hold producer and energy importing countries," Erdogan said.

Regarding the energy security perspective, the Southern Gas Corridor and TANAP, in which Turkey holds a stake, there will be an increase in the energy supply and a diversification of energy resources, President Erdogan said. "The natural resources surrounding Cyprus will hold a strong role in the Eastern Mediterranean energy map, as well as our energy diplomacy approach. Turkey will not give any compromise on energy policy on TRNC and the island's energy resources. The energy resources will be the property of both sides of the island, not only Greek Cypriots. Within this context, Turkey will be the the key country to ship these resources to international markets," Erdogan said.

The divided island of Cyprus' resident Turkish and Greek communities have held talks since early May following a disruption from last year. Cyprus pulled out of talks in October after Turkey sent a seismic ship to explore for natural gas in an area claimed by the Eastern Mediterranean island under the UN Convention on the Law of the Sea. Turkey withdrew the ship in March. Hopes for a reunification settlement of the problem were revived after left-center leader Mustafa Akinci swept in with an electoral victory in April to become the leader of the Turkish Cypriot community. The two leaders Mustafa Akinci and Cyprus President Nicos Anastasiades held talks in Nicosia on last Saturday and will reconvene on May 28. The island was divided into a Turkish Cypriot government in the northern third and a Greek Cypriot administration in the southern two-thirds after a 1974 military coup by Greece was followed by the operation of Turkey as a guarantor state in Cyprus. Cyprus joined the European Union in 2004, but the membership only applies to the southern area. The Turkish Cypriots remain isolated, with the country only recognized by Ankara and remaining heavily dependent on Turkey. Turkey pays around $1 billion a year for TRNC.

Expert: Ukraine, Turkey only two potential new energy hubs

Natural Gas Europe, *27.05.2015*

Developments in Europe require strong countries with such credibility that they can firmly set predictable and nearly authoritative legislations the construction of infrastructures such as pipelines and underground gas storage.

This was the take-away message emerging from Energy Talks organised in Brussels by the Greek Energy Forum and Natural Gas Europe. "The key issue here is the bankability of projects" commented one panelist, speaking under Chatham House rules adding that commentators and journalists should put European gas markets in the broader regional and global context.

Against this backdrop, many local governments claiming they will promote energy hubs are fallacious and groundless. Theoretically, only Ukraine and Turkey could succeed in such endeavours. During the conference, experts said that new projects are called upon to overcome three sets of difficulties: i. prices, ii. global competition, iii. bankability. The three concepts, which are clearly connected, can be simplified as follow: the projects on the Old Continent will compete with global projects given European proximity to other regions' gas riches. Its ability to set up a clear long-lasting regulatory framework could allow the development of projects slightly (but only slightly) more expensive than elsewhere. In this sense, it all boils down to feasibly. Indeed, according to the experts speaking at the "Transatlantic Energy Security at a Crossroads. What to expect ahead of 2020?" conference, the economic dimension of the projects is the one that really matters. "Only the most convenient projects will go ahead" one panelist said, while a second reminded how the current oil prices made things more and more difficult.

The discussion made the case for more fact-based decisions. Political manoeuvering would hardly bring about positive results. If countries pushed for producing gas from not commercially viable fields, the consequences could be dangerous. "Subsidising local unfeasible domestic gas production would create a new disaster, like the one caused by overly enthusiastic subsidies to renewables. We should always look at price signals" one panelist said. In this sense, European governments should refrain from politicised statements and overly inflated expectations. Projects have to be bankable.

When European governments say they expect their countries to become energy hubs, their statements are dangerous and counterproductive. According to a panelist, the only two countries that could achieve the status of gas heavyweight are Ukraine and Turkey. Countries can succeed in this intention just if they manage to foster indigenous production, to build pipelines and storage facilities, while keeping a stable political environment. At the same time, the process requires time, as new projects imply a pay-off period which could range between 20 and 30 years.

During this time span, only a portion of the gas transiting through the country is available for the spot market, as the rest would be absorbed by the long-term contracts required by companies to provide the certainty required for their investments. “Twenty years after the completion of new project, it becomes easier to switch from long-term contracts to short-term contracts. This is the case in North Western Europe” commented a panelist. As a consequence of this argument, Turkey will need decades to capitalise on its new projects and become an energy hub, while Ukraine, which already has the needed storage facilities and pipelines, needs to promote certainties. “We should not underestimate the difficulty of creating gas hubs” one panelist said, clearly referring to many countries in South Eastern Europe.

Rather than stating political dreams, national governments should focus on giving the right signals to make long-term projects “bankable”. One panelist mentioned the new laws being passed and implemented by the British government. The new law, stemming from the revision carried out by Sir Ian Wood in 2013-2014, will enable the Offshore Authority to force companies to coordinate and share infrastructures in order to maximise economic recovery. ‘The Government intends that licensees, operators and owners will be required, where appropriate, to co-operate with the new Authority and with other licence holders, operators and owners in the wider adjacent area on all aspects of field and cluster and area development, from exploration through to decommissioning, with the overarching aim of maximising economic recovery’ the previous British Government explained in a note last summer. Following in UK’s footsteps, countries could trigger domestic production through a mix of incentives and heavy-handed decisions of public authorities, the expert contended.

In this sense, gas is a flexible fuel that could support the development of renewables. To do so, though, it requires a firm and inflexible political commitment to a stable regulatory framework. “Europe has turned into an high-risk legislative environment” another expert said, underlining once more that Europe’s decisions might impact not only on domestic fields but also on developments of gas resources in other regions. At the end of the day, gas markets are becoming more and more global, and Brussels has to remember that its decision will have an impact also on its neighbours, starting from Africa to the Caspian Countries, passing through the East Med and Middle East.

Envoy: Russia not afraid of transit gas dependence on Turkey

TASS, *27.05.2015*

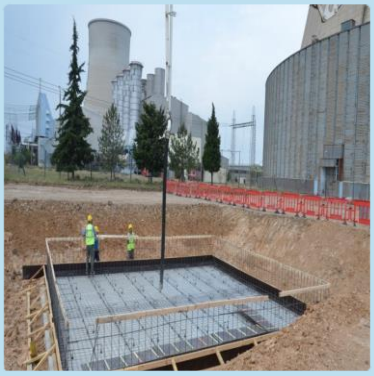
Russia is not afraid of getting into a transit gas dependence on Turkey, Russia's permanent representative to the EU Vladimir Chizhov told.

"They ask me sometimes if Russia is afraid to face in Turkey gas problems similar to Ukrainian? To which I usually reply that Turkey, firstly, is a major consumer itself, and secondly, it is one of the few countries in this part of the world that can pursue an independent policy. We have problems, and along the project implementation more problems may arise, but it is obvious that the Turkish leadership has the political will to implement these projects," he said.

After the refusal of Russia's natural gas monopoly Gazprom to build the South Stream gas pipeline and taking into account its intention to stop gas transportation through the territory of Ukraine within the next few years, the gas pumping volumes from the Caspian region to Europe will be taken by a new project - the Turkish Stream pipeline. The Southern Gas Corridor gas pipeline system, which the EU is building to the same region, bypassing Russia via the Black Sea, is also to pass through Turkey.

Turkey's oldest natural gas plant renewal costs €520 million

Anadolu Agency, *27.05.2015*



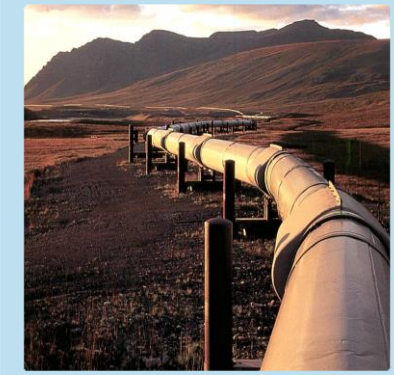
Turkey's oldest natural gas combined cycle plant is to undergo a €520 million ($565 million) renovation, according to the company who has taken over the plant, Turkey's Limak Holding.

The renovations are expected to be concluded by the second half of 2017, announced Nihat Ozdemir, Limak Holding's president. Turkey's Limak Holding took over Turkey's oldest plant through a tender on Aug. 1, 2013 - the 1,200 megawatt Hamitabat plant, located in the Eastern Thrace province of Kirklareli. Limak Holding is active in the construction, energy, cement, and tourism sectors.

"During the renovation period and until the new units come online, old units will stay active for as long as possible as the plant meets the energy demand of Istanbul's European side and the Thrace region of Turkey," Ozdemir said. With the renewal, the plant's efficiency is expected to increase to 62 percent from 38 percent while natural gas usage for electricity production is to fall by half. The efficiency level of the plant is expected to reduce Turkey's annual natural gas imports by $240 million equivalent to 600 million cubic meters. With less natural gas usage, carbon emissions will fall to 3.3 million tons from 5.2 million tons a year. As per the agreement, €395 million share is to come from long-term credit while €120 million share is to be raised through equity capital, Ozdemir added. Five banks including UniCredit, Yapi Kredi, ING, KFW IPEX and DZ Bank will provide the €395 million credit for the project. The renovation of the Hamitabat plant will provide 1,500 locals with jobs.

Lifting of sanctions from Iran to help expand Southern Gas Corridor

Trend, *17.05.2015*



Bulgargaz Lifting of the sanctions imposed on Iran will allow to expand the Southern Gas Corridor, Alexey Gromov, head of Energy Department, Institute for Energy and Finance of Russia told.

Given the speedy adoption of necessary decisions by the US lawmakers to prepare a legal ground to lift the sanctions, it is highly likely that the sanctions on Iran will be lifted in the near future, said the expert. He added that lifting of sanctions from Iran would pave way for the country to supply gas to Europe. 'The European market is the most attractive one for Iranian gas," said Gromov.

"In this regard, it is highly likely that considerable volumes of Iranian gas can be delivered to the European market." The expert added that the most likely route for delivering Iranian gas to Europe is the Southern Gas Corridor. The Southern Gas Corridor can be expanded by approximately twofold and its capacity can increase from 10 billion cubic meters planned in accordance with the agreements, to 20 billion cubic meters, said Gromov. The initiative to deliver Iranian gas to Europe will be mutually supported, said the expert, adding that at the same time, in order to implement this project, Iran will need to agree with the transit countries – Turkey and Azerbaijan. As for the possibility of delivering Turkmen gas to Europe, the situation here is more difficult, according to Gromov. The recent statements by the officials of the European Commission on the intentions to get Turkmen gas in the coming years, are a simple political rhetoric and for present are not based on real agreements, he added.

Turkmen gas can be delivered to Europe through two routes, he said. The first is the Trans-Caspian gas pipeline through the bottom of the Caspian Sea and its connection to the Southern Gas Corridor and the second option is the delivery of Turkmen has though Iranian territory and further to the Southern Gas Corridor system again, said the expert. He said the construction of the Trans-Caspian Gas Pipeline would be blocked by the unresolved legal status of the Caspian Sea, because with the sea's unresolved status the economic risks of the project will be high. At the same time, the expert said, with the supply of the Turkmen gas through Iran, this gas will be a direct competitor of Iranian gas. Gromov went on to add that Iran will be interested in supplying its gas to the European market, and will not be interested in letting competitors enter there.

The expert noted that for Turkmenistan it is very important to diversify its supplies, and to send its gas not only eastwards, but also westwards. "But at the same time, it [Turkmenistan] is regularly increasing gas supply to China, and earlier Turkmenistan and China inked a contract for the supply of 65 billion cubic meters of natural gas per year by late 2021," said Gromov. "Thus, there can come a time when China will take all the Turkmen gas in line with the contractual obligations," he added. The Southern Gas Corridor is one of the priority energy projects for the EU. It envisages the transportation of gas from the Caspian Sea region to the European countries through Georgia and Turkey. At the initial stage, the gas to be produced as part of the Stage 2 of development of Azerbaijan's Shah Deniz field is considered as the main source for the Southern Gas Corridor projects. Other sources can also connect to this project at a later stage. As part of the Stage 2 of the Shah Deniz development, gas will be exported to Turkey and European markets by expanding the South Caucasus Pipeline and the construction of Trans-Anatolian Natural Gas Pipeline and Trans-Adriatic Pipeline.

Croatia sees Krk LNG Terminal construction start-up by mid-2016

Natural Gas Europe, *25.05.2015*

Croatian authorities have announced that the construction of the LNG terminal on the Island of Krk in the Adriatic Sea should begin mid-2016. The construction period would be three years with the terminal operational by in 2019, according to Mladen Antunovic, Director of LNG Croatia.

"LNG terminal on the island has become a European strategic project, has been included in the European list of projects of strategic interest and further accentuated in the European energy security strategy, where only 33 projects are from gas business. Our LNG terminal has absolutely all the priorities at EU level," said Antunovic.

He claims that funding is now available, not only from the EU but also from investors who are willing to invest in such a project. Antunovic added that the terminal should be complimented by the construction of high efficiency gas-fired power plant nearby. "We plan to make highly efficient co-generation power plant near the terminal, perhaps a smaller capacity of 40 megawatts. We are about to move with the technological elaboration of such a decision, since it is a European practice," said Antunovic. However, some experts call for caution in Antunovic's optimism. At the recent 30th International meeting of gas experts in Opatija, Miljenko Sunic, president of the Croatian Gas Association, said that the start of construction of an LNG terminal on the Island Krk next year does not seem realistic, given the documentation and obtaining all that precedes the beginning of construction.

However, Sunic, together with the director of Department of Strategic Development Plinacro Vladimir Djurovic, believes that this time the preparation for the construction of LNG terminals is most advanced, compared to the previous two attempts. Sunic noted that the construction of the LNG terminal is not only an economic but also a political issue, and that will depend on political decisions not only on the level of Croatian, but of the whole EU which is focused on the reduced dependence of the European market on imports of Russian gas. "The fall of the construction of South Stream updated the importance of the LNG on Krk. The terminal on Krk should be connected by pipeline to the LNG terminal in Poland and thus cover a good part of the EU market, but if it indeed will be built that is something I would like to know, also," said Sunic.

Director of the Department of Strategic Development at Plinacro, Vladimir Djurovic, states that the LNG project is at an advanced stage. "The project is very close to issuing the location permit. However, currently happening is a non-binding test of the market, within which are sent queries to all potential key customers in the region about their interest in gas from the LNG terminal," said Djurovic. There are other issues regarding the implementation of this energy project for which the European Union has approved initial funds for preparatory studies in the amount of EUR 4.9 million from the fund CEF - Connecting Europe Facility.

Professor Igor Dekanic of Mining, Oil and Geology Faculty in Zagreb, points out possible insistence of the EU on economical feasibility of the whole project as one of the important issues. Croatia, he stressed, will not invest in the project, it will only prepare the best international standards so as to be attractive to private capital. LNG Croatia's Antunovic said that the first step in the realization is not to find investors but will primarily seek to sell the final product, which will be terminal capacities. 'If we have sold capacity in a greater or lesser extent, then we will attract investors more easily and under much better conditions. By the end of May, companies have the ability to express a non-binding interest in the project, and then goes the negotiation process about the contract," said Antunovic, who is satisfied with the overall timetable and interest in the project. He revealed that the capacity of the terminal will be six billion cubic meters of gas, but was scalable if initial requirements were less.

Romania to send oil and gas royalty tax law to parliament in September

Reuters, *25.05.2015*

Romania's government will send a draft law on royalty taxes for the oil and gas sector to parliament in September.

The new tax system will likely include differentiated royalties for onshore and offshore extraction and will apply only to new contracts. It will also include a levy on profit from upstream activities, in addition to the global flat 16 percent tax on profit, and a system of deductions based on investment, Manolescu said. Romania is poor state, but it has a wide range of energy resources, including gas and coal, and some analysts have said relatively low royalties prevent it from making the most of what it has.

Companies currently pay royalties ranging from 3.5 to 13.5 percent of production for oil and gas, depending on the amount extracted. They also pay a tax on special buildings such as oil wells and a tax of up to 60 percent on income from higher prices due to ongoing energy market deregulation. Both levies are temporary. "We aim that revenues collected under the new system are at least as high as current ones," Manolescu said. "The draft will be sent to parliament in September, when parliament reconvenes from the summer holiday." He said it was not yet decided the level of the additional tax on profit from upstream activies, nor the amount of deductions.

Romania has left royalties unchanged since 2004, a condition it agreed to under the 2004 privatisation of oil and gas group Petrom, now owned by Austria's OMV. It planned to introduce the new system last year, but a November presidential election delayed the debate. The government has said any new system would have to ensure it does not stifle investment. "Off-shore wells are multi-decade projects," said John Knapp, the general director of the Romanian unit of ExxonMobil , which jointly owns with Petrom the first deep water exploration well in the Black Sea in Romanian waters. "It is a high cost environment, we are looking at several billion euros on investment. Investors require predictability and a competitive environment." Meanwhile, a plan to tender 36 new concessions for onshore and offshore hydrocarbon licences would be held after the royalties law is approved, said Gheorghe Dutu, the head of the National Agency for Mineral Resources (ANR

Slovak Eustream has no plans to acquire stake in Ukraine's gas transport system

TASS, *25.05.2015*

The Slovak gas transmission system operator Eustream has no plans to acquire a stake in Ukraine's gas transport system, a representative in the company told.

"Currently, we're not negotiating a stake acquisition in Ukraine's gas transport system with Naftogaz," the representative in Eustream said. As was reported earlier with reference to the Head of Naftogaz of Ukraine Andrey Kobolev the company is holding negotiations with two major European companies concerning its participation in the joint venture to manage Ukraine's gas transport assets and natural gas storages.

The Greek comparative advantage on the energy chessboard

Natural Gas Europe, 29.05.*2015*

The energy dependence of the EU member states from Russia is known to all the investors. Most East European and Baltic countries, cover about 100% of their needs with supplies from Russia.

The EU desire to increase its energy security, is stronger than ever. Serious procedures have been underway for the development of alternative energy corridors, establishing links with different energy exporting states as well as efforts of exploring and exploiting further reserves within the European geographical boundaries, either in conventional natural gas sources or, more recently, in shale gas.

At the same time, Russia is embarking on specific actions in order to exploit the utmost its energy reserves: in May and November 2014 signed mammoth agreements for supplying 500$ bil. worth natural gas, while in parallel strives to promote, with the construction of Turkish Stream, which will be transferring gas through the Caspian Sea, the role of Turkey as an energy hub, a project on which the US side is already opposed.

At this point we have to mention that Turkey has the capacity to become one of the largest shale gas producers, with estimated reserves of 30 tcm. As a result of that, the largest (in market cap terms) US company has expressed its strong interest to provide knowhow, alongside with investments, for the purpose of oil exploration and drilling. Amidst these delicate balances, the EU is searching for alliances with alternative providers. The first example would be Azerbaijan: with large amount of reserves, having built a pro - Western profile in the recent years, but also with a relatively neutral stance towards Russia, as well as Turkey, could become a key factor in the strengthening of EU energy security. Turkmenistan, fourth in natural gas reserves globally, has recently gained potential as one more alternative provider. The fact that Russian Gazprom, suddenly decided to reduce by 70% its imports from the country, had a particularly negative impact to their bilateral relations, while simultaneously paved the way for establishing a dialogue between the EU and Turkmenistan.

Within this constantly changing environment of negotiations, new agreements and confrontations, the Greek government initiated some hesitant first steps in order to bring on the spotlight the country's energy reserves, aiming at two goals: on the one hand to increase the revenues from the exploitation of the sources, that could help to the improvement of the current economic situation and to enhance the geopolitical role of Greece within the EU, and on the other to render Greece as a direct interlocutor with Russia. Taking into consideration all these factors, any contacts and visits should be performed with a specific vision and strategy. Arguably, conducting multiple visits and referring to potential high profile agreements and down payments, is not the best tactic, especially when the Russian interest remains the same for the past five years and the Russian economy has been weakened as a result of the imposed economic sanctions. The importance and the interest on the natural resources of the country is clear. However, what some people may not be aware of is, as stated in the fundamental principles of economics and management, that the strategic advantage of an organization or a country, could become strategic disadvantage in a rather short period of time.

Biden: US, Europe should deprive Russia of gas pressure ability

Ukrinform, *28.05.2015*

Making Europe not dependent on Russian gas is one of the priority tasks, the US and its European partners are working on, and which has already showed significant progress.

"We need to work across the Atlantic to deny Russia the ability to use resources as a political weapon against their neighbors," Biden said. "It is time to replace country by country strategies with a coherent, collective effort focused on diversifying fuel types, supply sources, and routes, improving efficiency, making investments and market reforms, including grater flexibility of infrastructure to transport gas." U.S. Vice President noted.

Antimonopoly Committee tasked with collecting 10% of Gazprom's revenue

Ukrinform, *25.05.2015*

Arseniy Yatseniuk has instructed the Antimonopoly Committee of Ukraine to initiate an investigation into abuse of Gazprom in Ukraine and to bring the company to justice.

The Prime Minister has stated this, representing the Chairman of the Antimonopoly Committee of Ukraine, an Ukrinform correspondent reports. "The Cabinet of Ministers of Ukraine appealed to the Antimonopoly Committee with a request to initiate an antitrust investigation against the Gazprom Russian gas monopoly. Let me remind you that a similar investigation is being conducted by the European Commission," the PM said.

In this regard, Head of Government asked the Chairman of the Antimonopoly Committee to cooperate with the European partners and to make every effort to bring the Russian gas monopoly to justice "for abusing its monopoly position in the Ukrainian market." "The total sum of a fine may amount to 10% of the total revenue obtained by Gazprom on the Ukrainian territory," the PM reminded.

A tiny European country is making Russia extremely nervous

Business Insider, *22.05.2015*

The political turmoil in a tiny Balkan republic is making Russia extremely nervous especially because the state is an integral part of Moscow's latest gas-pipeline deal.

The Republic of Macedonia was rocked by antigovernment protests and pro-government counterprotests following the release of covert recordings that allegedly show the government planning to rig votes and to cover up a murder. The prime minister, Nikola Gruevski, is openly friendly to Moscow. He has taken a stance against the Western sanctions on Russia and supports the proposed Russian gas pipeline that would probably go through Macedonia.

Against this backdrop, it looks like Russia is worried about the possibility of a new anti-Moscow government, which could potentially weaken the Kremlin's position. (Especially because Moscow has traditionally used its arsenal of gas pipelines as tools of coercion in Europe.) Russia's foreign minister, Sergei Lavrov, stated that "the Macedonian events are blatantly controlled from the outside," according to Russian state-controlled media outlet TASS. "They are trying to accuse Gruevski's government of not fulfilling its obligations to the population," he said. "However, the reason behind this is a desire to influence it in connection with its refusal to join anti-Russian sanctions, support of the South Stream and willingness to be involved in the implementation of other options of fuel delivery, including the so-called Turkish Stream," he said. "I don't have any hard-line facts, but it's a logical suspicion," Vladimir Chizhov, the Russian ambassador to the EU, told Bloomberg TV in an interview when asked about the claims. "If you look at the geography of the region, Macedonia is the best place for constructing the extension of the newest energy infrastructure project in the region, the so-called Turkish Stream," he added.

The Turkish Steam, an OAO Gazprom project, was announced in January after the company abandoned the $45 billion South Stream project in December. The key geopolitical takeaway regarding both projects is that they're supposed to bypass crumbling Ukraine — which would allow Russia to both maintain its gas leverage over the EU and hurt Kiev. "To help Gazprom reach Central European markets, Russia has advocated the construction of a pipeline that would run from Greece to Macedonia, Serbia and Hungary," analysts from Texas-based consulting firm Stratfor wrote in a report, according to Bloomberg. "These four countries are at the center of a Russian diplomatic offensive."

Although some analysts have expressed doubts over the projects, "the Russians seem determined to let their transit contract with Ukraine expire by 2019 in favor of the alternative route under the Black Sea. Gazprom has already laid 472 kilometers (293 miles) of the so-called Southern Corridor, the onshore part of the pipeline in Russia, in anticipation of the deal," according to Bloomberg. In any case, it looks like Russia might be closely monitoring the political conflict in Macedonia with the goal of avoiding another Ukraine circa 2013-2014, when the pro-Kremlin president, Viktor Yanukovych, was ousted from his position.

Rosneft said to mull purchases, aid to meet $50 billion gas deal

Bloomberg, *26.05.2015*

Rosneft may have to turn to competitors to buy natural gas and state aid to help honor a $50 billion contract it won away from OAO Novatek three years ago, according to two people with knowledge of the matter.

Rosneft may supplement its own output with fuel purchases when the contract with power utility OAO Inter RAO UES starts next year, the people said, asking not to be identified because the information isn't public. In 2016, the state-controlled company may even turn to Novatek for fuel, according to one person. Rosneft will fulfill its obligations, its press service said.

Rosneft, which pumps about 40 percent of Russia's oil and 9 percent of its natural gas, asked for state aid last year after the U.S. curbed its access to borrowing, citing President Vladimir Putin's involvement in the conflict in Ukraine. After signing the contract in 2012, Rosneft said it would supply the fuel from its own fields amid plans to triple output by 2020. The government is deciding on funding for Rosneft to expand its Rospan gas unit in West Siberia, according to a draft document, obtained by Bloomberg. The Economy Ministry plans to recommend the project as one of five recipients of about 300 billion rubles ($6 billion) from the National Wellbeing Fund, one person said.

Rosneft has no alternative to developing Rospan to fill long-term orders, and a failure to supply contracted volumes to Inter RAO may expose Rosneft to the risk of penalties, according to the Economy Ministry document. Rosneft head Igor Sechin is also chairman of state-controlled Inter RAO. Rosneft will develop Rospan irrespective of state aid, while its request for the funding was "in part" motivated by the limits on international financing, its press service said by e-mail. With more than 2 trillion cubic meters of gas reserves, Rosneft has been seeking to replace Novatek as Russia's second-largest producer of the fuel and to break Gazprom's monopoly on pipeline exports. Russia's most indebted company, Rosneft may get more than $2.5 billion in revenue from gas supplies to Inter RAO next year, according to estimates by UBS Group AG.

Inter RAO agreed to buy as much as 875 billion cubic meters of fuel from Rosneft in 2016-2040, with 32 billion to be delivered next year from about 6 billion planned this year. The volumes in 2016 are more than half of Rosneft's gas output now. The total accord might be worth at least 2.5 trillion rubles, the Kommersant newspaper reported in November 2012. "Rosneft's margin could be close to zero on supplies to Inter RAO due to the third-party purchases," said Alexander Kornilov, an oil and gas analyst at Alfa Bank in Moscow.

“The main thing for Rosneft was to gain a foothold in the market and that should bring dividends in the future.” The company declined to disclose its natural-gas output and sales plan for the coming year or comment on talks with other fuel suppliers. Rosneft sells both its own and third-party gas as traders do, its press office said. Inter RAO is sure Rosneft will meet its obligations in full, Anton Nazarov, the power company’s spokesman, said by e-mail. Rosneft needs 18 to 24 months to boost output at Rospan -- with or without state aid -- because it has to build a plant to process condensate, said Maxim Moshkov, an energy analyst from UBS in Moscow. The company plans to produce 5.6 billion cubic meters of gas at the project by next year, increasing the output to a maximum 18 billion by 2018, according to its website. Gazprom has had no offers from Rosneft linked to the Inter RAO contract, its press office said. Novatek declined to comment. The Economy Ministry didn’t immediately comment.

Russian gas industry looks east to strengthen position

BBC, *28.05.2015*

Just two years ago, Gazprom spent a reported $1bn on its 20th birthday celebrations, with Sting and the Bolshoi ballet entertaining President Putin and company executives in a lavish gala dinner hosted at the Kremlin.

And there was much to celebrate. Russia was the undisputed king of gas - the world’s biggest producer with the biggest reserves and the biggest exports. But the party has since fallen rather flat. Weaker demand in Europe and plunging natural gas prices have hit revenues, while US and EU sanctions over the country’s actions in Ukraine are targeting Russia’s energy sector.

Add an EU charge of monopoly abuse, increased competition from Qatar and a potential glut of US liquefied natural gas (LNG) flooding the market next year - not to mention the possible unleashing of Iran’s vast gas resources if sanctions are lifted following a nuclear deal with Tehran - and the threats are both numerous and real. With state-controlled Gazprom, which dominates Russia’s gas industry, one of Moscow’s primary foreign policy levers, the stakes could not be higher. As the biggest single supplier of gas into Europe, will Russia’s influence on the continent begin to wane, and will she flirt ever more with China to compensate? Most gas contracts are indexed to the price of oil, which has slumped more than 40% since last summer, dragging natural gas prices down with it. Mild weather and cutting off supply to Ukraine following a contract dispute compounded the problem - Gazprom saw profits plunge almost 90% last year, from more than $20bn to $3bn.

And with the oil price likely to remain relatively weak for the foreseeable future, revenues will remain under pressure. As Michael Moynihan at energy consultants Wood Mackenzie says, “the gas price is low and it’s not going back to the highs of two years ago”. But low prices are hitting all gas producers. In fact, Mr Moynihan says, a weak rouble is helping to make Russian gas companies, which also include big producers such as Rosneft and Novatek, more competitive - allowing them to make the same profit margins despite falling prices. The question for Gazprom now is whether to cut exports to combat oversupply, thereby supporting prices, or to keep volumes high to protect its market share. Rather like Saudi Arabia in the oil market, the company is perfectly able to withstand a prolonged period of low prices.

And there are many other reasons why the outlook for Russia’s gas industry is far brighter than at first it may seem. For a start, Russia’s gas fields are running well below capacity, according to Irina Gaida from Boston Consulting Group. “Russia’s gas industry has better production potential [than its oil industry] as the gas fields are much younger and are in the early stages of development”. There is, then, plenty of potential to ramp up production when new contracts are signed, as they will be. “We are very pleased to receive a production licence for the Morskaya field and will now work towards putting in place a plan to fully appraise this large discovery situated in the northern Caspian Sea” Ashley Heppenstall, President and CEO of Lundin Petroleum, commented. The US and EU sanctions are primarily targeted at the country’s oil industry, for very obvious reasons. Russia provides about 30% of Europe’s gas, so it’s simply not in the EU’s interests to compromise Gazprom’s ability to produce and export gas. This month’s deal with the UK’s Centrica to increase gas supplies by 70% to more than 4 billion cubic metres (bcm) a year provides ample proof of this. Equally, the sanctions are designed to hamper financing and stop Russian companies importing new technologies. But Russia’s vast resources of conventional natural gas mean it does not need to develop new techniques to frack shale rocks, and it already knows well enough how to extract gas and build pipelines. If sanctions remain in place over the long term, raising finance may become an issue, but right now they are having little impact on Russian gas producers.

The European Commission’s charge last month that Gazprom has abused its dominant market position in Central and Eastern European gas markets is also unlikely to undermine the company’s stranglehold on European gas imports. As John Lough, of the Chatham House think-tank says: “The Commission hesitated over whether to pursue this as it was concerned about damaging its gas relationship [with Russia]. “Gazprom will make a robust defence and then try to seek some kind of settlement.” The likelihood is that a financial penalty will be agreed before business returns to normal. But while Europe’s actions are having little direct impact on Russia’s gas industry, their indirect repercussions are profound, not least pushing Moscow towards closer ties with Beijing. “Russia has been talking to China for 10 years about exporting gas, but for various reasons they couldn’t find alignment,” says Mr Lough. “It has not been prepared to go the last mile, but the pressure to sidle up to China has now increased.” Feeling ever more isolated in Europe and suffering from wider economic sanctions, Russia signed two significant gas deals with China last year. The first, worth $400bn at the time, provides for 38bcm a year from 2018. Construction of the pipeline to transport the gas from East Siberia began in September. A provisional deal for a further 30bcm was signed a month later, with gas potentially being delivered from West Siberia through the Altai region in southern Russia. Some of this gas could, Mr Moynihan says, come from fields that currently export to Europe.

The combined 68bcm is half the 140bcm Russia currently delivers to Europe, but when the pipelines are in place, that number could grow significantly. China's demand for energy to satisfy its rapidly expanding economy and increasingly wealthy population is growing fast, while environmental concerns - mainly pollution and water shortages - mean the country needs to reduce its dependency on coal. As Ms Gaida says: "The share of gas in China's overall fuel mix will rise rapidly. The potential of China far exceeds that of Europe". And Russia's resources are such that it would have no problem supplying both. There is also the tantalising possibility of a deal with India, another potentially gargantuan market for Russian gas. Any such agreement, however, appears a long way off with no easy route for a pipeline between the two countries.

Russia's gas industry, then, dominated by state-controlled Gazprom and with its vast resources and ideal location, seems perfectly placed to overcome the numerous obstacles laid before it. As Mr Lough says, "I wouldn't underestimate Gazprom - it's a very capable company". Despite frosty relations with Europe, it will continue to supply gas to a continent that, for now, has little viable alternative, while at the same time helping to satisfy China's voracious appetite for a cleaner alternative to coal. With serious questions about whether Europe can develop a viable shale gas industry at all, let alone in the foreseeable future, and the slow adoption of genuinely clean, renewable energy technologies in many countries, Gazprom, and by proxy Moscow, will continue to hold the trump cards in any negotiations with the EU. US and Iranian gas may offer another way out, but until European countries are able to wean themselves off Russian gas, this will remain the case.

Russian gas monopoly doomed to failure

Natural Gas Europe, *25.05.2015*

If we consider Russia's energy policy, we can see that almost all energy projects of Moscow are, first and foremost, political. The same situation was with the South Stream. Russia is eager to thrust the Turkish Stream on Turkey. There is no doubt that the Turkish Stream is also a part of the political pressure on the EU in case of its implementation.

Despite Russia's efforts in this direction, it is early to talk about the implementation of the Turkish Stream at least because the EU, with the exception of Greece, covered by economic chaos, has not showed much interest in this project.

Russia has the opportunity to supply gas to China through the Power of Siberia project. But apparently, it also had problems here. China has refused from financing the project, saying that it can receive gas via Altai route. But this can be done only if Gazprom finances the continuation of the construction of this gas pipeline (4,000 kilometers) through the Chinese territory. That is, all attempts to blackmail the EU are useless because only Gazprom is confident that China can replace Europe in the issue related to Russian gas. According to the Western media, Slovakia, Hungary, Romania and Bulgaria signed a joint declaration at the summit of the EU Eastern Partnership member-states in Riga on May 22.

The declaration includes the creation of a gas interconnector that will connect Central and Eastern Europe. According to the media, Eastring gas pipeline project is the basis for uniting the infrastructure. This gas pipeline will connect the above-mentioned countries. In case of implementing this project, the capacity of the new pipeline is expected to reach 20 billion cubic meters with an extension of up to 40 billion cubic meters. Azerbaijan, Turkmenistan, as well as Iraq, Cyprus, Russia and the West can be the potential gas suppliers via the new route. But a question arises. Did any of the above-mentioned countries, except Azerbaijan and Russia, declare its readiness to supply gas to Europe and undertake any actions? On the other hand, does Azerbaijani gas need additional route today?

The gas will be supplied from Azerbaijan to Europe via TANAP and TAP. Azerbaijani Foreign Minister Elmar Mammadyarov has recently said that Azerbaijan expects strong support from the EU in the implementation of the Southern Gas Corridor project. This will allow the EU to provide its citizens with reliable, stable and uninterrupted energy supply. Taking this into account, we can say that the Eastring implementation is only in the interests of Russia now, which is so committed to the Turkish Stream implementation. But if the Eastring project is implemented and such countries as Turkmenistan and Iraq join the Southern Gas Corridor, this will only increase the importance of the Southern Gas Corridor, and in particular, TANAP project.

Gazprom aims to increase natural gas share in EU

Anadolu Agency, *28.05.2015*

Gazprom plans to increase its share of Russian gas by 5 percent over the next five years to the European Union market, said Alexey Miller, Gazprom's CEO.

Miller said the share of Russian gas in the European Union market at 30 percent may increase by 5 percent by 2020. Miller said the increase in imports will be due to the decline in production in European countries. "In the next 15 years declining production in Europe will be dominant," Miller said. In 2014, Russia transferred 147 bcm of natural gas to Europe. This represents a cut in supplies to Europe by 9 percent from last year as Europe's consumption fell by 11 percent.

In the first quarter of 2015, Norway exported almost 30 billion cubic meters of natural gas to Western European countries, surpassing Russia by more than 9 billion cubic meters, according to data from the Norwegian state operator Gassco and Russian Gazprom figures. West European countries had imported 29.5 billion cubic meters from Norway in the last quarter of 2014, while Russia had only exported 19.8 billion cubic meters to the same region. European countries have chosen to diversify their source routes in order to lessen their dependence on Russia.

Gazprom & The European Commission: Let's make a deal

Natural Gas Europe, *20.05.2015*

Alan Riley delved deeply into the EU's antitrust case against Gazprom, breaking down the allegations against the Russian gas company, and describing the repercussions of not settling the matter before a ruling by the Commission.

He recalled that the Commission's antitrust allegations against Gazprom, which resurfaced in April, were originally launched in September 2011 with a series of "dawn raids" at Gazprom's offices in Berlin and Prague. "The Commission can take enormous amounts of documentation, copy corporation servers they're able to obtain a vast amount of information."

This, said Prof. Riley, resulted in a Commission investigation the following year. According to him, in the Commission's statement at the time they announced they were focusing on three principle issues: destination clauses, denial of third party access to pipelines/markets, and indexation. Of the destination clauses, he said: "This is essentially a clause in long-term supply contract which says 'you, Poland, can have our gas – here is your contract; however, you are not allowed to sell it to, say, Germany.'" While initially there was no problem doing that, said Prof. Riley, considering increasing single market integration and equalization prices in much of the region it was not a problem. "Now the issue might be somewhat more complex in the sense that it's not actually about formal clauses in long-term supply contracts; it's about practices which try and divide up the market and allow you to impose different prices across the system."

Secondly, Gazprom is alleged to have stopped competitors getting to market for the last decade. He explained, “Gazprom classically owns one-third of a pipeline network in a particular member state and it’s commercial allies own the other two-thirds, and it is able then to stop anybody, effectively, accessing the pipeline network.” Alternatively, he said, Gazprom can impose pressure on host governments or corporations in a state to stop the building of LNG terminals, pipelines or interconnectors. “Effectively stopping any competitors from entering the market,” he added. The indexation issue, said Prof. Riley, is tricky. Initially, he recalled, the Commission said it was seeking to challenge the indexation of gas prices to oil prices. The original linking of gas prices to oil prices had occurred in 1967, when the Dutch were trying to figure out how to price and sell gas from the Groningen field. “And as, at that time, we had oil-fired power stations and were going to also use the gas for generating electricity, it seemed reasonable enough to link the oil and gas price.”

Today, he said, oil-fired stations are the last resort. “The actually practical link no longer exists,” he explained. “Today, if there’s no transactional, commercial basis for the link, if a dominant company uses that, relies upon indexed-based, is that sufficient to constitute abusive dominance? I would have thought no, but there may be a lot more to it.” The price discrimination across the Union angle, according to Prof. Riley, has greater potential as a legal route of investigation. He explained: “If you go to the UK market – the most liberalized, liquid gas market in Europe – you’re paying around $300/tcm, whereas substantially closer to Moscow – in Lithuania before they got their LNG terminal in place - they were paying close to $500/tcm. And under no ordinary commercial rationale, beyond the fact that the Baltic states were a gas island that were 100% dependent, could you easily justify that.” He said that a series of meetings were held between Alexander Medvedev and Directive Group (DG) Competition officials at the end of 2013 to settle the case, with the major issue being overpricing, but no agreement reached.

Professor Riley offered that the Commission could fine up to 10% of Gazprom’s turnover of the preceding business year, which could amount to $15 billion. “However, the Commission would not actually pose a fine of that size – I reckon between half a billion and $3 billion if you look at previous practice.” The bigger threat for Gazprom, said Prof. Riley, would be if the Commission imposed remedies, like if the company was forced to sell pipelines, infrastructure or storage facilities in order to reduce Gazprom’s market power in Europe. He added that a monitoring trustee could also be appointed to oversee the operations of Gazprom in the European market. Further fines could also be imposed, investigations could be undertaken, etc.

A “prohibition decision”, he explained, would be problematic in that a document would exist, which would be published in 18 languages and include all of the official details of what Gazprom had done in the last decade – real reputational issues for the company. “There’s also the problem that, almost immediately, you would trigger a series of arbitration claims in Western Europe, to challenge the existing pricing structure. Because if the Commission rules that indexation is unlawful, then one of the difficulties for Gazprom is that the case only deals with Eastern Europe, not Western Europe, but the Western Europeans will be affected by any decision in the Gazprom case for Eastern Europe – this is increasingly a single market – so they will be able to trigger the price review clauses in all of their arbitration contracts, to argue downward the price of gas they’re currently importing from Russia on the basis of the Commission’s prohibition decision,” said Prof. Riley, who called it a “cascade effect.”

That decision, he said, could be used all over the world, for example by China. Finally, the most potential damaging effect, according to him, is the prospect of damages claims on the basis of illegal pricing being brought by countries, state utility companies, energy intensive private corporations right across the whole of the European Union. If, for example, Poland pays about $10 billion/year for gas and the overcharge is roughly 10%, tacking on compound interest. “You do the math,” quipped Prof. Riley. “That’s one member state. The numbers could get very big indeed.” He said that his advice to Gazprom has been, “Whatever you do, settle the case. You cannot allow a prohibition decision to be published – it will be very bad news indeed.” The fact that charges have been filed, he said, does not mean there won’t be a settlement. With the oil price as low as it has been, Prof. Riley asked if it is worthwhile for Gazprom to fight on this front. “Equally, the European market is being put together, the Energy Union is on the way, physical interconnections are being strengthened, the Third Energy Package is being employed across the market – so all the points that Gazprom is trying to fight on are actually, practically and commercially, difficult to sustain, so why try to defend what is increasingly indefensible and commercially impractical? Why not just do a deal?”

Prof. Riley opined that, given that Russia has become radicalized in the last 18 months, it may be quite difficult for the leadership of Gazprom and the Kremlin to take that decision. Meanwhile, he observed that Gazprom has already been conducting a selling off of energy assets in Europe, like the sale of Wintershall, or the company’s trading operation moving from London to St. Petersburg, and an alternative strategy is apparent. He said that Russia had captured Turkey, explaining, “One of the real reasons for the Turk Stream decision on 1 December was that in October and November the Russians reduced the supply of gas to Turkey by 50%, causing panic in Ankara and providing an extra incentive to do the deal that the Turks did – they’re already 60% dependent on Russian gas and they’re paying higher prices than Ukraine.” Also, he said Russia has a strategy to buy a number of energy assets in Turkey, so while it is losing Ukraine and they European Union, Russia is trying to hold on to the one remaining country with growing gas demand. Aside from the antitrust case, Prof. Riley said Europe should complete the single market and put the interconnections in place, and dealing with “weak links” like Bulgaria. Editor’s note: Reuters reported on 7 May that Gazprom has 3 months to respond to the EU antitrust charges. For it’s part, the company says it might be willing to make price concessions.

Norway overtakes Russia as Western Europe's top gas supplier

Reuters, *26.05.2015*

Norway has overtaken Russia as western Europe's top gas supplier indicating the EU's drive to reduce its dependence on Russian energy is bearing fruit.

The sharp drop in oil prices has been another factor, as Norway offers more flexible pricing and big buyers held off buying from Russia in the hope the fall in crude price levels would eventually filter through to Russian gas. Norway exported 29.2 billion cubic metres (bcm) to western Europe in the first quarter of this year, figures from Norwegian state operator Gassco show, while Russia sold 20.29 bcm, according to Gazprom's.

The data showed the trend began in the final quarter of 2014 when western Europe bought 29.5 billion bcm from Norway and 19.8 bcm from Russia, according to Gassco and Gazprom respectively. Exports to EU members in eastern Europe are not included in the data. It was the first time Norwegian exports have convincingly overtaken Russia's since a brief period in 2012. The European Union has been striving to reduce its dependence on Russian imports and buy more from Norway and other gas producers, mindful of Russia's dispute with Ukraine, the biggest transit route for Russian exports to the EU. Some EU firms have held off from buying Russian gas this year in the hope oil-indexed prices will drop later in the year, while Norwegian capacity has been boosted by the end of an outage at Troll, which produces around 30 percent of the Scandinavian country's gas.

Troll returned to full capacity of 120 million cubic metres per day in March last year, but volumes were deliberately kept low over the summer months in line with reduced demand. The European Commission, the EU executive, said that for 2014 as a whole, Russia was still the main EU supplier, but its total share of imports dipped to 42 percent from 43 percent and in volume terms fell by more than 10 percent. Norway's share of EU imports increased from 34 percent to 38 percent in 2014. Apart from a geopolitical row over Russia's annexation of Ukraine's Crimea region, Moscow and Kiev are locked in a dispute over the price Gazprom charges Ukraine for its supplies. The European Commission negotiated a three-month supply agreement between Moscow and Kiev at the end of March. Piling on the anxiety for Gazprom, Ukraine has also been seeking to use more reverse flow supply from the EU and take less Russian gas. In many cases, the gas it is receiving is still Russian, although cheaper than that offered in its long-term supply contract with Gazprom.

LNG for Europe: A multi-faceted role

Natural Gas Europe, *25.05.2015*

The role of LNG for Europe is "multi faceted," according to Andrew Walker, BG Group. LNG in Europe, he said, is a diversification of supply, "A means of getting gas into the European network whose connectivity is not so good, and if we look at the new markets that have emerged last year, Europe is in the mix, adding new construction of locations."

The key is supply diversification, away from Russian gas. He mentioned the completed and forthcoming projects, in Lithuania and Poland, respectively. "There's the balancing element and also the option to access global supplies when it needs them," he offered.

For most of the LNG industry's history, he said, it has grown exponentially, at around 8-9% per annum. That is, until things grew difficult in 2010-11, when it began to plateau. It was then, he said, that Asia became the predominant destination for cargoes and the Fukushima disaster in Japan had helped growth. By 2014, that growth had slowed. That year, Europe, including Turkey and Greece, he said, had imported around 33 million tons. "In terms of infrastructure Europe has, it's really quite a low utilization factor; 33 million tons is about 22% utilization, on average," commented Mr. Walker, who said that the continent has 150 million tons of import capacity.

Turkey, he said, uses 60% of its capacity. Supply, according to Mr. Walker, is in hiatus. Increasing supply only comprises 3.5 million tons/year – less than a train, he said. Meanwhile, growth is being seen in inflexible markets like Asia, the Middle East and Latin America, outpacing supply. "That means, in order to balance the system, LNG has to come from somewhere," he explained, adding that it's coming from Europe. He also said there is a softening of the market, explaining, "Asian spot prices went down last year – they're generally a good indicator of global supply and demand." Those prices, he said, had gone down to $14.99 from the usual $16-20, and the drastic fall in oil prices had also affected the spot price.

Mr. Walker described last year as a "year of two halves." Spot prices had been up and had been at crude oil parity, but by summer were half of what they'd been in winter, and then something happened that hadn't been seen in a long time, in March. He recalled, "We got to see a flood of cargoes heading back to Europe. BP sent their cargo around the Atlantic, trying to find a destination they could send it to." Still, most LNG had been sold at long-term contract prices; the spot price being an indicator of supply and demand. Europe, he said, had been importing a bit more LNG. He commented, "I don't think we're seeing a flood of cargoes coming back to Europe based on the price indicators."

Showing a diagram of LNG imports into Europe according to a 3-year average, he showed that Europe is starting to stabilize at 4 bcf/day, hitting a plateau, despite the pull from Asia not being that strong. “I have a suspicion that Europe probably can’t go much lower than this,” he said, explaining that it signalled a baseload role for LNG in Europe. Regarding volumes coming out of Europe, he explained that mainland Europe – France, Italy and Spain – had become much more flexible, while suppliers like Algeria and Nigeria had become flexible in their approach. He offered, “Europe as a whole has become quite a flexible market – I think that’s an important learning from the last few years.”

Presenting the supply/demand balance, he said he doesn’t expect a huge uptick in supply despite Australian supply coming on towards the end of the year. Asia, according to Mr. Walker, will continue to see growth, so it is not likely that a huge flood of volumes will be coming back into Europe; only perturbations were likely, year-to-year. He explained, “That’s going to be important for Europe going forward, because I think we’ll be entering a period where we’ll see more ebb and flow of volumes, and Europe is going to benefit at times – for short periods in terms of flows into the market.” There is a consensus of growth for LNG among commentators, said Mr. Walker, who said an additional 425 million tons of trade could be seen by 2025 at the “high end,” with 100 million tons of new supply by then. “Asia continues to be the predominant importer, but we’re going to see volumes coming back into Europe round about a decade.”

Australian and US LNG, he said, will bring Europe back eventually to the levels seen in 2010 (by 2020), with some level of growth beyond that, via policy decisions and markets becoming more connected. Going forward, he noted that the low oil price could affect investments in LNG projects. He commented, “There’s been a lot of speculation in the press that we may see a slowdown in FIDs as we look forward. People tend to get used to the lower price environment.” The oil price over the last decade, he explained, had been fairly cyclical, as seen from investments made by Qatar, Australia and now the US. “If investments slow down, we could well go into another hiatus around the turn of the decade, which would have implications for Europe, putting us in an environment which looks like the one we’re in at the moment.”

Addressing the potential huge LNG volumes that could potentially be delivered to the market, Anne-Sophie Corbeau, Research Fellow, KAPSARC, listed the 5 countries/regions that are potential suppliers: Australia, Canada, the US, Russia and East Africa. She opined that just because there is planned capacity does not mean all projects will move ahead. Looking at the announced contract obligations, she observed that the US is slightly ahead. “However, a lot of that LNG would go to aggregators and it’s not because the US seems to be slightly ahead, but others may not take final investment decisions,” she said, adding that East Africa/Mozambique need to act rapidly, for example, not to be squeezed by the rise of US LNG. And, if FIDs are taken, Ms. Corbeau said it’s very questionable where the LNG from those projects will go – will they have the flexibility to be able to dump shipments on markets?

European gas storage market challenges

Natural Gas Europe, *26.05.2015*

Some harsh winters have proven how necessary having a well-developed gas storage system is, Nicole Otterberg has said. Ms. Otterberg has seen how the right storage approaches have helped to maintain security of supply, not just for Germany and Austria but for the whole of Europe.

But, despite this history and reputation, the gas storage sector is being squeezed by a market that favours getting the lowest cost possible for its gas storage, Ms. Otterberg says, an approach that could force smaller units to close in the future or gas storage operators to decide not to develop necessary—but costly—new storage sites.

Ms. Otterberg sat down with Natural Gas Europe at the 2015 GIE Conference in Europe to discuss gas storage market in Germany, Austria, and in Europe overall. So what does she say are the major challenges facing the sector? “The major challenge is that the value of storage is not widely recognised,” she says. “Storage is there and in the past years, it has always worked that there is enough storage capacity when it is needed in a long or cold winter. But current market prices do not reflect that.” The unwillingness to pay a fair price for the service gas storage operators provide is a matter of contention for the GSE; in fact, Ms. Otterberg says that the body is lobbying for a change in how transport costs are charged and how they are currently shouldered by the gas storage sector. At present, gas storage customers pay not only an entry/exit fee for use of the service but also transportation costs that are set by the transmission system operator (TSO). The customer balances that against what he is paying the gas storage operator before deciding how much to pay. That balance often does not fall in the gas storage operator’s favour, Ms. Otterberg says. “The customer is burdened with that cost but he puts it on us. Therefore, we are lobbying that for us it is necessary for transmission costs to and from storage to be as low as possible and they should only be charged in case storage sites create additional costs to the transmission system.”

This is a matter of major import for gas storage operators in Europe, the GSE President says. “Our work in GSE is currently focussed on getting policy makers and stakeholders at European level to recognise that the ‘insurance’ and ‘system stability’ elements that gas storage contributes to the whole value chain need to be better reflected in the gas market design,” she explains. “Gas storage needs a level playing field to compete in the wider flexibility market, i.e. fair transmission tariffs, no undue burdens for product innovations and its essential role in ensuring security of gas supply.” When you consider the role of gas storage in ensuring the security of gas supply to Europe, it is perhaps a little surprising that the market is not willing to pay a greater amount for the service.

Take the relatively harsh winters of 2012 and 2013 as an example. Though the length and cold of the two winters put pressure on the gas sector to deliver, a crisis was largely avoided. Without the assistance of gas storage sites, it would have been impossible to supply all the customers who rely on gas. “In some countries they were down to less than 10 %, but we managed the situation,” Ms. Otterberg says. “We were able to prove that storage is reliable and could help to overcome that situation.” Ensuring security of supply is one of Ms. Otterberg’s major concerns in her role as President of the GSE. Key to achieving this is to encourage transparency in the sector. As such, the GSE has encouraged countries across Europe to begin self-reporting various aspects of their business, including the filling level of every storage site, withdrawal and injection rates, and plant maintenance information. All the results are made publically available, so customers can plan more easily their strategy and need for withdrawal or injection.

Currently, more than 30 Storage Operators deliver online daily data representing approximately 90 bcm, (or 90 %) of the EU’s technical storage capacity, with more being added—Romania will join from next month. But it’s not just the customer who benefits from the availability of this information. The approach also assists the European Commission and national and international politicians, Ms. Otterberg says. She presents to the Commission at least twice a year to present the filling levels of the storage sites under her purview. “That’s a good tool for all the officials to see whether there’s a potential threat danger we could run out of gas in storage, in case of another cold winter,” she says. “We have also been taking information from Ukraine’s storage sites since last year. That is highly appreciated because knowledge of the filling levels in Ukraine helps in making predictions.”

New technologies and programmes are also contributing to security of supply. Despite the price squeeze from the market, the E.ON Innovation Center Energy Storage is tasked with finding and progressing the technologies and infrastructure that can help to safeguard against the highs and lows of the market. This is especially important because of—not in spite of—the growing renewables sector, Ms. Otterberg explains. “These activities are based on the view that the expansion of power from renewable sources poses a major new challenge,” Ms. Otterberg says. “The energy is available whenever and wherever the wind blows or the sun shines, often at remote locations or times of low demand. Energy demand has always been subject to fluctuation, but now generation will also fluctuate and take place at considerable distances. As a result, temporary network overloading is already resulting in the forced shut-down of generating facilities and preventing optimum use of the system.”

She predicts that, if not tackled, shortages could result in the future. “Attempts are being made to avoid these problems by expanding power grids, but this assumes that generation and demand will always coincide in terms of time and location. This is not necessarily the case and ideally the adopted solution would be supplemented by the storage of energy.” To combat these shortages, the Innovation Center Energy Storage is focusing on a number of areas, including electric storage (e.g. batteries), storage in the form of gas (e.g. conversion from power to hydrogen using power-to-gas technology or compressed air storage), and heat storage (e.g. for combined heat and power plants). One of the most successful recent projects is the Falkenhagen “Power to gas” pilot project, which was launched in August 2013. It operates in two ways. First, it feeds hydrogen into the system and into the existing gas market. Secondly, it directly markets to the final customer.

This kind of innovation is just one way that E.ON is working to move with the changing sector and to suit the customers' individual needs. The way the company has approached pricing has changed from what was traditional, too. "We had a fixed working gas volume combined with entry capacity and exit capacity," Ms. Otterberg says. "That is a bundled product. Quite soon we recognised that not every customer has the same needs. So we said, 'Okay, if that does not fit, we unbundle this product,' which means that the customer would have the possibility, if he needs more injection capacity, less withdrawal capacity, or another combination, he could book that as well. So it's somewhat more tailor-made to the customer." "Our objective is to comprehensively serve the needs of our customers. Of course, we make our products available to all market players on a non-discriminatory basis. We are also continually developing other interesting, competitive products. There, we learned that the customer is sometimes more interested in not having a fixed price but a price that is somewhat fluctuating with the market." Now the company offers index-priced products, too, where the basis of the payment is a summer-winter spread and the volatility, for example, of the storage site. "Based on that we created a formula whereby the customer, if he books over several years, could swing with the market."

Still, the sector is fighting to have its value recognised in monetary terms—if not in security terms—by the market. Part of the issue is that, though the market has changed, the structure of it has not, Ms. Otterberg says. "Storage requires fair competitive conditions and appropriate remuneration of individual contributions to added value. Market design needs to be 'evolutionised' to ensure a high level of supply security both now and in the future. "Also, in the past, the responsibilities were clearer. It was the one, two, three, four energy companies who were responsible for security of supply. But, with the liberalisation, splitting up, and unbundling of these tasks, it's not all that clear who is responsible for what." This, she says, is perhaps the most important next step on a governmental and Commission level. "So the definition of responsibilities is maybe the first step where we need to be clearer."

Wood Mackenzie: North Sea capital, operating costs to fall 10-20%

Natural Gas Europe, *27.05.2015*

Europe Capital and operating costs in the North Sea will fall between 10 and 20%, with UK-focused Upstream companies reaping the greatest benefits of lower prices and Norwegian operators following suit.

'Near term pre-Final Investment Decision (FID) projects are expected to be best placed to benefit from reductions and development costs for these projects could fall 10-20%' Wood Mackenzie wrote. The consultancy firm explained that the UK and Norway will 'deflate' at different rates because of specificities of the Upstream projects in the two countries sharing North Sea's riches.

‘Wood Mackenzie says the UK and Norway will deflate at different rates, based on distinct rig and labour markets and varying activity levels. Wood Mackenzie also cautions that the outlook for upstream costs beyond 2016 is much less clear and will be largely driven by what happens to the global oil price.’ This is due to a decrease in Upstream capital investment in both the UK and Norway, the note explains. Meanwhile, Statoil and Shell reportedly filled application to drill new wells in the North Sea and Norwegian Sea, respectively. The British government confirmed its Energy Bill, and the creation of an independent regulator for offshore activities. “The new Energy Bill will boost the UK oil and gas industry by creating an independent regulator for exploration and production from the territorial sea and UK continental shelf. This new approach to industry collaboration (which fully implements last year’s independent Wood Review) will help drive down costs and improve the sector’s efficiency” UK Secretary of State for Energy and Climate Change Amber Rudd wrote on her blog commenting the speech given by the British Queen.

EU gravitates towards LNG expansion

Natural Gas Europe, *28.05.2015*

The European Union is forging, albeit with considerable debate and obstacles due to the national strategies of its member states, a long-term Energy Union that has natural gas as its basic component. EU energy diversification tools, which include LNG, see LNG steadily emerging as a basic method to achieve its Energy Union goals.

For the time being, Northern and Western Europe are far better placed than Southern Europe in terms of LNG infrastructure. Most recently, Maroš Šefčovič discussed important notes during an energy security session organized by European authorities in Brussels.

New suppliers are needed in order for such a reliance on LNG to have validity for the long-term. Therefore, countries including the US, Algeria and Qatar are said to be already engaged into talks with Brussels for eventual supply routes into the Union. Additionally, the Southern Corridor pipeline project, due to be completed in 2020 and comprised of the TANAP-TAP-IAP system of pipelines, opens up the Azeri gas market to the EU and provides a basis for an eventual inclusion of Caspian producers such as Turkmenistan and Uzbekistan. These additional quantities would be used not only for consumption by the member states, but also used to establish gas trading hubs and facilitate import-export platforms based on LNG trade.

Croatia is already moving forward by establishing an LNG terminal in the Adriatic coast in the island of Krk that should commence its construction by late 2016 and be operational in early 2020. This project is included in the EU’s list of energy plans for financing as a major energy security project. The final aim of Croatian authorities is to import gas and then re-export via a set of interconnections up to Poland and down to Greece via the so-called Aegean-Baltic Corridor. Additional plans may include the introduction of this LNG source into Ukraine via Hungary and Slovakia. The annual capacity of the Krk LNG terminal is projected to be 6 bcm which far exceeds its domestic needs.

In the meantime, Greece is concluding through DESFA the upgrade of its Revythousa LNG terminal, which is aimed to be coupled by an additional terminal in the Northern part of the country, that after 2020 would bring newly sourced quantities to be transmitted into the Bulgaria, Romanian and Hungarian systems via the proposed vertical corridor. In Italy the Brindisi LNG Terminal was planned, until its cancellation in 2012, and was projected to have a yearly capacity of 8 bcm. Despite its termination, calls by the central Italian administration appeared in the local press for a re-examination of this project, albeit with a reduced capacity and it could well be an additional point of entrance for this type of gas into Southern Europe. Turkey, although not an EU member, is nevertheless a crucial link for the Union's proposed gas projects. It has also started investing in LNG by having the EgeGaz Aliağa Terminal near Izmir and plans for a second one in the Aegean shores with the collaboration of Qatar. In addition to the above, the long-standing project of Cyprus to establish an LNG terminal that will exploit recent East Med discoveries should also be taken into account, despite the fact that over the past few months, investments have effectively stopped as a result of poor exploration results in sea blocks explored by the ENI/Kogas consortium. In its latest report, Athens-based Institute of Energy of South East Europe assessed that for the Vertical Corridor to be successful, it needs to have a significant LNG component into it. Due to its favourable maritime geo-economic placement, Greece could play a crucial role.

It should be noted that LNG infrastructure with regards to future EU policy is costly. It is a sourced commodity that tends to fluctuate in pricing compared to conventional long-term pipeline pricing. Moreover, LNG terminals are able to process low and medium amounts of gas needed for EU households and industrial consumption per annum, while LNG producers worldwide effectively comprise an oligopolistic market, with many of those already engaged in long-term contracting, thus leaving in certain cases, small quantities on the spot market. For example, weather conditions or special circumstances such as the Japan nuclear disaster of 2011 saw LNG prices skyrocket and supplies tighten for the next 18 months. LNG by definition is a far costlier gas product due to the liquifaction and re-gasification process and all the assorted transportation and security costs. Secondary investments are also necessary to bring resources further inland to important industrial zones. Should Europe proceed with the abolishment of coal and reduces its reliance on nuclear energy, it will certainly need additional quantities of natural gas in the coming decades that will surpass by far even the most ambitious LNG infrastructure model. Therefore, it is safe to assume that the EU Energy Union is far from being theoretically conceived and we should witness quite a few changes and amendments concerning the real penetration of the LNG sector in Europe.

‘There is no pan-European natural gas market’

Anadolu Agency, *25.05.2015*

There is not a pan-European natural gas market, while most East European countries rely on Russia, an expert said.

Speaking at International Conference of Energy Economics, Boyko Nitzov, Team Leader for Gas Infrastructure Development at the Gas Department of the European Union’s Agency for the Cooperation of Energy Regulators, said there is not a unified market for gas in Europe. “There is no pan-European gas market, but there is a goal to achieve that,” he told. “A majority of countries in East Europe heavily rely on a single pipeline, and a single supplier while northwest countries have various sources,” Nitzov explained.

Due to the unrest in Ukraine, secure natural gas supply from Russia to Europe was under threat, while the political tensions between EU and Moscow also escalated. Nitzov defined energy security as access to a stable and abundant resource, that should be uninterrupted and affordable. “Security of gas supply needs an integrated competitive natural gas market on the demand side,” he said. “The least costly way of achieving security of gas supply is to have free markets on both the demand and supply sides,” he added. EU energy market regulations forbids companies to be both the supplier of natural gas and owner of the transmission networks at the same time.

Shale gas is no solution to Europe’s energy security

Anadolu Agency, *29.05.2015*

Europe’s demand and security will be not solved through shale gas, an expert from the energy economics said.

Legor Riepin emphasized that the lack of drilling infrastructure and know-how in Europe is one of the major obstacles to successful shale gas development. “Shale gas will not provide a significant contribution to European supply mix by 2030,” Riepin said. “Shale gas production which is expected to be located primarily in the U.K. may contribute to its local import/export balance, but this will not have a substantial impact on the total European gas market by 2030,” he explained.

Noting that the U.S. can potentially become the biggest natural gas producer in the world because of its shale gas boom, Riepin stated that the U.S.' net status change from "importer" to "exporter" will influence global natural gas flows. Since its shale revolution in 2008, the U.S.' dry shale production rose to over 40 billion cubic feet (1.12 billion cubic meters) per day in mid-2014, from 5 billion cubic feet (0.14 billion cubic meters) a day in 2008, according to the U.S.' Energy Information Administration, EIA. However, Riepin stressed that shale gas should not be perceived as a solution to European energy security concerns. "Land owners in Europe have smaller incentives to allow shale gas exploration on their land in comparison to the ones in the U.S. who receive direct royalties from shale gas explorations," he explained. "European unconventional basins are estimated to be deeper and technically more complex. This increases production costs," Riepin concluded. Major European basins with shale gas potential are located in the U.K, Poland, the north and south parts of France and Germany, and eastern Ukraine.

Norway and UK's costs to decrease in North Sea

Anadolu Agency, *27.05.2015*

The U.K. and Norway's upstream sector's capital and operating costs in the North Sea will decrease steadily in 2015 as operators respond to lower oil prices, said global consulting company Wood Mackenzie.

Wood Mackenzie projects that the biggest reductions will come in drilling costs, which may reduce by a third by the end of 2016. "We expect that there will be a gradual decrease in capital and operating costs in Norway and the U.K. in 2015 and 2016, the most significant reductions are likely to be a 30 percent fall in drilling costs, as rig and vessel rates come down due to oversupply," Malcolm Dickson said.

Operating costs will decrease by up to 15 percent in the U.K. and 10 percent in Norway, according to the consultancy group. "The U.K. and Norway will deflate at different rates, based on distinct rig and labour markets and varying activity levels. The outlook for upstream costs beyond 2016 is much less clear and will be largely driven by what happens to the global oil price," Wood Mackenzie said. Dickson explained that high capital and operating costs are the single biggest issue for companies in the U.K. and Norwegian sectors of the North Sea today. "Even before the oil price crash, developing and operating fields while making a profit was challenging and we expected some cost deflation in the sector as activity cooled. The drop in oil price has accelerated the need for lower costs, as companies adjust to protect their cash flows, and changes are now required to correct the industry's cost base," he said.

The North Sea is a mature oil basin and production has been declining in recent decades. Norway's Statoil in particular, is one of the main operating companies in the area. Statoil has a lot of different projects in the Norwegian Continental Shelf, especially in the North Sea. According to the company, the latest discoveries in the area demonstrate that growth opportunities still exist there. Wood Mackenzie expects to see costs fall a little further and quicker in the U.K. - for instance, lower rig utilization will mean cheaper drilling in the U.K. However many of the U.K.'s new projects are technically challenging and standardized solutions are not an option, meaning there are few contractors capable of supporting them. "Although Norwegian costs are expected to fall less than in the U.K. in local currencies – the depreciation effects of the Norwegian Kroner will mean that some costs will fall further in dollar terms. This effect will be most sharply felt in operating costs. Norway has some of the highest labor costs in the industry, and the Kroner's depreciation will make them more competitive in the global market," Dickson added. One U.S dollar is equal to 7.74 Norwegian kroner. Wood Mackenzie anticipates a steady price recovery for oil and expects to see it reaching a flat $85 per barrel.

ENI makes gas discovery off Libya, Shell confirms commitment to Egypt's shale

Natural Gas Europe, *26.05.2015*

Egypt and Libya continue to make headlines as European companies confirm their commitment to exploration and production in the region.

Eni made a new discovery of gas and condensates offshore Libya, in the Bouri North exploration prospect in Area D, 140 kilometers from the coast and 20 kilometers north of the production field of Bouri, while Shell will reportedly start shale gas production from the Apollonia field in the Western Desert in May 2016. Earlier this month, the company announced a discovery of gas and condensates offshore Libya in the Bahr Essalam South exploration prospect.

The one announced is the second discovery in Libyan offshore Area D reported by the Italian company since the beginning of 2015. Eni holds 100% working interest in the exploration phase. 'During the production test, constrained by surface facilities, the well flowed 1,340 Boepd with a "64/64' choke size. In production configuration, the well is estimated to deliver in excess of 3,000 Boepd' reads a note released.

Meanwhile, Egypt is stepping up efforts to increase domestic production. According to Reuters, Cairo said that it extended its tender for natural gas exploration in the Mediterranean Sea by two months with the addition of four new blocks. Daily News Egypt wrote that Royal Dutch Shell and US-headquartered Apache are working on shale formations in the Apollonia field in the Western Desert. The article says that gas production should start in eight months, but doubts remain as drilling operations did not start yet. Last week, BP increased its stake in the West Nile Delta (WND) project in Egypt, buying 17.75% of in the ongoing Phase 1 from DEA.

Prime Minister Sellal: Algeria to relaunch Galsi gas pipeline to Italy

Natural Gas Europe, *27.05.2015*

The worsening of the relations between Europe and Russia seems to have had a positive impact on infrastructure and markets integration. Companies and countries voiced their willingness to move forward with new projects.

Algeria said it is willing to build a new gas pipeline to Italy, OMV said it is interested in using Bulgarian pipes for Romanian gas, while Macedonia is ready to take part in the Turkish Stream. The tensions between the two "blocks" and this new declarations might not be correlated, but it is easy to see how Climate Action and Energy Commissioner Miguel Arias Cañete's trip to North Africa on 5-7 May is bearing fruit.

"This is a project that we intend to relaunch as part of this new vision of security for Italy and Europe through alternative sources of energy supply from Algeria" Prime Minister Abdelmalek Sellal said on Wednesday during a visit to Rome, as reported by Reuters. Sellal referred to Galsi gas pipeline, which would connect Algeria and Italy. Georgi Gegov, CEO of Bulgartransgaz was reported as saying that OMV has put forward a proposal to transport Romanian gas via Bulgarian gas pipelines. A few hours later, Russia's Sputnik reported that Macedonia will participate in the Turkish Stream after a political convergence of Moscow and Brussels on the project.

Gas trade hubs would benefit importers in East Asia

Anadolu Agency, *25.05.2015*

Natural gas trading hubs would benefit gas importers in East Asia in providing the right pricing signal, rather than spot gas purchases, said energy expert.

Speaking at the 38th International Conference of Energy Economics held in Turkey's southern city of Antalya, Xunpeng Shi, a senior fellow at the Energy Studies Institute of the National University of Singapore, spoke on natural gas trading hubs and hub pricing in East Asia. Shi said that while North and South America have gas-on-gas markets, similar to Henry Hub pricing, Europe and Asia have oil-linked gas markets to value natural gas.

In recent years, Asian gas prices have been usually higher than U.S. natural gas prices. One of the main reasons behind this is because natural gas prices are linked to oil prices in Asia, while they are not in the U.S. The Henry Hub price indexation is used as a pricing point for natural gas in the U.S. to set spot and future gas prices, as the price of gas is determined by market supply and demand. When oil prices are high globally, and gas prices are low in the U.S., Asian buyers have to pay four to five times more than the U.S. for gas imports, and not every Asian country pays the same price for gas. "The reality is that there are multiple prices for multiple markets in Asia," said Shi, adding, "East Asia can host a few different markets and associated trading hubs." "Gas trading hubs would give economic rationality by reducing inefficiency, increasing transparency, sustaining markets, attracting investments and avoiding geographical and exchange risks. However, the building of a successful hub needs market liberalization and reforms to enhance cooperation among exporters and importers," Shi explained.

Shi said China, Japan, South Korea, Thailand and Malaysia are in a quest to create trading hubs and Asian gas benchmarks. "However, whether it is Shanghai hub prices or Tokyo hub prices, the impact on the region will be the same if any of them becomes the benchmark for gas trading in Northeast Asia," he added. "Having natural gas trading hubs is not a zero sum game. It will be complementary, not competitive and deserves more collaboration than competition even though geopolitics have twisted economic rationality," he concluded.

China to raise gas development with US shale experience

Anadolu Agency, *27.05.2015*

A China will increase its natural gas development with experiences of U.S.' shale revolution, Dr. Zhen Wang, Deputy Director General at Policy Research Office of China National Petroleum Corporation (CNPC), said Wednesday.

Speaking on the third and final day at the 38th International Conference of Energy Economics held in Turkey's southern city of Antalya, Dr. Wang talked out shale gas and its implications on China. "It would be possible to accelerate gas industry development, if appropriately learning and applying the governing system and innovation experiences of the U.S. into China," he said.

Wang emphasized that abundant reserves of shale gas resources would help China to meet its energy policy and strategy aims, informing that China has 25 trillion cubic meters of recoverable shale gas resources. "Shale gas experience, in marketization reform, innovation and international cooperation at an all around level, can be widely used to whole oil and gas industry gradually," he said. The deputy director elaborated that China can learn a number of significant fine points from the U.S. shale experience, such as strong research and development support, competitive market mechanism, entrepreneurship, and publicly available U.S. data. Wang also listed some policies to promote shale gas. Having production plans, subsidy policies, deregulated price, publication of shale gas standard and the introduction of bidding license policy are some of the policies he mentioned. He also informed that CNPC's commercial shale gas production was over 100 million cubic meters in 2014, and it is possible to reach 2.6 billion cubic meters in 2015.

Increasing dependency on foreign energy imports has become a challenge for China in recent years. Wang informed Chinese net oil imports were 308 million metric tons of crude oil in 2014 with a foreign dependence ratio of 59.5 percent. Net imports of natural gas was 59 billion cubic meters in 2014 with a foreign dependence ratio of 32.2 percent. Reminding that China became a net coal importer for the first time in 2010, net imports of coal were 320 and 290 million metric tons in 2013 and 2014 respectively. The deputy director said the government has committed to increase consumption of non-fossil energy consumption to 15 percent by 2020. "To achieve this goal we should effectively control total consumption, or it will be much more difficult to adjust energy structure," he explained. Wang said China should promote revolutions in energy consumption, supply, technology and governance, in order to restrict irrational uses of energy, to build a diversified supply system, to foster industrial upgrading and to pave a fast track for energy development. "International cooperation should also be strengthened in an all around manner to ensure energy security under open conditions," he concluded. By the end of 2014, gas pipeline length was over 81,000 km, while capacity of LNG terminals under operation in the country reached 40.8 million tons of gas per year, and underground gas storage has reached 2.35 billion cubic meters in 2013, which accounts to 2.3 percent of China's total natural gas consumption.

Russia, Venezuela reach $14 billion oil, gas projects deal

Anadolu Agency, *28.05.2015*

Russia and Venezuela reached a $14 billion worth deal to invest in oil and natural gas projects, Nicolas Maduro said.

The investments aim to double Venezuela's oil production in the next few years, said Maduro after meeting with Igor Sechin, CEO of Russian oil company Rosneft in Venezuela's capital Caracas. The deal includes the development of the Orinoco belt and other projects in the natural gas sector, Maduro informed. Venezuela has the largest oil reserves in the world, around 300 billion barrels of proved reserves, while the majority of that is located in the Orinoco heavy oil belt in the northeast of the country, according to EIA.

Despite its vast reserves, the country lacks the necessary investments to increase its oil production, while its economy depends largely on revenues from oil exports. Venezuela, which is an OPEC member, had tried to lead other members of the oil cartel to trim production in order to increase the falling prices. But, the cartel, highly influenced by the world's biggest crude oil producer and exporter Saudi Arabia, decided against cutting production at the Nov. 27 biannual meeting last year. Meanwhile, Russia and Iran, two of the major oil exporting countries, have already voiced their support for Venezuela against falling oil prices. Iranian Foreign Minister Mohammad Javad Zarif said April 21 that coordination between Iran, Venezuela and other OPEC members is important for preserving the stability of the oil market.

Russia met with Saudi Arabia, Venezuela and Mexico before OPEC's last meeting and may do it again prior to oil cartel's June 5 meeting to discuss the oil market and prices. For Russia, the deal with Venezuela is bigger than its energy agreement with Argentina. Russia and Argentina signed a series of $5 billion-worth energy deals on April 23 in the fields of oil, natural gas, nuclear and hydroelectric power, while both countries agreed to work on using their national currencies in future trades. In addition, Russian gas giant Gazprom announced May 5 that it plans to begin natural gas production in Bolivia in the first quarter of 2016.

US approves seventh LNG export project with Alaska

Anadolu Agency, *29.05.2015*

The U.S. Energy Department announced the approval of a seventh project to export liquefied natural gas to countries the U.S. does not have a free trade agreement with.

The Alaska LNG Project in the Nikiski area of the Kenai Peninsula in the U.S. state of Alaska gained a conditional authorization from the Energy Department to export LNG up to the equivalent of 2.55 bcf per day of natural gas. Conditional authorization is dependent on an environmental review and a final regulatory approval of the project, Energy Department said. The LNG authorizations given by the department have to be approved by the FERC.

Companies that want to export LNG from the U.S. to non-free trade agreement countries need to get approval from the Department of Energy, which grants authorizations unless the proposed gas exports "are not consistent with public interest." The U.S. Energy Department also emphasized that Alaska's application was considered separately from pending LNG export applications in other U.S. states. The department said in a statement on its website that this is "due to the relative geographic isolation of the natural gas resources on Alaska's North Slope." "North Slope gas has been a stranded resource unavailable to commercial markets," the statement said, adding "the project proposed by Alaska LNG includes a pipeline intended to make North Slope gas accessible to consumers." Located in the far northwest of North America and separate from other U.S. states, Alaska is known for its vast oil and natural gas resources. Its senior U.S. senator, Lisa Murkowski from the Republican Party, is also a strong supporter for removing the ban on U.S. crude oil exports and acts as chairwoman of the Senate Committee on Energy and Resources.

While the U.S. energy industry was criticizing the Obama administration claiming it is too slow in approving LNG exports, the U.S. government has recently speeded up its LNG permits by approving two other export projects in May. Cheniere Energy's Corpus Christi Liquefaction Project in Texas became the sixth project to get approval on May 12 to export LNG up to the equivalent of 2.14 billion cubic feet (63 million cubic meters) of natural gas per day for a period of 20 years. Dominion Resources' Cove Point LNG project in the state of Maryland was the fifth project to be approved on May 7 to export 0.77 billion cubic feet (23 million cubic meters) of natural gas per day for a period of 20 years. The Freeport LNG terminal in Quintana Island, Texas was authorized on Nov. 14, 2014 to export LNG for a total volume of 1.8 billion cubic feet (54 million cubic meters) per day for a period of 20 years.

Moreover, Carib Energy's facility in Florida and Sempra Energy's Cameron LNG facility in Louisiana were approved in Sept. 10, 2014. Sempra Energy's Cameron LNG terminal in Cameron Parish, Louisiana was authorized to export up to some 1.7 billion cubic feet (51 million cubic meters) per day of natural gas for a period of 20 years, while Carib Energy's facility in Martin County, Florida was authorized to export up to some 0.04 billion cubic feet (1.2 million cubic meters) per day for a period of 20 years. Cheniere Energy's Sabine Pass project in the state of Louisiana was the first to acquire an LNG export permit in 2012. The permit will allow the project to potentially export 2.76 billion cubic feet (83 million cubic meters) per day, and it is expected to ship its first cargo at the end of 2015.

US oil rebound is response to high prices

Anadolu Agency, *29.05.2015*

The weekly spike in U.S. oil production is in response to higher oil prices, a report by Capital Economics said.

"The rebound in U.S. oil production is likely to be in response to the higher prices that we have seen over the last month," said the report; U.S. Weekly Petroleum Status Report. U.S. oil producers have been negatively affected by the recent price slump when their output and investments declined due to the relatively high break-even prices in some parts of the country compared to the rest of the world. However, the research firm expects crude oil prices to fall in the second half of the year with rising U.S. oil production.

"The potential for U.S. oil output growth to accelerate again is a key reason why we think prices are more likely to fall over the remainder of this year than rise," Thomas Pugh, the author of the report and a commodities economist at Capital Economics said. The research firm said in a report on May 20 that it expects the average price of global benchmark Brent crude oil to average $60 per barrel in the second half of the year. The U.S.' Energy Information Administration data revealed Thursday that oil production in the country jumped by 304,000 barrels a day in a single week. Domestic oil production in the country rose to 9.57 million barrels a day for the week ending May 22, from 9.26 million barrels per day from the previous week.

Oil output in the U.S. was 9.37 million barrels per day for the week ending May 8, and 9.4 million barrels a day for the week ending May 1. "U.S. crude oil production rebounded to a new record after falling for the last three weeks. This was in part due to a rebound in Alaskan production after a sharp fall last week, but production in the rest of the U.S. grew strongly as well," Pugh explained. "More generally, the number of active rigs in the U.S. fell last week by the smallest amount since November and now looks to be leveling out," he added. Decline in the U.S. oil rig count has slowed down, as the number of oil rigs in the country fell only by one, reaching 659 on May 22, according to the oilfield services company Baker Hughes' data.

US oil output rebounds with production spike

Anadolu Agency, *28.05.2015*

U.S. oil production jumped by 304,000 barrels a day in a single week, rebounding from the flattening output, the U.S.' Energy Information Administration data revealed.

Domestic oil production in the country rose to 9.57 million barrels a day for the week ending May 22, from 9.26 million barrels per day from the previous week. Oil output in the U.S. was 9.37 million barrels per day for the week ending May 8, and 9.4 million barrels a day for the week ending May 1. The sudden weekly surge in domestic oil output suggests the production decline in the country has hit its lowest point, and begun its recovery.

Decline in the U.S. oil rig count has also slowed down, as the number of oil rigs in the country fell only by one, reaching 659, according to Baker Hughes data. Commercial crude oil inventories in the U.S. decreased by 2.8 million barrels in a week to reach 479.4 million barrels for the week ending May 22. The crude oil stocks were at 482.2 million barrels the week before. This is the fourth consecutive week that oil stocks have fallen in the U.S., after 16 consecutive weeks of increase in the country's crude inventories. Meanwhile, the strategic petroleum reserves in the country rose by 0.6 million barrels a day to reach 691.8 million barrels per day for the week ending May 22, from 691.3 million barrels per day the previous week.

In addition, crude oil imports of the world's biggest economy and oil consumer fell by an average of 503,000 barrels a day for the week ending May 22, to reach 6.7 million barrels a day for the week ending May 22, from 7.2 million barrels a day the week before. "Over the last four weeks, crude oil imports averaged over 6.8 million barrels per day, 3.4% below the same four-week period last year," EIA noted. With falling crude imports and rising oil production, the world's biggest oil consumer lowers its oil demand from global markets and contricutes to the glut of oil supply worldwide, which puts a downward pressure on crude oil prices.

Announcements & Reports

► *The International Relations of the Green Economy in the Gulf*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/05/MEP-12.pdf

► *U.S. Crude Oil Production to 2025: Updated Projection of Crude Types*

Source : EIA
Weblink : http://www.eia.gov/analysis/petroleum/crudetypes/

► *Natural Gas Weekly Update*

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

► *Weekly Natural Gas Storage Report*

Source : EIA
Weblink : http://ir.eia.gov/ngs/ngs.html

Upcoming Events

► *Wood Mackenzie 11th Annual Exploration Summit*

Date : 26 – 29 May 2015
Place : Johannesburg - South Africa
Website : http://www.woodmac.com/public/events/12526247

► *Offshore Production Technology Summit*

Date : 01 - 02 June 2015
Place : London – United Kingdom
Website : http://offshore-summit.com/

► *OGA 2015*

Date : 02 – 05 June 2015
Place : Kuala Lumpur - Malaysia
Website : http://www.oilandgas-asia.com/home/index.php

► *22nd International Caspian Oil & Gas Exhibition and Conference*

Date : 02 – 05 June 2015
Place : Baku – Azerbaijan
Website : http://www.caspianoilgas.az/2015/

► *World Gas Conference*

Date : 01 – 05 June 2015
Place : Paris - France
Website : http://www.wgc2015.org/

► *6th OPEC International Seminar*

Date : 03 – 04 June 2015
Place : Vienna - Austria
Website : http://www.opec.org/opec_web/en/press_room/2793.htm

► *FLNG*

Date : 11 - 12 June 2015
Place : London – United Kingdom
Website : http://www.mioge.com/RPGC-Congress/About-the-Conference.aspx

► *12th Russian Petroleum & Gas Congress*

Date : 23 – 25 June 2015
Place : Moscow – Russia
Website : http://www.mioge.com/RPGC-Congress/About-the-Conference.aspx

► *13th Moscow Inernational Oil & Gas Exhibition*

Date : 23 – 26 June 2015
Place : Moscow – Russia
Website : http://www.mioge.com/mioge-exhibition/about-the-exhibition.aspx

► *7th South Russia International Oil & Gas Exhibition*

Date : 02 – 04 September 2015
Place : Krasnodar – Russia
Website : http://www.oilgas-expo.su/en-GB

► *22nd Annual India Oil & Gas Review Summit and International Exhibition*

Date : 09 – 10 September 2015
Place : Mumbai – India
Website : http://www.oilgas-events.com/india-oil-gas

► *The Energy Event 15*

Date : 15 – 16 September 2015
Place : Birmingham – United Kingdom
Website : http://www.theenergyevent.com/Content/MAIN-SF-W2L-enquiry-form

► *3rd East Mediterranean Gas Conference*

Date : 22 – 23 September 2015
Place : Paphos – Greek Cyprus
Website : http://www.oilgas-events.com/East-Med-Oil-Gas

► *23rd Kazakhstan International Oil & Gas Exhibition and Conference*

Date : 06 – 09 October 2015
Place : Almaty – Kazkhstan
Website : http://www.kioge.kz/en/conference/about-conference