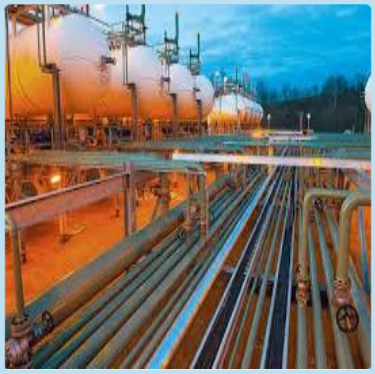
Oil & Gas Bulletin
► 19.06.2015

Hungarian expert: Turkey needs gas storage facilities

Daily Sabah, *15.06.2015*



The CEO of the Hungarian Gas Storage Company, Laszlo Fritsch, said that if projects such as the proposed Turkish Stream and TANAP project pass through Turkey, it also has to have storage facilities for pipelines in order to become an energy hub.

Fritsch said that Hungary is the leading country in European gas storage. Fritsch said that the closest gas storage facility to Turkey and Greece is located in Hungary and added that while discussions were held to establish a facility at the border, but due to various regulations that cannot be overcome the project was terminated.

"While geographically all countries are open and there are no obstacles, certain regulations are still preventing this project," Fritsch said. He also said that gas storage is an area that should be improved in Europe and said that if the Turkish Stream pipeline ends at the Greek border, then the problems in southeastern European countries will not be resolved and that lines that go beyond the Greek border are required. "If you have pipelines, you also need storage facilities. Ukraine is acting as a transit country now but also has storage facilities. Turkey should have the same capacity. If there are multiple pipelines at various points, there should also be various storage facilities," Fritsch said. He said that while gas storage is a profitable business, decreasing natural gas prices has also reduced storage prices causing profits to decline in the gas storage sector. He further said that Europe, especially countries such as Macedonia, Croatia and Bosnia-Herzegovina, still have potential in the gas storage industry. The Hungarian Gas Storage company has four underground gas storage facilities with a total capacity of 4.5 billion cubic meters that can meet more than 55 percent of the maximum demand in winter.

Russia, Turkey plan to sign legally binding deal on Turkish Stream by July

Sputnik, *17.06.2015*

Russia and Turkey have agreed to prepare legally binding documents on the construction of the Turkish Stream pipeline by the end of June, Alexander Novak told.

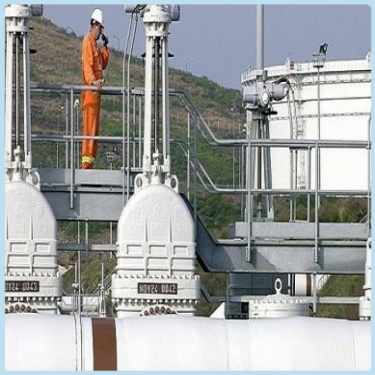
"I cannot tell you the exact date when it [agreement] will be signed, it will depend on internal procedures, its passage, ratification, and so on. By the end of June at least a draft of the document will be prepared. Of course, we believe that it should be signed before the start of the construction," Novak said. The Turkish Stream is a proposed pipeline from Russia to Turkey across the Black Sea with a planned annual capacity of 63 billion cubic meters of gas.

It is expected to become operational in December 2016 and is a substitute for the canceled South Stream pipeline project. Up to 47 billion cubic meters annually are expected to reach the planned Turkish-Greek gas hub near the Ipsala border checkpoint. In April, Novak said that the Turkish Stream might be extended to Austria through Greece, Macedonia, Serbia and Hungary. Moscow and Athens are likely to sign an agreement on the construction of a Turkish Stream pipeline extension on the Greek territory at the upcoming St. Petersburg International Economic Forum (SPIEF), Alexander Novak said. "Such a project is being prepared and I think that the probability of signing it [at the SPIEF] is high," Novak said, adding that the details of the document will be revealed after it is signed. An employee assembles parts at the booth of Russian company Gazprom in preparation of the Hanover industrial fair in Hanover, Germany

The St. Petersburg economic forum, which will be attended by Russian President Vladimir Putin and Greek Prime Minister Alexis Tsipras, will take place on June 18-20. The Turkish Stream is a proposed pipeline from Russia to Turkey across the Black Sea with a planned annual capacity of 63 billion cubic meters of gas. Up to 47 billion cubic meters are expected to reach the planned Turkish-Greek gas hub near the Ipsala border checkpoint. The gas price discount that Russia provides to Ukraine could be less than 30 percent in the third and fourth quarters of 2015, Russian Energy Minister said. "We do not have any kind of fixed figures, such as either $100 or 30%, the provided discount can be lower than 30%," Novak said, adding that the amount of discount will be determined primarily "on the basis of economic feasibility." Kiev currently purchases gas from Russia with a $100-discount per 1,000 cubic meters. Alexander Medvedev, Deputy Chairman of Russia's energy giant Gazprom, said that the price of Russian gas for Ukraine in the third quarter of 2015 would stand at $287.15 per 1,000 cubic meters without the discount.

Turkey's natural gas imports rose in 2014

Anadolu Agency, *17.06.2015*



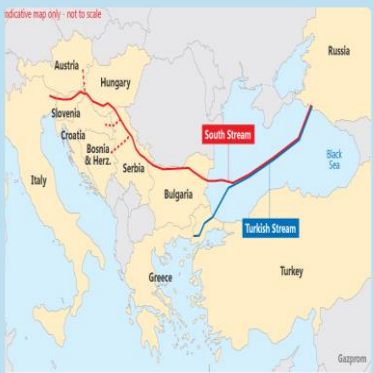
Turkey's imports of natural gas increased in 2014, the Turkish Energy Market Regulatory Authority (EMRA) announced. Compared to the previous year, gas imports rose by 8.82 percent to 49.2 billion cubic meters. Nearly 55 percent of natural gas at 26.9 billion cubic meters came from Russia, 8.9 billion cubic meters was imported from Iran and 6 billion cubic meters came from Azerbaijan.

In addition, Turkey imported 7.2 billion cubic meters of LNG last year – 14.78 percent of Turkey's total natural gas imports. The report also revealed that Turkey's natural gas production fell by 10.8 percent in 2014, totaling 479 million cubic meters.

More than half of Turkey's natural gas production took place in the north-western province of Tekirdag. Natural gas production in Turkey has been decreasing since 2008 as reserves are depleting.

A beacon light for Turkish Stream

Natural Gas Europe, *16.06.2015*



First it was just like a conversation balloon in a comic strip, a change in name and re-making a route for an earlier pipeline. However today, OAO Gazprom finally took a step forward for the Turkish Stream Pipeline.

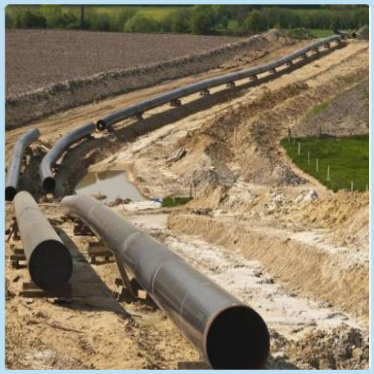
The decision took almost seven months from when Russian President Vladimir Putin first declared its intention to shelve the $45 billion South Stream Pipeline on opposition from the European Union and proposed a new pipeline, Turkish Stream in a state visit to Ankara in late December 2014. Putin said Gazprom will build the new link to Turkey would aim to bypass Ukraine.

The greater part of the Turkish Stream gas pipeline will be laid within the corridor formerly intended for the scrapped South Stream Pipeline. "Preliminary permission required to build pipeline, developments possible this week," Turkish Energy Minister Taner Yildiz said in a press conference in Ankara today. Yildiz, who travelled with Turkish President Recep Tayyip Erdogan to Baku, Azerbaijan over the weekend, gave some detailed information regarding talks between Erdogan and his Russian counterpart Vladimir Putin. "We held talks about Russian investments in nuclear energy in Turkey and also Turkish Stream Pipeline.

Earlier we required the necessary coordinates for natural gas pipeline route from Gazprom via Turkish Foreign Ministry. Gazprom relayed the route details for the Turkish Stream. We'll give preliminary permission for the feasibility report for the pipeline, which may be given this week," Yildiz said. Earlier this month, Yildiz has said that Gazprom may start to build first pipeline after finalizing the necessary permissions. "The permission that we give will be regarding for just one pipeline, for which Erdogan and Putin held talks about over the weekend in Baku," he said. The proposed first stage of the project would increase capacity by 16 billion cubic meters, part of plans to add another 63 BCM to flow to Turkey and onward to the EU, bypassing Ukraine. "Although Gazprom can begin construction of the underwater section immediately, the December 2016 deadline seems too optimistic," Alexei Kokin, an energy analyst in Uralsib brokerage, based in Moscow, Russia wrote in a note to its clients.

Start of TANAP construction work in Turkey defined

Azer News, *15.06.2015*



The first welding work on the TANAP construction project will begin in August, said the head of Tekfen construction company Levent Kafkasli. He said that everything is ready now for the construction work on the TANAP project.

Earlier, Tekfen Insaat also told Trend that everything is ready for the pipeline's construction, and the company will start the construction in the near future.Three Turkish companies, Fernas Insaat A.S., Sicim-Yuksel-Akkord Adi Ortakligi and Tekfen Insaat ve Tesisat A.S. are the contractors for construction of TANAP's onshore part, which is to be 1,337 kilometers long.

They will construct the gas pipeline's section running up to the Turkish city of Eskisehir. In March 2015, the TSE said the companies that are to supply pipes for TANAP's construction project, will have to receive a certificate of that institute. TANAP envisages the transportation of gas of Azerbaijan's Shah Deniz field from the Georgian-Turkish border to the western borders of Turkey. TANAP's initial capacity is expected to reach 16 billion cubic meters of gas per year. Around six billion cubic meters of this gas will be delivered to Turkey and the rest of the volume to Europe. Turkey will receive gas in 2018, and after the Trans-Adriatic Pipeline (TAP) is constructed the gas will be delivered to Europe in early 2020. BP and the TANAP consortium signed March 13 a shareholder agreement, according to which, BP will become one of the shareholders of TANAP. The agreement is one of the main documents for BP's ownership of a stake in the TANAP project. Following the completion of a legal implementation procedure, TANAP's shareholders list will be as follows: SOCAR – 58 percent, Botas – 30 percent and BP – 12 percent.

Iran proposes $30 bln gas-for-goods package to Turkmenistan

Natural Gas Europe, *14.06.2015*

Iran has proposed a gas-for-good barter package to Turkmenistan totalling $30 billion.

Mohammad Taghi Amanpour, Consultant & Special Representative to The Iranian Minister of Petroleum for Exporting Goods & Technical and Engineering Services said that Iran imports $2-3 billion worth of natural gas from Turkmenistan annually and is ready to sign a 10-year deal with Ashgabat to barter $3 billion worth of Turkmen gas with Iranian goods, technologies and services annually. The country imported about 7.5 bcm of Turkmen gas during last fiscal year, ended on March 21th.

The annual report of BP, released also indicates that Turkmenistan exported 6.5 bcm of gas to Iran in 2014. Tehran has signed agreements with Ashgabat to import 14 bcm per annum (bcm/d) of gas, but practically Turkmenistan has delivered only a half of this amount to its second major gas client after the western sanctions was imposed on Iran in mid-2012. Iran's Mehr News Agency reported in 2013 that Iran's debts to Turkmenistan reached above $1 billion due to problems in money transferring operations caused by the sanctions imposed over Iran's banking system. It is not clear how Iran would be able to boost good export to Turkmenistan to $3 billion annually, while according to Iran Custom Administration's statistics, Iran exported $973.6 million of non-oil goods to Turkmenistan and imported $113.7 million of non-oil (and gas) goods from the country during last fiscal year.

Iranian Oil Minister Bijan Namdar Zanganeh said in May 2014 that Iran is willing to pave the way for exporting goods to Turkmenistan in return for importing natural gas from that country. Turkmenistan was the 7th leading importer of Iranian non-oil goods in the last fiscal year. During President Hassan Rouhani's visit to Ashgabat in March 2014, two neighbors agreed to increase the current $4 billion trade turnover to $6 billion in 2015 and keep this amount for 10 years. Iran also increased the service exports value to about $12 billion last year, which indicates 22 percent increase year-to-year. There is not detailed information about the target markets of Iranian services, but Iran has repeatedly announced that the country is ready to increase service export to Turkmenistan. Service, oil, fuels and gas are not involved in Iran Custom Administration's reports.

Can Iran really enter the European energy market and challenge Russia?

Middle East Monitor, *17.06.2015*

Energy security has always been among the top priorities on the political agenda of any country. The EU is not alone in its desire to enhance its energy security, especially since Russia started to recover from the volatile 1990s to mid-2000s.

The issue of dependency on energy supplies from a state which can no longer be reasoned effectively as being in the EU's own interest has become a top priority. In order to diversify its supply sources and reduce reliance on Russia the EU worked out the Southern Gas Corridor concept as a strategy to facilitate the flow of Caspian and Middle Eastern gas to European markets.

In the light of recent developments, such as the conflict in Ukraine and worsening relations between Russia and the West, the shutdown of the South Stream project and the promising results of the recent round of Iranian nuclear talks, speculation about the prospect of Iranian energy supplies getting to Europe has been revived. There is a feeling, though, that many in the West have started to cook a hare before catching him. Nevertheless, can Iran really enter the European energy market and challenge Russian energy dominance? Iranian Oil ProductionIt is important to remember that the Iranian oil industry has been hit badly by international and individual state sanctions. This is why it is very unlikely that Iran will be able to restart substantial oil supplies to Europe, even in the long-term. The industry's output dropped by 15 per cent from 2004 to 2013 (from 4.2 million barrels per day to 3.5). The major drop happened in 2011/2012 when the most severe sanctions - financial sanctions and the oil embargo - were imposed on Iran. This indicates that oil was hit hard by sanctions. Iran's oil exports to Europe in 2012 thus dropped by 78 per cent on the previous year's figure. Its share of the oil market which was taken up quickly by Libya and Nigeria.

According to the latest data, Iran consumes about 57 per cent of its oil production; 31 per cent of its oil output is exported to Asia and the Pacific region, leaving only 12 per cent, or about 0.4 million barrels per day available for further exports. In the current state of the oil market and prices it will be extremely hard for Iran to regain its share of the European market. Nobody in OPEC wants to lose their market share. Iran's aging infrastructure and lack of capital investments cannot be ignored. This is why Iranian oil cannot pose a real threat to Russian oil in Europe in the mid- to long-term. The situation with Iran's gas is different, although it will not be a serious threat to Russia's supplies for at least eight to ten years; here's why. In the past decade, Iran's gas production was quite impressive considering the sanctions under which it was operating under. Iranian gas output increased slowly but consistently and in 2013 the growth was 72 per cent of the 2004 output, estimated at 166.6 billion cubic metres. After the most severe sanctions were imposed on Iran in 2011/2012 this increase did not stop. Even being under sanctions Iran was steadily, albeit slowly, increasing its gas production. This makes it highly unlikely that after the sanctions are lifted Iranian gas output will be boosted immediately.

The country lacks modern equipment, facilities and investments; it will take time to get back to full flow even with inward investment from overseas. The Iranian government's own estimate of energy sector needs is about $300 billion over eight years. According to the BP statistical review of 2014, in 2013 Iran exported gas almost solely to Turkey, with 8.7 billion cubic metres (about 17 per cent of Turkish gas imports), with 0.7 billion cu m going to former Soviet republics; Russia supplied 26.2 billion cu m to Turkey (52 per cent of total gas imports) and about 136.2 billion cu m to Europe (25-30 per cent of total gas imports). Iran has even been importing gas from Turkmenistan for more than a decade (4.7 billion cu m in 2013), which actually makes it possible for Tehran to export gas to Turkey because Iran consumes about 97 per cent of its own gas. Although Iran's gas exports were slowly growing throughout the 2000s, Iranian gas never flowed to Europe and Iranian total gas exports are still small; just 9.4 billion cubic metres in 2013, most of which went to a single consumer, Turkey. This is not enough to become an overnight game-changer even with the help of Europe.

Moreover there are other obstacles for Iran to enter the European market and challenge Russia, not least of which is that Iran has a limited choice of physical supply routes. Iran's pipelines only have access to Europe through Russia, Turkey and Azerbaijan-Georgia. The Caspian petro-states are unlikely to let Iran grab their share of gas supplies to Europe, although with generous investments into their economies and oil and gas sectors there is a chance that Iranian gas can get European access through the existing South Caucasus Pipeline (SCP) and proposed Trans-Anatolian Pipeline (TANAP) which is planned to be finished in 2018 and carry some 16 bcm per annum. Iran's pipe infrastructure is limited; there is just one pipeline, Tabriz-Ankara, which delivers its gas to Turkey and can possibly connect Iran to the European market. Tehran needs to construct another pipeline to Turkey to increase its gas supplies; this will require huge investments.

Russia has already sealed a deal with Ankara to construct the Turkish Stream pipeline which is planned to carry output of 63 billion cubic metres per annum with its first delivery in December 2016. This will make Turkey the major regional energy hub, so Tehran will have to deal with both Ankara and Moscow to get its gas into the European market. Another issue is that Iran has neither an operational Liquefied Natural Gas (LNG) plant nor a substantial fleet of LNG tankers for its transportation. The current construction by the Iran LNG Company on the west coast of Iran at Tombak is going to take a few more years to complete because the project is very expensive. The 5,000 km Iran-Iraq-Syria pipeline (also called the Friendship Pipeline) which would connect the biggest gas field in the world (South Pars) to the Syrian Mediterranean coast has been postponed for obvious reasons and is unlikely to be implemented anytime soon. Thus Iran faces major obstacles to it becoming a large gas exporter, including the need to increase gas production and build new transportation infrastructure. Even if there is a successful conclusion to the nuclear negotiations later this month and sanctions are lifted, the government in Tehran will need a lot of time to renovate its production capacities and construct supply pipelines. This makes it unrealistic for Iran to become a substantial energy supplier to the European market in the foreseeable future. Russia's market share is safe, for the moment.

Lakkotrypis: The Mediterranean could provide the EU with energy security

Natural Gas Europe, *16.06.2015*

Greek Cyprus' Minister of energy Lakkotrypis asked for EU support. The Minister reiterated the importance for to EU to seek energy security by diversifying its sources of supply.

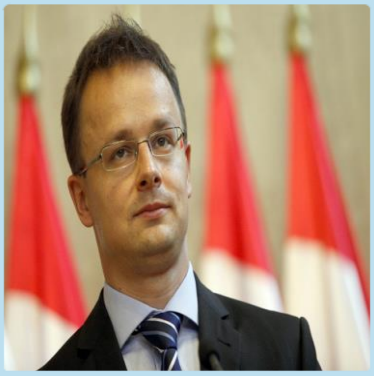
Exploiting "its own resources" in the Mediterranean could provide the EU with the security of energy supply, said the minister, which would improve the lives of the European citizens. Greek Cyprus made a major discovery off its coast in 2011 when Noble Energy discovered the Aphrodite field estimated at 4.54 Tcf. The ENI-KOGAS consortium has also searched for gas in Cyprus island's ECZ but faced two dry holes in Block 9 of the island's maritime waters.

France's TOTAL, licensed to drill in Blocks 10 and 11, has delayed its involvement in Cyprus island for not having identified "drillable prospects" as per the company's announcement in early 2015. Cyprus island's Aphrodite field could ensure energy independence for the island for decades to come. Greek Cyprus is currently looking for regional customers for its gas. The partners in the field have declared it commercial and a development and production plan for the Aphrodite field was submitted by the partners to the Greek Cypriot government. Noble and its Israeli partners Delek and Avner have proposed a floating facility to produce and treat the gas on-site with a daily capacity of 800 million cubic feet. The estimated cost for the development of this infrastructure is between $3.5bn and 4.5bn. A final investment decision is estimated by 2016, and the commencement date of supply of natural gas from the field is estimated by the first half of 2020.

Greek Cyprus is targeting the Egyptian market as a potential customer for its gas. Egypt is undergoing a severe energy crisis that has led the country to look for regional potential suppliers, including Israel and Greek Cyprus, to meet an increasingly growing domestic demand. Exporting the gas to Egypt could potentially allow Greek Cyprus to use Egypt's export terminals to reach far-reaching markets. Since the discovery of natural gas in the Eastern Mediterranean, a new geopolitical landscape has been taking shape. Earlier this week, the President of Greek Cyprus Nicos Anastasiades travelled to Israel where he met with high ranking officials to discuss potential energy collaborations. President Anastasiades Anastasiades was accompanied by Foreign Minister Ioannis Kasoulides, Minister of Energy, Commerce, Industry and Trade Yiorgos Lakkotrypis Government Spokesman, Nicos Christodoulides, and other senior government officials. Israel has been reluctant to join forces with Greek Cyprus to build joint export facilities. However, the relationship between Israel and Turkey remains strained despite diplomatic efforts to normalise diplomatic ties. A stronger partnership between Israel and Greek Cyprus in the field of energy is possible.

Hungary Foreign Minister Szijjártó urges faster EU expansion

Portfolio, *15.06.2015*



The Central European Initiative (CEI) now primarily needs to focus on expediting the expansion of the European Union in the Western Balkans and on investments necessary to establish the energy security of Central Europe, said Péter Szijjártó, Hungary's Minister for Foreign Affairs and Trade, at a meeting of CEI foreign ministers in Ohrid, Macedonia.

Szijjártó said that speeding up the integration of the Western Balkan region will bring about not only economic results but it can also "help stop the flow of so-called foreign fighters recruited for the Islamic State" and could also contribute to managing the migration pressure on the European Union.

In order to achieve energy security the natural gas pipelines of the affected countries need to be connected and reverse flows need to be allowed on these, the minister said. He added that "there is also need a large strategic gas pipeline investment here in the region."

Commission unimpressed by Russia's pipeline offensive

Euractiv, *19.06.2015*

Russia and Greece signed a deal for a section of the Turkish Stream pipeline across Greece, and Gazprom announced plans to build two additional stretches to the Nord Stream gas pipeline.

But the Commission said more Russian gas was not needed, and that it would thoroughly scrutinise the new projects for compliance with EU rules.The visit of Greek Prime Minister Alexis Tsipras to Russia today has brought about the signature of a memorandum for the construction of a section across Greece of the so-called Turkish Stream, or TurkStream pipeline, names the authorities in Athens dislike.

The deal was signed between Russia and Greece's energy ministers, Alexander Novak, and Panagiotis Lafazanis, for a pipeline with a capacity of 47 billion cubic meters a year (bcm/y). Construction of the Greek section of the Turkish Stream pipeline will start in 2016 and be completed by 2019. The two countries will have equal shares in the company, Novak was quoted by RT as stating at the International Economic Forum in St. Petersburg. Novak said Russia will initially finance the construction of the pipeline, according to Sputnik. "Our meeting today is a historical meeting... The memorandum expresses the readiness of both sides to bring the south direction of the pipeline to implementation," Lafazanis reportedly said.

In addition, Gazprom announced that it would build two additional stretches to the Nord Sea pipeline to Germany under the Baltic, with a trio of Western energy companies. "Since the commissioning of Nord Stream pipeline, Gazprom has been investigating potential extension of this export route. Now we are going to proceed with the implementation of this project together with our partners," Gazprom Chief Executive Alexei Miller said in a statement. Gazprom's partners in the Nord Stream, a major gas supply artery feeding into western Europe, are Anglo-Dutch Shell, Germany's E.ON, and Austria's OMV. Gazprom would own 51% in the project to build stage 3 and 4 of Nord Stream, with capacity of 55 bcm/y, Gazprom spokesman Sergei Kupriyanov said on the sidelines of the St Petersburg meeting. Russia’s goal is to find new ways to deliver gas to Europe bypassing conflict-stricken Ukraine, and using the pipeline projects to increase its influence in friendly countries such as Greece, Serbia, and Hungary.

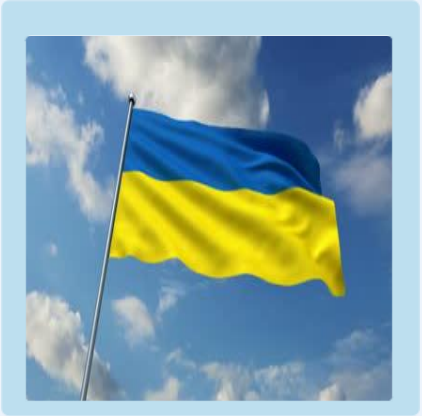
EurActiv asked the European Commission to comment on Russia’s plans. This is the written answer received: “The European Commission takes note of the announcement by Gazprom, together with OMV, Shell and E.ON, to consider building two further stretches of NordStream pipeline, with an additional capacity of 55 bcm per annum. Furthermore, Gazprom had announced in January 2015 that it would build the Turkstream project, which in addition to a pipeline serving Turkey would include a capacity of 47 bcm to Europe, via Turkey. “Energy security remains a key priority for the Energy Union. As stated in the Energy Union framework strategy, energy diversification is crucial for ensuring secure and resilient energy supplies to EU citizens and companies. In this context, the European Union is particularly committed to diversification of gas suppliers (countries), counterparties (companies) and routes. “To ensure this objective, the Commission aims at more interconnected and competitive gas markets in Europe, with projects such as the Southern Gas Corridor, the establishment of liquid gas hubs in the Mediterranean area and LNG being in the centre of this strategy. It should be recalled that work to that effect is also being carried out among others in the framework of CESEC High Level Group and EU LNG and storage strategies.

"The EU is currently importing about one third of its gas from Russia, about half or which currently transits Ukraine. While European domestic production is expected to decrease in the coming decade, existing capacity from Russia is currently only used at around 57%. This shows that current transport routes from Russia to the EU, including through Ukraine, already well exceed the EU's needs for existing and likely future supplies of pipeline gas from Russia to the EU. “The European Commission recalls that new pipelines must be built in full compliance with EU legislation and the will be vigilant about the rigorous application of EU law notably in the field of energy, internal market and competition.

"Finally, the European Commission reiterates its position that Ukraine has been a major reliable transit country and provides an economic route for supplies to Europe. In this context, the EU actively supports the efforts of the Ukrainian Government and Naftogas to ensure that this remains the case, in particular the reforms that Ukraine is currently undertaking to ensure full compliance with the EU acquis it has committed to as a member of the Energy Community. The EU therefore believes that it is in the interest of all parties that Ukraine remains an important transit country."

Why Ukraine needs market-based gas prices

Vox Ukraine, *17.06.2015*



Gas trade with Russia and inside Ukraine has been one of the main sources of enrichment in Ukraine after the collapse of the Soviet Union. In 1998, Ukraine's main gas trader at that time, Ihor Bakai, famously stated "All rich people in Ukraine have made their money on Russian gas." The essence of their enrichment was to buy gas at a low state-regulated price and sell it at a high market price shielded by monopoly, or produce commodities for export using cheap gas.

Gas trade has been the main source of top-level corruption in Ukraine. The only way of fighting this corruption is to unify all Ukraine's many different gas prices at the market level.

Unless Ukraine does so, top-level corruption will prevail, and Ukraine will not attain significant economic growth. Last November, four Reuters journalists published an investigative article, "Putin's Allies Channeled Billions to Oligarch Who Backed Pro-Russian President of Ukraine." The person in question was Dmytro Firtash, who has been the dominant intermediary in the Russian-Ukrainian gas trade since 2002, soon after President Vladimir Putin took over control of Gazprom. According to Reuters, "Gazprom sold more than 20 billion cubic meters of gas well below market prices to Firtash" during the years 2010-13. "The price Firtash paid was so low, Reuters calculates, that companies he controlled made more than $3 billion on the arrangement. Over the same period… bankers close to Putin granted Firtash credit lines of up to $11 billion.

That credit helped Firtash, who backed pro-Russian Viktor Yanukovych's successful 2010 bid to become Ukraine's president, to buy a dominant position in the country's chemical and fertilizer industry…" "When Firtash was arrested in Vienna" a Russian businessman considered to be close to Putin "loaned the Ukrainian businessman $155 million for bail." Firtash was considered to be one of the two biggest businessmen supporting Yanukovych, the other being Rinat Akhmetov, but in 2014 Forbes assesses his net personal wealth at only $500 million. The question arises whether he merely operated on the basis of the $11 billion credit line from Gazprombank and not as an independent businessman. Similarly, Bakai fled to Russia long ago, and another influential person in the gas trade in the past, Viktor Medvedchuk, appears to be Putin's closest friend in Ukraine.

Whoever controls Ukraine's gas purchases from Russia tends to reap rents for which he or she can buy the political leadership in Ukraine. As a minimum, this gas trade needs to be opened up to transparency with proper measurement of imported volumes and prices, but that is hardly enough. In their eminent report "Putin and Gazprom," late Boris Nemtsov and Vladimir Milov pointed out that the main purpose of that corporation was to enrich President Putin and his cronies. A second aim is geopolitical as is obvious from the price discrimination and many supply cuts that Gazprom has pursued against East European customers. Given that Gazprom's main goals in Ukraine are to corrupt and combat the country, Ukraine should stop trading with Gazprom. Fortunately, that is possible in near future. Since the current leadership of Naftogaz Ukrainy has opened up for deliveries from Europe through pipelines from the West, Ukraine no longer needs to rely only on Russian gas, and it should stop buying it. Temporary lower prices are only a trick that no serious businessman should fall for.

A fundamental problem with Ukraine's gas sector has been very low prices for consumption and domestic production by state-related companies, which have led to overconsumption and underproduction. Until April 1 2015, Ukraine's household prices for gas were only 12 percent of the actual cost of gas. The natural consequence has been an aggravation of Ukraine's poverty, budget deficit and foreign trade deficit. The low domestic gas price also contributed to corruption. According to official Ukrainian statements, about 40 percent of the gas produced by Ukrainian state-controlled companies was sold at $50 per 1000 cubic meters (mcm) and resold illicitly to the private sector for some $380 per mcm in 2013. Populists call for more state control so that the cheap gas really goes to the population, but the Ukrainian state is not strong enough to deprive a few well-connected people of $2.5 billion dollars a year in illicit earnings. Therefore, the government did what it had to do when it quadrupled the gas prices for households on April 1. The main problem is that the prices were not raised to the market level straight away.

Last year, Ukraine spent no less than 10 percent of GDP on energy subsidies, roughly 8 percent on gas subsidies. The coal subsidies were rightly abolished at the beginning of the year. The price changes on April 1 abolished price subsidies of 5 percent of GDP, and another 2 percent of GDP in gas subsidies are likely to disappear because of falling international oil and gas prices. Altogether 8 out of 10 percent of harmful energy subsidies are being eliminated this year, which amounts to vital fiscal adjustment. Without these cuts, Ukraine would default in no time. Even with these cuts, the country is on the verge of bankruptcy. Incredibly, some populist Ukrainian politicians call for the gas tariffs to be cut substantially, but there is no financing. This is a hostile act to the Ukrainian state. The savings are so large that cash compensation of only 1 percent of GDP can provide full compensation to the poorest third of the population. Ukraine has the administrative capacity to carry that out. Because of its extremely low energy prices, Ukraine has had an extraordinary overconsumption of energy, the highest in Europe for unit of output.

Ukraine's domestic gas production is steadily 20 bcm a year, but it could easily increase to 35 bcm within a few years if private enterprises were offered decent tax, trade and regulatory conditions. In 2012, the International Energy Agency noted: "On the supply side… Ukraine can eliminate its natural gas import dependency in the foreseeable future by substantially increasing domestic gas production…" For unclear reasons, the current Ukrainian government has refused to offer independent gas producers reasonable market conditions. Ukraine does not need to import gas or coal if it only offers normal market-economic conditions for the energy sector. It could even become a significant gas exporter.

To demand that the low prices for Ukraine's domestically-produced gas continues, as some populists do, means to discriminate against domestic production in favor of imports. Considering that Ukraine imported gas for $11.5 billion in 2013, gas market adjustment alone could eliminate Ukraine's current account deficit. For the market to function, it must be created. Fortunately, the current Ukrainian government has laid a base with its new law on the gas market, which is formed in line with the European Union's third energy package. An open market with multiple producers, suppliers and distributors, free prices and private enterprise is the best means to fight subsidies, corruption, inefficiency and poverty to achieve greater national welfare.

Gazprom signs deals with E.ON, OMV, Shell for new pipeline to Germany

Sputnik, *18.06.2015*

Some deals indicated that Russian gas strategy might rely on Germany and the Balkans. Considering that the European Union is reportedly closer to extending economic sanctions by six months against Russia, this piece of evidence might appear quite counterintuitive.

The most likely though not mutually exclusive explanations might be (i) an inability of the Chancellor Angela Merkel to impose her political will on German companies, and (ii) some form of bluff on the German side, where political declarations for the European public are going in the opposite direction of national intentions.

According to a note released by Wintershall, the majority of Germans would like to continue mutually beneficial ties with Moscow, dropping economic sanctions that are considered to be unlikely to contribute to solving the political crisis. Along with Germany's E.ON, Dutch Gasunie, and France's ENGIE, Wintershall is Gazprom's partner in the Nord Stream project. Gazprom has agreed to build a new pipeline to Germany under the Baltic Sea with Shell, E.ON, and Austria's OMV. "Since the commissioning of Nord Stream pipeline, Gazprom has been investigating potential extension of this export route. Now we are going to proceed with the implementation of this project together with our partners," Gazprom CEO Alexei Miller commented in a statement.

Gazprom said that it signed a Memorandum of Intent with E.ON and OMV for a 55 bcm gas pipeline (which is only slightly lower than the 65 bcm Turkish Stream). OMV confirmed the deal in a note, adding that the project could comprise two lines in addition to the existing Nord Stream pipeline. The Austrian company and Gazprom also signed other forms of cooperation. 'The parties agreed in the Memorandum to evaluate a possible participation of OMV in the project of development of Areas IV and V of the Achimov formation of the Urengoy oil, gas and condensate field in Russia based on a possible exchange of assets' OMV wrote on its website in the afternoon.

Gazprom is also holding negotiations with Greece and Serbia. The Wall Street Journal reported that Athens expects to sign a preliminary deal for its participation in Russia-led project to ship gas through Turkey to European markets in the coming days. Greek Prime Minister Alexis Tsipras should speak with Russian President Vladimir Putin. Meanwhile, Gazprom's Alexey Miller did not waste time. Apart from the anticipated deals, he met with Dusan Bajatovic, Director General of state-owned Srbijagas. 'The parties addressed the current issues and the prospects for bilateral cooperation in the energy sector. The meeting looked at mid- and long-term gas supplies from Russia to Serbia and other European countries as well as at joint UGS projects in the Republic' the Russian giant wrote.

Gazprom isn't the only company that made the headlines during the St. Petersburg International Economic Forum (18-20 June). Rosneft reported a flurry of deals too. Among others, it signed updated commercial parameters with Alltech Group for cooperation on the project of the gas fields' development in the Nenets Autonomous District, a MoU with Russian Machines for joint CNG projects, a cooperation agreement with tubular structures producer TMK for joint research activities, a partnership agreement with Sinara Group for oil product supply, and a contract for gas supply with E.ON Russia. 'The contract signed with E.ON Russia provides for supply of 4.4 bcm of gas within 5 years. This resource will be directed to Surgutskaya GRES-2. The contract was signed in pursuance of an earlier contract for gas supply valid from 2013 to 2015. The achieved agreements demonstrate the quality level of partnership and long-term cooperation between Rosneft and E.ON Russia, the two leaders of the Russian energy sector' Rosneft said. As reported by Rosneft, E.ON Russia Holding GmbH. – a 100% subsidiary of E.ON SE International Energy - holds 83.7% of E.ON Russia shares. This last deal indicates how German companies are likely to benefit from the situation. In this sense, the German gains could further augment.

Coherently, Wintershall made it clear: the German industry wants stronger ties with Russia. "While most Germans are sceptical about the effectiveness of the current economic sanctions against Russia, they firmly believe that close economic cooperation with Russia can have a positive effect on the political situation, and should be intensified," Professor Manfred Güllner, founder and Managing Director of the Forsa institute, said in a survey commissioned by Wintershall. A majority (52%) of the 1,000 people interviewed said that Germans consider Russia to be a reliable economic partner. 'Specifically pertaining to natural gas and other energy supplies, Russia's reputation is even more positive: for 56 percent of the German population see Russia as a reliable energy supplier. Only 40 percent do not see Russia as a reliable energy supplier' Wintershall reported. The message arrives a few hours after European ambassadors agreed on Wednesday to extend by six months the sanctions that should expire at the end of July. According to The New York Times, the decision should be ratified by EU Foreign Ministers next week. It is too early to understand whether the messages delivered by German companies are grounded in reality or not. It is time, though, to underline a clear mismatch between Merkel's positions and national energy companies' statements.

China, Russia may not use dollar in gas supply trade

Anadolu Agency, *16.06.2015*

China and Russia may use their own currencies, the yuan and ruble, for the $400 billion long-term natural gas supply agreement, according to Elena Burmistrova, director general of Gazprom Exports.

Burmistrova said there are ongoing talks to agree the trade currency between the two countries. "We didn't sign the purchase and sales agreement, and that is why there is no certain currency for trade yet, but talks continue intensely," Burmistrova said. In May 2014, Russia and China agreed on a 30-year $400 billion deal to supply China with natural gas from fields in Eastern Siberia.

In addition, Russia's top gas producer, Gazprom, and China's National Petroleum Corporation, one of China's largest oil and gas companies, signed an agreement to supply 30 billion cubic meters of gas over the next 30 years during the APEC summit in Beijing in 2014. In 2000, trade between China and Russia reached around $8 billion. Last year this figure was $100 billion. The rising value of the U.S dollar coupled with Western sanctions on Russia created challenges for the Russian economy.

Will equals way: Unconventional gas in Russia

Natural Gas Europe, *18.06.2015*

Although the present conjuncture is not conducive to investments in the still locally unproven and expensive methods of obtaining energy resources, Russia is developing its unconventional gas industry more and more boldly. However, catching up on the significant technological lag in comparison to other countries is not Russia's only goal.

The change in Moscow's strategy is essential if the country is to maintain a strong leadership position among gas producers, as well as for the attainment of Russia's geopolitical aspirations. Russia's room for manoeuvre is limited to three options.

According to estimates there are 665–680 trillion cubic metres of unconventional gas resources in Russian subsoil, out of which 75% constitute gas clathrates (hydrates), 15% tight gas, 7% coal-bed methane and only 3% shale gas. Most of the gas is located in the sparsely populated regions of north-eastern Siberia, the Ural Mountains and the hard-toaccess Arctic. Most importantly, however, Russia has the largest proven reserves of conventional natural gas, amounting to approximately 48 tcm. This gas is also cheaper to obtain than unconventional resources. Russia is also the second largest gas producer, which is why, in the nearly 10 years since the beginning of the shale gas boom in the United States, there has been neither sufficient economic justification for the development of the unconventional gas sector in Russia nor firm support from policy makers. This is despite visible signs of interest, for example, the inclusion of new gas technologies in Russia's energy strategies, and Alexei Miller's 2003 declaration on Gazprom's launch of a study devoted to the creation of effective technologies for the extraction of gas from hydrate deposits located in a permafrost areas.

Using purely economic arguments to explain the development of the unconventional gas sector in Russia remains difficult. Despite Gazprom's predictions of a decline in gas production from existing conventional sources by 25% by 2020 and by 75% by 2030, new reserves of natural gas on the Yamal Peninsula, in the Arctic, and from deep layers of the Siberian deposits, may in the medium and long term prove to be sufficient to meet domestic needs and fulfil existing export contracts. After economic and financial crises, Russia experienced a slowdown in domestic demand for energy, strengthened by the improvement of domestic energy efficiency, which also had a negative impact on the level of gas consumption. Additionally, in 2014 exports of Russia's gas to its traditional customers (the EU, Turkey, and the Commonwealth of Independent States) hit an all time low (approximately 195 bcm), as a result of the crisis in Ukraine. In view of the European suppliers' diversification policy, Russia's participation in the EU market probably will not reach former levels. Moreover, the country's general economic condition has deteriorated significantly, due, among other things, to sanctions imposed on Russia. European and U.S. companies have been banned from selling equipment and technologies that might be used for the extraction of unconventional oil and gas. The unfavourable economic situation deters investors—the total FDI inflows to Russia fell by nearly half in 2014 compared to previous years. Still, conventional gas remains more accessible, and therefore more cost effective than the development of unconventional technologies, especially given the current low oil price.

Russia may, however, expedite technological expansion towards unconventional gas production out of geopolitical motives, which have often overshadowed its economic rationality. In view of the 2 reshuffle among gas suppliers, and the anticipated increase in global demand for gas by more than 50% by 2040 (according to the IEA), Russia will find it difficult to maintain its current share of almost 20% of the global gas market without embracing new technologies that significantly enhance the supply of gas, and opening up to new export directions. While Russia's competitors, such as the United States, South Africa and Australia, already have mature technologies for unconventional gas extraction (primarily from shale), Russia is only at the beginning of a long-term investment cycle. Stagnation in the sector means that, according to government declarations, the prospect of commercial production of unconventional gas in Russia is still distant—2020 for tight gas and methane and 2030 at the earliest for shale gas and hydrates.

To be able to lay claim to the status of gas power in the future, and to maintain its geopolitical influence in the world by trading gas skilfully, Russia is already being forced to take steps aimed at including unconventional gas in its portfolio. Given the ensuing situation, and in view of uncertain perspectives for Russia's economic future, three parallel options remain. These are, for Russia to implement its own projects related to unconventional gas on a small scale, for it to shift towards cooperation with its eastern partners, and to take strategic business and geopolitical steps towards the development of the unconventional gas industry. The publication of a growing number of studies and analysis on unconventional gas is indicative of the formation of the right theoretical background for this developing sector. Both the government and the extractive sector companies support research activity in Russia financially. Apart from Gazprom, which declared its willingness to allocate $4 million to Gubkin Russian State University of Oil and Gas, for research and development in the field of unconventional gas, other companies such as Rosneft and Lukoil have also expressed their interest in exploring unconventional Russian deposits. The first pilot extraction projects, relating to methane in coal seams, have been implemented in the Kuznetsk Basin, amongst other places, but gas production from such projects will in the near future reach a maximum of approx. 4 bcm. As a result of a March 2014 agreement between the Ministry of Natural Resources and Environment and the local administration of the Tomsk Oblast, a new site for conducting tests on exploration technologies and penetration of harder to reach reserves became available. Nonetheless, real, large-scale undertakings aimed at verification of the potential for unconventional gas extraction are at an early stage of development.

If Russia is to exploit the potential of its unconventional resources and develop its own extraction industry, it will require the transfer of technical knowledge from more advanced countries, as well as substantial foreign investments. Due to the similarity in the technology of oil and gas extraction from shale, the experience gained by Russia through cooperation with, among others, Statoil and Exxon in the Bazhen fields and in the Samara Oblast is significant. However, under current conditions and consistent with the visible pivot to Asia in terms of other energy resources, Russia is strengthening ties with economies in the region. Indonesia, Vietnam, and South Korea, but mainly India and China, are conducting research programmes on unconventional gas on their respective territories, and have access to the latest Western extraction technologies, primarily from shale and coal seams. Attracting Asian interest, experience and capital to Russian deposits will be crucial for the development of the unconventional gas sector in Russia. As shown in the energy partnership between Russia and China, the scope of cooperation and possibilities of investments for financing unconventional gas will depend on the potential tangible benefits to Russia's partners, and their desire to share knowledge and technology.

The possibility of gaining new spheres of influence determines the choice of directions for further development of Russia's unconventional gas industry. Success will depend on technological and geographical pioneering, and on the skilful manipulation of external conditions. Due to the abundance of gas clathrates in the world, as well as Russia's lack of industrial acquisition technology, the country engages in the development of this particular industry. Japan is the co-owner of more than 80 bcm of clathrate reserves on the shelf of the Kurils, and it is also the country most advanced in the study of hydrates. Although the legal status of the islands has not been agreed, cooperation between Russia and Japan in clathrate industrial extraction is possible. Russia needs Japanese experience, and its deposits are more accessible than the Japanese, while Japan needs energy resources.

Thus any competitive technological advantage gained from such a partnership (paradoxically supported by climate change, as the melting ice cap facilitates access to clathrates), could open the way for Russia to develop clathrate deposits in the Arctic and justify the already increased activity of Gazprom and Rosneft in the region. Priority access to prospective unconventional gas resources in other countries also serves the strategic interests of Russia. For example, the memorandum signed in April 2015, between Gazprom and the Argentine YPF, on joint shale gas production from the Vaca Muerta field, gives Russia access to the world's second-largest shale-gas reserve, and establishes a counterweight to Chinese and U.S. influences. The prospects, albeit for the moment distant, of industrial unconventional gas production by Russia could become a reality by the parallel implementation of the three abovementioned scenarios. Their political implications, however, differ greatly. The resolute implementation of the first and second options will exacerbate already existing industry trends in Russia, such as self-sufficiency and the pivot towards Asia, especially China. The third option could be groundbreaking for international relations, for example, through the use of gas argument to alleviate relations with Japan, and to soften its attitude towards sanctions. Dexterity in shifts between East and West, and the ability to use unconventional gas to build new alliances, will determine the effective realisation of Russia's interests.

A perfect storm of trouble for Russian gas

Natural Gas Europe, *15.06.2015*

Russia in a "perfect storm" of a mess that nobody could have predicted just a few years ago, Dr. Tatiana Mitrova, Head of the Energy Research Institute has said.

Mitrova said that a number of factors have come together that have caused serious issues for Russian gas producers. On the home front, the expert explained, a stagnant economy is having a knock-effect for producers, customers, and for investment into the sector. With that slowdown, inefficiencies in the institutional framework of the energy sector, which is more and more concentrated on the oil sector, are becoming more pronounced.

Combined with falling demand on the global market, the country is feeling the pinch. "There has been some sort of competition in the gas sector but definitely that is not enough for a purely competitive and efficient market," she said. "Now we are facing a stagnant demand both for oil and gas globally. These two commodities are providing 70% of Russian export and 50% of Russian federal budget revenues, so you can imagine how painful that is." Russia, which previously has been the dominant supplier of gas to much of Europe—especially the Commonwealth of Independent States (CIS)—is now having to diversify to Asia to take back some of its market share. Even so, the prognosis is not especially positive currently for Russian suppliers there. "We have some minor growth in Asia but Asia is not the market where we [Russia] are installed," Dr. Mitrova explained. "There's no infrastructure; there's no experience. Everything has to be built.

And that entry into the Asian market will be no quick fix for the country's waning fortunes in gas, she warned. Though the Russian government has declared exports to Asia a priority, the lack of infrastructure will stymy any quick growth. "Asian exports will start to expand only after the Power of Siberia pipeline is completed in five years starting from now," the expert said. "After that, it will take another five years to reach its projected capacity of 38bcm. Only by 2025 will the expected capacity of 38bcm start to flow to China, providing Russia with some diversification. Until then, Russia is dependent on the European supplies. Right now, Russia has a choice of CIS, domestic market, or Europe—nothing else is left." With the increased competition on all markets—particularly thanks to liquefied natural gas (LNG)—diversification is a necessity for Russia. With competitors from the U.S., from Iran potentially, from Brazil, Australia, East Africa, Dr. Mitrova says competition will change dramatically in the next five to seven years. But increased competition is just one in a list of challenges the country is facing. As it has been with other suppliers and countries, the decline in oil and gas prices is a top concern for Russia. "The oil and gas price decline is a complete disaster," she says. "Again, if you remember 50% of the federal budget is provided by oil and gas, that explains a lot why Russia is so nervous about the oil price and gas price."

That nervousness is compounded by the geopolitical tensions the country is facing, which have been frustrated by the Crimea conflict with Ukraine. Those tensions and difficulties have led to CEO of Gazprom, Alexey Miller, saying that Gazprom is not willing to invest in the European downstream any longer or in European infrastructure. That decision could drastically affect European-Russian relations. "It could mark this real move of Russian supplies to the EU-Russian border, really going back to the Soviet concept where the gas is supplied just to the border and then no other interactions," Dr. Mitrova said. "I'm not thinking it's a good idea in terms of cooperation and partnership, but in the current geopolitical environment, unfortunately it seems to me to make a lot of sense." The impact of sanctions has not been ignored by the Russian government either. In a CNBC exclusive interview in January this year, Russian Finance Minister Anton Siluanov estimated that external shocks to the economy from oil and gas has totalled $200 billion. "Mainly this comes from the oil price shock but about $40 to $50 billion of that comes from the sanctions," he said at the time. Those shocks' effect is sharply felt at a time when production has radically increased in Russia while at the same time domestic demand has not grown. "With such a weak economic outlook, domestic gas demand is flat at best or it could even decrease slightly," Dr. Mitrova said. "We do not see any perspective of the domestic gas growth. The domestic market is not able to absorb additional gas production." That poor economic outlook has meant that the steady growth of gas prices that Russia had been seeing has been halted.

Previously, Russian domestic gas prices had been frozen from 1991 until they were lifted. Dr. Mitrova says the country saw gas price growth after that of 15-25% per annum. "But when facing the economic slowdown and the negative growth of manufacturing, the government had to make a decision to freeze domestic gas prices at the level of inflation," she said. "For domestic gas producers, the domestic market is not looking very attractive compared to any export market." Any producers hoping to find a comfortable or easy market opportunity in Europe could be disappointed. "If you look at the export market, you see that during the last five years, Russia export opportunities to both Europe and the CIS did not increase (to put it in a soft way)," Dr. Mitrova said. "And, actually, in the CIS, we are absorbing huge decline in volumes—especially because of Lithuanian supplies."

To an outside perspective, it might seem as if Russia is stubbornly sticking to its old routines in how it deals with its customers, but Dr. Mitrova says that there has been a change in the approach despite the well-worn rhetoric in favour of traditional oil indexation used officially. “If you look in more details at the renegotiations Gazprom has had, the price which Gazprom is in fact receiving from the customers, Gazprom is adopting (flexibility_ very, very slowly (flexibility) even though the rhetoric remains from the old days.” Between 2009 to mid-2014, the company has reviewed with 58 contracts with 39 clients, providing price discounts, easing of take-or-pay obligations and a certain introduction of a spot component. This is a far cry from where Russia and Gazprom was just a few years ago. “The old strategy—it was about expansion in the European market,” Dr. Mitrova said. “Currently no one is talking about expansion. Currently it’s about protecting the market niche; it’s about protecting this 30% of the European market, or at least protecting the current volumes. That’s the aim—not to conquer the European market.” But the outlook is not all grim for Russia if one is to look objectively at Russia and Gazprom’s place in the European energy mix, there’s one major advantage, Dr. Mitrova says. “Despite all the political perspectives, despite all the warnings of being too dependent on Russian gas, at the end of the day, if we are looking at the economics, Russian gas is still the cheapest. In terms of supply cost, it has a huge competitive advantage.”

Rosneft commits to $6 billion in upstream investments

Natural Gas Europe, *17.06.2015*

While confusion over Turkish Stream continues, Rosneft sends leadership messages to markets while Gazprom is strengthening ties with Kazakhstan.

Rosneft confirmed its intention to keep hydrocarbon production stable in 2015-2017, reporting a 49% year-on-year increase in gas production in 2014 - 56.7 bcm. ‘In 2015, Rosneft will continue increasing gas production, improv- ing the efficiency of sales channels and also making preparations for the launch of major gas projects aiming to become a leader among independent gas producers in Russia’ the company led by Igor Sechin wrote in the report released.

Gas production, which represents 19% of the company’s overall hydrocarbons production, is the main focus of the Russian company. Rosneft is also working to build the required competencies to implement Arctic LNG projects. In September, it discovered the new Pobeda field in the Kara Sea, having completed drilling of the Universitetskaya-1, which the company defined “the world’s northern-most Arctic well.” During the annual general meeting in St. Petersburg, Sechin also explained that Rosneft committed to upstream investments for 300-350 billion roubles ($5.6-$6.5 billion) in 2015-2017. Meanwhile, Alexander Medvedev, Deputy Chairman of the Gazprom Management Committee, and Renato Maroli, Director General of Karachaganak Petroleum Operating (KPO) signed an agreement between KazRosGas and KPO in Astana.

The company led by Alexey Miller and Alexander Medvedev is expected to unveil its strategy during the General Shareholders Meeting to take place on June 22 and 23. Meanwhile, according to Sputnik, Russian Energy Minister Alexander Novak said that Russia and Turkey should sign legally binding documents for the construction of the Turkish Stream by the end of June. A meeting between Gazprom and Turkish Energy Minister Taner Yildiz should take place next week. On the other hand, Turkey's Hurriyet reported that Russia's Kommersant wrote that the negotiations between the two countries are proceeding slower than expected, with the project facing obstacles due to political uncertainties in Turkey.

Shell, Japan firms may get stake in Gazprom's Baltic LNG

Reuters, *17.06.2015*

Russian gas company Gazprom may offer up to 49 percent in its Baltic LNG project to a strategic partner and the most likely candidates are Royal Dutch Shell or a consortium of Japanese firms, Russia's Kommersant newspaper said.

The agreement may be signed this week during an economic forum in Russia's second city of St Petersburg, it reported, quoting sources in the gas industry. Gazprom declined to comment. The gas producer plans to build a liquefied natural gas plant in the Baltic sea port of Ust-Luga with an annual capacity of 10 million tonnes. It also wants to be able to increase output to 15 million tonnes a year.

An Ust-Luga port official said the company may need around 1 trillion roubles ($18.50 billion) to build the plant. Shell and two Japanese firms, Mitsui and Mitsubishi, are Gazprom's partners in the Sakhalin-2 LNG project, which has an annual capacity of around 10 million tonnes. Shell wants to increase it by another 5 million tonnes.

Can Russian companies find a way out of western sanctions?

Natural Gas Europe, *16.06.2015*

After the Financial Times reported that BP could be close to a $700 million deal with Rosneft for a 20% stake in a Siberian oilfield, the company led by Igor Sechin further showed how national companies can cope with sanctions, maintaining ties with Western companies and progressively switching to Asian markets.

The company showed how much importance it attaches to its Arctic program. Rosneft announced it completed the Kara-Winter 2015 program, defined as the 'largest arctic expedition in the world in recent 20 years by the scope and the structure of works.'

'The works took place on the water area of the Barents Sea, the Kara Sea, the East Siberian Sea, and the Laptev Sea, in the Novaya Zemlya, Severnaya Zemlya archipelagoes, Novosibirsk islands (including the De Long islands) and on the Land of Franz Joseph for the first time; they took place on East-Prinovozemelskys-1,2,3 North-Karsky, Ust-Oleneksky, Ust-Lensky, Anisinsko-Novosibirsky, Albanovsky and Perseevsky licensed fields' Rosneft wrote on its website. The St. Petersburg International Economic Forum, which will take place from Thursday to Saturday, will shed more light on the ability of Rosneft and other Russian companies to clinch deals with European and Asian partners.

Meanwhile, Shell, the other protagonist of explorations in the Arctic, sent on Monday its drilling rig to Alaska. The company also received early termination of the US antitrust waiting period from the United States Federal Trade Commission for its plan to merge with BG Group. "We're well underway with the anti-trust and regulatory filing processes in relevant jurisdictions around the world and we're confident that, following the usual thorough and professional review by the relevant authorities, the deal will receive the necessary approvals. We remain on track for completion in early 2016" Shell CEO, Ben van Beurden, commented. In a way or another, both US and Russia threw their political weight behind exploration in the region, facilitating the work of big companies that might have the technical expertise to take a risky position.

Gazprom says that gas sales to Germany bounced back

Natural Gas Europe, *15.06.2015*

While Ukraine states it could become 'completely energy independent' within 10 years, Russia's President Vladimir Putin increased his focus on the gas industry, both on a geopolitical and technical level. The Kremlin is exposing its ties with Germany, asking for an increase in domestic gas consumption, and a similar push toward higher production.

"We can increase our production rapidly and be sure of covering in full spikes in demand here at home and on our export markets. We can thus guarantee absolute reliability and no disruption of supplies" Gazprom CEO Alexei Miller told Putin.

The official also explained that Germany bought almost 70% more gas in May 2015, compared to May 2014. 'This shows that demand for Russian gas is growing and there is no doubt that new contracts for long-term Russian gas supplies to the European market is on the current agenda for talks with our European partners.' The parties also focused on the Power of Siberia project, reporting that work is proceeding as scheduled.

Meanwhile, Putin also paid close attention to relations with Azerbaijan. "Despite the economic turbulence, trade between our countries has been growing: last year it went up by about 12 percent, I believe, while in the first quarter of this year by almost 6 percent" Putin told President of Azerbaijan Ilham Aliyev. On the other hand, Ukrainian Prime Minister Arseniy Yatsenyu said that the Government reduced the deficit of Naftogaz Ukrainy "five times." He also repeated Kiev's interest to decrease imports, cutting consumption and changing the pricing of energy products. "The price of energy resources has not met the market level over 20 years. Well, we do not subsidize gasoline, do we?" he commented. Yatseniuk also said that Ukrtransgaz completed the works to repair the pipeline damaged by militants in Donetsk region.

Austrian firm mulls project to pipe Russian gas to Europe

Sputnik, *16.06.2015*

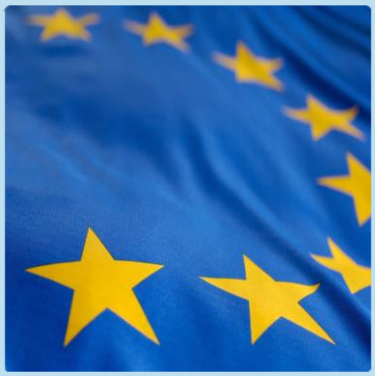
Austria's state oil and gas oil and gas company OMV wants to build a pipeline to bring Russian natural gas to Europe which would bypass Ukraine, local media reported.

The Nabucco pipeline project was cancelled in 2013. Its revived version, however, will differ from the original in that it will pump Russian, not Caspian Sea gas to European consumers.There has been no comment yet from Vienna-based OMV, but Russia's Gazprom has already published a photograph of the pertinent negotiations between Alexei Miller, would-be OMV CEO Rainer Seele, and Reinhardt Mieczyk.

With Russia intending to end its gas transit via Ukraine by 2019, it considered implementing the so-called South Stream pipeline project to supply gas to southern Europe without crossing Ukraine. The $40 billion project was scrapped in 2014 over EU objections and Russia, instead, named Turkey as its preferred partner for the Turkish Stream alternative pipeline, with a promise of hefty discounts. Gazprom will lay a pipeline to Turkey and build a gas hub on the country's border with Greece.

EC, France, Portugal, Spain set up high level group for regional infrastructure

Natural Gas Europe, *15.06.2015*



The European Commission, France, Portugal and Spain set up a High Level Group to promote infrastructure projects in South-West Europe.

According to Miguel Arias Cañete, the Memorandum of Understanding signed by the four countries in Luxembourg will pave the way for increased efficiency, and competitiveness. "The setting up of the High Level Group, following on the historical Madrid Interconnections Summit, is an important step in this direction as its work will be essential to achieve the integration of the Iberian Peninsula and the rest of the EU energy market" Cañete commented.

The High Level Group will be responsible to stimulate both gas and electricity infrastructure, providing technical assistance to the Member States. 'To support the work of this Group, the Commission has launched two studies on the benefits, costs and the technical possibilities for further electricity and gas interconnections between the Iberian Peninsula and the rest of Europe. The results of the electricity study will be presented in the autumn. The results of the gas study will be available in December 2015. ACER launched a public consultation from 12 June until 10 July 2015 on the proposed methodology for monitoring the impact of the gas network codes on the internal market.

Increasing optimism over Cuadrilla's shale plans in Lancashire

Natural Gas Europe, *15.06.2015*

The Lancashire County Council planning officer recommended that the planning application at Preston New Road should be approved, triggering enthusiastic comments from the representative body for the UK Onshore Oil and Gas industry (UKOOG) and Cuadrilla Resources.

Traffic around unconventional fields might turn into an obstacle for the British industry. 'We are pleased that Lancashire County Council's Planning Officers have recommended that the Councils' Development Control Committee grant planning consent for our application at Preston New Road.

In January 2015, Officers recommended refusal at Preston New Road only on grounds of night-time noise and we duly submitted additional information on mitigation measures, which was publicly consulted on, to further bring down noise levels well below limits set out in government guidance' Cuadrilla wrote. The UK-focused company reported that it provided additional information about traffic routes, but they still were not enough. 'Whilst we remain confident that our original proposed route was adequate, the alternative route suggested also met with all necessary guidelines in our view. We are disappointed that Officer's do not support this in their negative recommendation today, however we are pleased to note that as with Preston New Road, they are satisfied with all other aspects of the Roseacre Wood planning applications.' The Councillors should take a decision on both applications - Roseacre Wood and Preston New Road - by the end of the month.

New energy import security index highlights challenging European risk landscape

Natural Gas Europe, *16.06.2015*

Despite the European Commission's unveiling of its Energy Union Framework Strategy in February of this year, progress towards achieving a common energy policy across the European Union (EU) and boosting the continent's energy security is likely to be hampered by differing objectives at the national level.

The findings of Verisk Maplecroft's 2015 Energy Import Security Index (EISI) support this line of reasoning, highlighting the challenging risk landscape that will continue to threaten Europe's energy security over the short-to-medium term.

The 2015 EISI assesses the degree to which countries rely on foreign energy imports to sustain and grow their economies, where greater reliance on imported energy supplies can create significant operational challenges for businesses. Just under half of the countries that are categorised as 'extreme risk' in the 2015 EISI are located inside the EU or in its periphery, with countries from the Baltics to the Balkans each found to be acutely at risk of energy supply disruption. The key findings of this year's index provide a salutary warning for businesses, underscoring the requirement for companies to regularly evaluate their business models to identify potential pinch points in energy supply chains. Multinationals with assets and operations in 'high risk' countries must continue to evaluate their contingency plans to ensure supply chains remain resilient to both energy supply disruptions and unanticipated price rises.

The ongoing standoff between Russia and the European Union (EU) and US over the Ukraine and conflict in several North African hydrocarbon exporting nations has placed Europe's ability to cope with energy supply disruption under the spotlight. Despite the announcement in 2013 of its Energy Strategy 2030, which set long-term goals to meet the country's energy import security challenges, Latvia is categorised as 'extreme risk' in the 2015 EISI. The Baltic republic is nearly 100% dependent upon neighbouring Russia for its oil and gas supply, while the country's domestic energy production remains limited. Furthermore, Latvia remains isolated from EU energy networks, leaving it exposed to energy supply disruption should Russia cut off gas exports following an escalation of the current Ukraine crisis.

Import-reliant Italy is also categorised as ‘extreme’ risk in the 2015 EISI. The risk of energy supply disruption is likely to increase should the security environment in Italy’s key oil and gas supplier Libya continue to deteriorate, and likewise if there is a breakdown in gas transits between Russia and the Ukraine. If either of these scenarios occurs on a significant scale, Italy will be forced to fall back on stockpiled reserves. Rome would also be prompted into arranging potentially more costly gas shipments from alternative providers. In the worst case scenario, the government may have to order key industries to reduce outputs. Macedonia, which is currently experiencing a period of severe political instability, is likewise categorised as ‘extreme’ risk in the 2015 EISI. For international investors, Macedonia’s energy infrastructure remains an acute concern, as domestic generation capacity is insufficient to meet peak demand loads. Chronic government underinvestment has diminished the country’s resilience to supply shocks. At present, the country imports upwards of a fifth of its energy supply, a trend that is unlikely to improve over the short-to-medium term.

By contrast, those European countries that have proved more resilient to potential energy supply disruptions in the 2015 EISI are characterised by their comparatively more diversified energy mixes and greater indigenous reserves of oil, natural gas and coal. In addition, many of the European countries that are categorised as being ‘medium’ (France, Belgium, the United Kingdom) and ‘low’ (Denmark, Norway) risk in the 2015 EISI also boast greater regional gas connectivity and more competitive markets, which has in certain cases helped relieve dependence from major hydrocarbon exporting nations, such as Algeria and Russia. Others have also notably invested over the last decade in greater storage capacity and LNG infrastructure, drawing on the lessons of previous gas conflicts between Russia and Ukraine that affected much of the continent in 2006 and 2009. Furthermore, integrating European energy markets and thus boosting the resilience of businesses to potential supply disruptions is a trend that is likely to continue. In February 2015 the European Commission announced proposals for a single market for electricity and gas, based on better and more connections between the bloc’s 28 members. The proposals now need to be approved by both the European Parliament and also EU member states, a legislative process that is likely to take 2-3 years. It should also be noted that Europe’s electricity grids and gas hubs differ in terms of their stages of development and maturity. Moreover, the mode culture of trading these commodities varies from region to region. Whereas the trading market in North and Western Europe is already well established, it has yet to fully take root in Eastern, South East and Southern Europe. While a number of European countries are likely to remain at risk of energy supply disruptions in the short-to-medium term, current developments to more closely align EU member states’ energy markets should be positively welcomed by investors from a security perspective. Developing cross-border and also offshore grid infrastructure will help reduce uncertainties over companies’ future investments. Achieving these objectives is however likely to be achieved over a longer timeframe, meaning that in the interim, companies must continue to monitor and evaluate their energy supply chains to ensure that production lines remain running, premises operational and critical technology switched on.

Energy Union Head: No more Nabucco's

Natural Gas Europe, *16.06.2015*

The days of mega infrastructure projects for the European energy sector are likely over, according to Vice President of the European Commission, in charge of the Energy Union, Maroš Šefčovič.

The Energy Union is a long-term energy and climate strategy that is to be approved by EU members this month. In Budapest, Mr. Šefčovič reported that, in the wake of the cancellation of South Stream last December, all parties in Europe have been paying attention to statements from Russia, as a gas supplier, and Europe's stance on infrastructure has been altered.

He explained, "The new perspective from Brussels on energy security is not to expect some huge project to resolve all our problems, because we have our own experience with South Stream and Nabucco, but to go for a series of projects that we can manage, which will be in our hands." Interconnectors, he said, will make the gas system of south-east Europe part of the overall system, make them much better linked and offer diversification of supplies. "So we can get gas from the west, east, north, from the south – making sure that those countries that are isolated or overly dependent on the dominant supplier – have access to at least three different sources of gas." It is also crucial, he said, that energy be free-flowing among the EU member states.

Mr. Šefčovič said he appreciates the Hungarian approach to regional energy security and its responsible approach to building interconnectors. Energy security is the hottest subject in Central & Eastern Europe, said Hungarian Foreign Minister Peter Szijjarto in his remarks to the press. Central and Eastern Europe, he said, is still exposed in terms of energy supplies, and the vulnerabilities must be addressed. Hungary, he explained, was making efforts to connect the region's energy infrastructure, with special emphasis on natural gas infrastructure. It is the responsibility of the Hungarian government, said Minister Szijjarto, to secure supplies of energy to Hungarian residents and industry; he named a number of investments that had been made towards that, like interconnectors with Slovakia and Romania, but added that Croatia and Romania had not met their project deadlines. "We also recognize that because of geopolitical and regional factors, we are faced with numerous serious challenges from the standpoint of energy security," he stated, mentioning the ongoing conflict in Ukraine, as well as Gazprom's intentions to discontinue use of the gas infrastructure traversing Ukraine as of 2019.

The Hungarian government, he explained, is tasked with spearheading a big, strategic gas pipeline in the region that connects Central Europe with Turkey. He commented, “Turkey will not only be a significant gas hub from geopolitical but also from regional aspects as well, so that’s why a connection between Turkey and Central Europe makes for both diversification of routes as well as sources.” Minister Szijjarto mentioned that there are several potential pipeline plans, which he and Mr. Šefčovič had discussed. “We consider it a good thing that there are several alternatives,” he said, “in order to enhance energy security.” He named the “Tesla” project, an agreement for which was signed between Hungary and others at the end of May. Of his Energy Union road show, Mr. Šefčovič said: “We fully realize that the Energy Union cannot be built from Brussels; it has to be built in the member states: in our cities, our towns and our communities, and we need strong public support for this project.”

For this reason, he explained that he is visiting member states to visit with government representatives, stakeholders, NGOs and citizens to hear about how they see project and what their priorities are in the context of the Energy Union. In light of the recent declaration signed by the leadership of six international oil companies, who pledged to take greater progress on climate change if governments seek a global price for carbon emissions, Natural Gas Europe asked him about using gas as a tool for addressing climate change. Mr. Šefčovič said he thinks the role of natural gas will be very important in the future energy mix as part of a very ambitious climate action agenda, taking into consideration CO2, energy efficiency and renewable energy production.

Petroceltic announces exit from Romania, Tethys starts drilling in Lithuania

Natural Gas Europe, *09.06.2015*

While Petroceltic was announcing its exit from Romania, Sweden-headquartered Tethys Oil started its drilling programme in Lithuania.

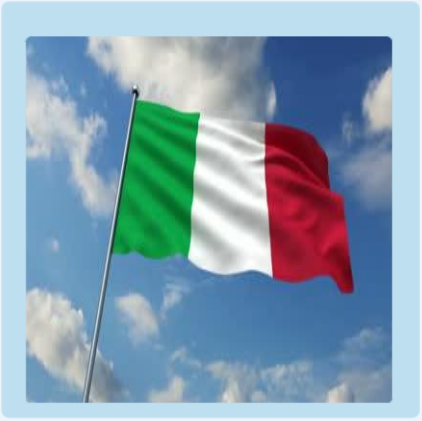
‘A three well drilling programme on the Raseiniai licence onshore Lithuania has commenced. The first well, the Bedugnis-1 well, is planned to be drilled vertically to a total measured depth of 1,100 meters. Drilling and evaluation are expected to continue for approximately 45 days’ reads a note released by the company. Tethys Oil has a 30% indirect interest in the Raseiniai licence, which covers 1,535 square kilometres onshore Lithuania.

Conversely, Petroceltic left Romania. ‘Petroceltic has sold the entire share capital of Petroceltic Romania B.V. (which holds the interests in the Company’s two licences in Romania, Block 27 Muridava and Block 28 Est Cobalcescu) to GVC Investment B.V., a private limited company, which has considerable oil and gas assets in the area. Following these transactions, Petroceltic has no remaining interests in Romania’ the company wrote on its website. Petroceltic said that it will redirect its focus to Egypt and Italy. “This concludes our involvement in the Romanian Black Sea.

This process of disengagement forms part of our strategy to focus our efforts on our production and development assets, and to exit from high risk exploration ventures" Brian O'Cathain, CEO of Petroceltic, commented, in a note.

Italy's upstream increasingly under the international spotlights

Natural Gas Europe, *16.06.2015*



Mixed figures emerged from the operations of junior companies focused on Italy, with Sound Oil abandoning the second appraisal well pending a possible sidetrack at its onshore Nervesa discovery, while Northern Petroleum and Sound Oil received EIA approvals for exploration permit applications in the Bel Paese.

In less than a week, the Italian government approved five EIA for Northern Petroleum's exploration permit applications in the Southern Adriatic, and also the EIA for the award of the D503-BR-CS permit, covering Sound Oil's Dora and Dalla assets.

"We continue to progress our Italian portfolio which includes a blend of cost covering production, existing discoveries and high upside exploration" James Parsons, Sound Oil's Chief Executive Officer, commented. On the other hand, the company abandoned the second appraisal well on its Nervesa discovery in northern Italy. 'Despite the confirmed presence of gas and the completion of reperforation and stimulation operations in the lower section of the target reservoir, the company has been unable to secure a stabilised flow rate. The company has therefore concluded that the lower section of the target reservoir is insufficiently permeable to flow gas' reads a separate note.

As anticipated, Northern Petroleum reported developments. "With all the southern Adriatic EIAs approved the Company can now work with the Italian authorities to finalise the award of the permits. Once received, a full 2D seismic programme will be designed to evaluate the potential of the Company's 4,500 sq km of contiguous permits and develop further opportunities similar to the Giove discovery and Cygnus exploration prospect" Keith Bush, Northern Petroleum CEO, explained. The two companies' successes indicate that there could be soon a growing interest for exploration in Italy. "We have now withdrawn from Romania and Kurdistan, and are focusing our future exploration efforts on Egypt and Italy" Brian O'Cathain, CEO of Petroceltic, commented in a press release. The declarations and the positive comments are in line with a trend of increasing confidence in Italy's upstream potentials.

Polish shale gas hits a dry well

Politico, *16.06.2015*

Hopes kindled just four years ago that Poland would become a gas exporter, a "second Norway," in the words of then-foreign minster Radek Sikorski, have been doused by the decision of U.S. energy giant ConocoPhilips' Polish subsidiary to halt exploration.

The exit this month of the last global player from Poland's shale gas market, leaving just a few domestic and smaller foreign firms among whom drilling has come to a near halt, further undermines the case for fracking in the European Union, where Poland and the UK have been its strongest backers.

"The appetite for drilling has dried up," said Tomasz Chmal, an expert on shale gas with law firm White & Case in Warsaw. The industry's fall is hard to swallow for those who had hoped for 300 years worth of energy independence from Russia, where Poland gets just over half of its gas imports. Such predictions were being made in 2011, after the U.S. Energy Information Administration estimated Poland's shale gas reserves at 5.3 trillion cubic meters, albeit based on historical data rather than new exploration. Politicians salivated at the thought of the taxes and royalties, while the media played up hopes of an economic boom. Investors poured in, encouraged by legislation from the mid-1990s that meant exploration could be done relatively cheaply. Barriers for entry were low. Concessions were granted on a first-come, first-served basis; one optimist even paid for some with his credit card. But the government made several critical missteps. Spurred by criticism it was selling off valuable resources to foreigners too cheaply, Warsaw introduced legislation in 2011 to modernize regulation and maximize income for state coffers. A new state-run institution would take a stake in each concession, while companies that actually found gas weren't guaranteed the right to extract it. The scheme spooked investors and the government was forced to amend the law last year. "The execution of this project was a disaster," Chmal said.

Problems above ground were mirrored by growing concern over just how much gas Poland actually had. In 2012, the Polish State Geological Institute put extractable shale gas deposits at between just 346 and 768 billion cubic meters — some 85-95 percent less than the U.S. Energy Information Administration's initial estimates. Prospecting companies were also coming up dry; Poland's shale gas was much harder to get at than expected. Poland's shale formations are "significantly different and much more difficult" than their U.S. counterparts, Wiesław Pruger, the head of Orlen Upstream, a subsidiary of Poland's state-controled refiner PKN-Orlen, told the Polskie Łupki energy portal.

In four years 70 wells were drilled and 25 underwent hydraulic fracturing, the controversial process used to extract gas from rock by pumping water and chemicals at high pressure deep underground. None produced flows large enough to establish commercially viable production. When oil prices started dropping, bringing gas prices down with them, it became impossible for firms to justify the risk and expense of continuing operations in Poland. Major global energy firms began cutting their losses. In 2012 Exxon Mobil announced it would stop exploring in Poland, Marathon exited in 2013, Total in 2014 and Chevron earlier this year. All cited lackluster results from test wells as the main reason for leaving. ConocoPhillips said its subsidiary, Lane Energy Poland, had invested around $220 million since 2009. It drilled seven wells over its three Western Baltic concessions, but "commercial volumes of natural gas were not encountered," according to a statement from the country manager, Tim Wallace.

Among the firms left with concessions in Poland are gas monopolist PGNiG and Orlen — both controlled by the state. But the pace at which they're searching is "much slower" than in previous years, said Piotr Wdowiński, head analyst at Cleantech Poland, an industry consultancy. PGNiG is currently working on just two drilling operations of 10 originally planned for this year, while Orlen planned four wells this year and has so far finished just one. Smaller international firms, including Dublin-based San Leon Energy and ShaleTech Energy, a subsidiary of Sweden's Stena, as well as Poland-based BNK Polska, are still present. But with global energy prices so low, these companies are unlikely to pump large sums into exploration in Poland for the foreseeable future. Outside of Poland and the U.K., the EU is wary about fracking. France and Bulgaria, among others, have moratoriums, while Germany to all intents and purposes has a ban. This could change, of course, if significant deposits of gas are discovered. "If any of the current operators achieved commercial flows it would definitely attract foreign investment in shale gas exploration back to Poland," Wdowiński said. "I believe that exploration activity could revive in the future.

European LNG: Political wish but economic pipedream?

Financial Times, *16.06.2015*

Even prior to Russia's invasion of Crimea, energy security was a hot buzzword in Europe. But while many of the continent's leaders frequently called for reduced dependence on Russia and greater diversification of energy supplies, practical progress on the issue was slow.

The Ukraine crisis, however, has brought new momentum for a concerted push towards energy security. Talk of an "energy union" now surfaces high on the political agenda in Brussels, along with proposals for several infrastructure projects to connect Europe's disjointed energy networks and build away bottlenecks.

Nowhere is this more evident than in Lithuania. This tiny Baltic rim state has long felt the pressure from Russia. Along with its neighbours Estonia and Latvia, Lithuania has been more or less fully dependent on Russia's Gazprom for decades. And following the closure of Lithuania's last nuclear power plant in 2009, the country now imports almost three quarters of its total energy needs – the bulk of it from Russia. But all this is about to change. In November 2014, the liquefied natural gas (LNG) terminal in the Lithuanian port of Klaipeda became operational – the first such in the Nordic-Baltic region. The main function of this terminal is to accept and store LNG, perform regasification (that is, converting LNG back into natural gas) and supply gas to the domestic gas network. The Lithuanian company Litgas has signed a five-year deal with Norwegian Statoil for supplying the yearly delivery of 540m cubic meters of LNG to the terminal.

Today, capacity is 1.4bn cubic meters (bcm) of gas a year, with a projected increase to roughly 4 bcm in 2016. For Vilnius, the project serves a clear political and strategic objective: it reduces the country's dependence on Gazprom as its single supplier of gas. And the impact is already noticeable. The projected increase in the quantity of gas to be supplied would be sufficient to meet the entire demand in Lithuania, and around 90 per cent of the demand in the three Baltic states. As a result, the Baltic states will significantly undermine Gazprom's monopoly situation and put an end to the region's "energy island" status. But while the political and strategic case for the new LNG terminal seems indisputable, the question is whether Lithuania's LNG project also makes strong economic sense. Critics have argued that the Klaipeda terminal is not economically viable. For example, they have pointed out that the price of gas from the new terminal may be higher than Gazprom's. It is also still running at only 15 per cent capacity, hardly helpful for cost-efficiency.

In addition, it is true that additional cargoes of LNG to Klaipeda depend on a combination of Gazprom pricing and demand from Latvia, Estonia, and Ukraine (via a planned pipeline through Poland). Klaipeda Nafta, the company operating the Lithuanian terminal, has already signed agreements with Jetgas in Estonia, and a letter of intent with Duon, the largest Polish LNG supply company, for LNG capacity allocation via the on-shore reloading station to begin in 2017. However, the presence of the Klaipeda terminal has already pushed down the price of gas for Lithuania in general, with Gazprom cutting the price of the gas it supplies to Lithuania via pipeline by over 23 per cent. Also important to note here is that the total cost of terminal operation adds only 5 per cent on top of the current gas price, meaning that the terminal has already resulted in a significant economic benefit to Lithuania. The terminal has thus effectively put a ceiling on Gazprom's prices. Moreover, the acceleration of the construction of two important gas interconnectors linking Lithuania with Poland and Latvia, scheduled for 2019 and 2020, respectively, will further enhance Lithuanian energy supply security (the current capacity of Lithuania-Latvia interconnection is only up to 6.48m cubic meters a day). This could result in additional suppliers entering the Lithuanian market and help further push down the price of gas. This is important in a country where natural gas still accounts for the lion's share of electrical generation, and where gas will remain the primary source of energy for households and businesses for the foreseeable future.

Moreover, the planned merger of the state-controlled Lithuanian energy companies Litgas and Lietuvos Duju Tiekimas by the end of this year will create a more powerful, unified company, better able to negotiate with its natural gas suppliers and utilise its administrative resources. The merger is expected to increase the reliability of the gas supply, enable further gas price cuts, and offer clients new services and products. The new, stronger company should be better able to guarantee the security of the gas supply at Klaipeda, while developing more small-scale activities of LNG supply in cooperation with Statoil. The new company will also try to seize opportunities stemming from the liberalisation of gas markets in the region and the new pipeline connecting Lithuania to Poland, currently under construction. The Klaipeda LNG terminal and its planned on-shore distribution station also create an alternative source for developing new supply routes for energy traders in the Baltics, boosting new markets for LNG and natural gas all over the region.

One note of concern, however: now that the LNG terminal has been completed and the security dimension has been enhanced, the Lithuanian government should take a step back, letting business interest drive new investments. A project with such a capacity and potential could bring even greater economic gains if future investment opportunities are market based, now that energy security has been accomplished. By doing so, Lithuania will ensure that potential investment gambits do not end up with taxpayers paying higher bills in the name of national and energy security. The significance of Lithuania's new LNG terminal cannot be overstated. This development significantly increases the energy security, diversity and independence of Lithuanian and Baltic energy supplies. It makes both strong political and economic sense. At the same time, the west should also do more to assist Lithuania and other central and eastern European states looking to invest in LNG. The most obvious way would be for the US to step up its efforts to export LNG to Europe, and for the EU to move ahead with construction of vital gas interconnectors in Europe, including the PCI Poland–Denmark interconnection "Baltic Pipe".

Lundin drills in North Sea, Statoil announces workforce cut

Natural Gas Europe, *17.06.2015*

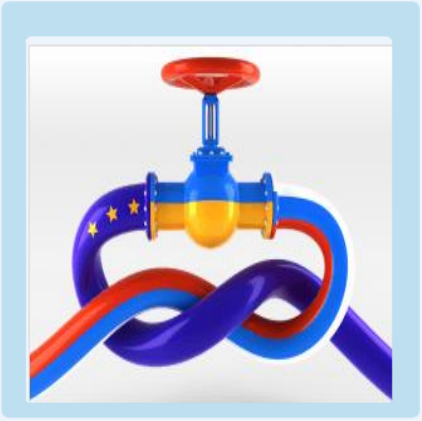
Lundin Petroleum announced that its wholly owned subsidiary Lundin Norway AS commenced drilling of exploration well 16/4-9 S on the Luno II North prospect.

The news came, a few hours after Statoil's note announcing that it could reduce workforce by 1,100 - 1,5000 permanent employees by the end of next year. 'The Luno II discovery is located approximately 15 km south of the Edvard Grieg field in the North Sea sector of the Norwegian Continental Shelf' Lundin wrote on its website, adding that it estimates the Luno II North prospect to contain gross unrisked prospective resources of 24 million barrels of oil equivalents (MMboe).

Lundin Norway is the operator of PL359 with a 50% working interest. OMV (Norge) AS, Wintershall Norge AS, Statoil Petroleum AS are the other partners with 20%, 15%, and 15% working interest respectively. As anticipated, Norway's Statoil announced that the national industry has to increase efficiency. "We regret the need for further reductions, but the improvements are necessary to strengthen Statoil's competitiveness and secure our future value creation," Anders Opedal, executive vice president and chief operating officer in Statoil, commented in a separate press release.

Challenges abound for EU gas strategy

Natural Gas Europe, *18.06.2015*



The EU both as a supranational institution and its individual member states have been struggling for years to overcome a series of strategic challenges concerning their natural gas strategy in the mid and long-term. Catch-phrases such as diversification, Interconnections, Energy Union, Market liberalization and Gas hubs have failed to address the lack of indigenous resources and the shifting of global balances.

The Southeastern part of Europe in the midst of strategic competition between proposed pipeline projects such as Turkish Stream led by Gazprom, assisted by Turkey and agreed upon in principle by Greece.

In addition the Southern Corridor project including TANAP-TAP and perhaps IAP pipelines is another addition, still in progress. Still both of the above do not address the major focus which has been magnified by the Ukrainian crisis that of diversification from Gazprom's seemingly dominance in the local market. The Southern Corridor cannot achieve this aim by itself if it is not coupled with the wider opening of the Caspian gas producers, namely Turkmenistan and Uzbekistan as it has been noted by all shareholders in all leading fora and conferences in the past few months. Hence the objections of Russia, primarily, and Kazakhstan and Iran secondarily to not permit the aforementioned central Asian state to establish a pipeline in transit of the Caspian Sea nullifies such plans. Moreover China is steadily absorbing more and more of the natural riches of Central Asia and constructs its own version of modern day Silk Road of gas pipelines.

Iran, another possible candidate country for the future supply of the Southern Corridor has first to be accepted into the international community and overcome the objections of all of its neighboring Sunni states plus Israel who are all adamant about not recognizing a role of importance of Teheran in European energy affairs. Furthermore, Iranian gas would have to pass through Turkey and it is unlikely that the European member states would be glad to exchange Russia for Iran. That, in addition to unresolved territorial issues from where an Iran-sourced pipeline would pass, such as the Kurdish rebel areas and the all-encompassing Jihadist-controlled territories nearby. Thus, LNG is becoming more and more as a referred strategic vision by Brussels. In that sense, shale gas from the US coupled with a thorough agreement based on the Trans-Atlantic trade partnership agreement could potentially flood EU markets with American LNG.

In order for that to be practically available, significant infrastructure in terms of pipelines from inland USA to the Atlantic shores should be established along with LNG terminals, and a boosting of similar resources in the other side of the Atlantic. Concurrently the US suppliers should be persuaded to forgo a more lucrative pricing in Asian markets and direct en mass shipments to the much lower in pricing terms EU markets. In addition one has to take into account that the Russian Gazprom could depress markets even further by increasing discounts, since it has favorable earnings to turnover ratio and can afford it.

It should also be noted that North Sea gas resources, especially from the UK, are steadily decreasing while those of Norway are reaching a plateau. Further, US supplies are not unlimited, on the contrary, the US has to supply its own large market and it has far less reserves both of conventional and from shale than does Russia, Iran or Qatar. According to the US Energy Information Administration, in early 2014, proven reserves were around 10 TCM, which places the country in 5th place worldwide below Turkmenistan (17.5 TCM), Qatar (24 TCM), Iran (33 TCM) and Russia (49 TCM). The US consumes around 750 BCM per annum, the largest in the world, followed by Russia and the EU (around 450 BCM). Another parameter of great importance is “consumer strategic competition” which is the new emerging market that will fight over increased supplies vi-a-vis the EU. At a recent international energy conference in Istanbul, interesting details were presented. Sohbet Karbuz, director of the hydrocarbon sector of the Mediterranean Energy Observatory, estimated that by 2040 the energy consumption in the Mediterranean will increase by 50%. That would be the result of the rise of population and economic activity. With the exception of Israel and its newly found offshore reserves of around 650 BCM gas, the rest of the counties have to battle challenges of political and social instability, most notably Egypt, while trying to increase their energy capacity. The Southern Mediterranean counties will need much more energy than now, including gas via imports.

Israeli gas capacity will mostly go to secure the indigenous energy security needs of the country, while the Eco Energy Financial & Strategic Consulting, and its CEO Amit Mor, estimate that Egypt would be a preferred export market and not the EU. Speaking recently at a conference in Nicosia, Cyprus, he relayed to local press that Turkey continues to be a non-preferred option as a transit route for the gas to reach Europe, due to political reasons. Moreover, the East Med Pipeline to shift gas to Greece and then Italy is not a viable project due to its cost and technical challenges and depressing pricing environment, whilst quantities found do not justify such a project. While Greece and Cyprus continue to lobby Brussels for that pipeline, it can be safely estimated that if more and significant offshore reserves are not found in the region, then it has extremely limited chances of being materialized. The EU may find itself soon back to square one when designing its long-term natural gas strategy. The facts and parameters at hand point out that it needs to have stable relations with existing suppliers, far more attention into sector energy efficiency and diversification of energy production, such as use of nuclear and coal energy and further strengthening of research for potential indigenous reserves. In any case the political implications of the Ukrainian crisis for instance cannot change the facts on the ground which clearly calls for the EU markets to find a modus vivendi with the Russian producers, who are slowly but steadily diverting their own supplies to Europe’s industrial rival, namely China.

Deputy at China's biggest oil firm charged with graft

Anadolu Agency, *15.06.2015*

A former senior executive with China's largest state-owned oil and gas company has been expelled from the Communist Party and is being charged with corruption.

The Central Commission for Discipline Inspection said in a statement Monday that Liao Yongyuan, former vice chairman of PetroChina, stood accused of receiving a "huge amount" in bribes, seeking profits for others and committing adultery. It added that he had been expelled for "serious violations of discipline and the law" -- a phrase used to refer to corruption allegations. Liao, 52, was appointed to his current post in May last year.

He had worked for the China National Petroleum Corp, the parent company of PetroChina, for 30 years. Several senior executives with the company, including former chairman Jiang Jiemin, have already been put under investigation. Jiang, 60, former head of the State-owned Assets Supervision and Administration Commission, admitted in court in April that he was guilty of corruption and abuse of power. He had served as the chairman of the China National Petroleum Corporation in 2011-2013. Jiang was a protege of former security chief Zhou Yongkang, the highest-ranking official to be investigated under President Xi Jinping's anti-graft campaign who was sentenced to life in prison last week. Zhou was convicted of revealing state secrets and accepting bribes of around 130 million Yuan ($21.3 million). According to the Hong Kong-based South China Morning Post, Zhou and Jiang were reportedly members of a Communist Party faction known as the "Petroleum Gang". The anti-corruption drive has placed China's biggest oiland natural gas producer under its microscope, with at least 10 of its current and former executives undergoing investigation. In February, the Central Commission for Discipline Inspection said it would target 26 giant state-owned firms this year.

Canada gives environmental approval for LNG export

Anadolu Agency, *18.06.2015*

Canadian Environmental Assessment Agency (CEAA) approved LNG Canada's project to export LNG. "Receiving both provincial and federal approval of environmental assessment is a critical milestone on our path to making a final investment decision," Andy Calitz said.

"LNG Canada proposes to have one of the lowest levels of CO2 emissions of any LNG export facility in the world. The project will supply clean burning natural gas to help reduce greenhouse gas and other emissions in countries that currently burn more carbon intensive sources of energy for electricity production," Calitz added.

LNG Canada, which is a joint venture company, is planning to build an LNG export facility in Kitimat, in the north coast of western Canada's British Columbia. The project is planned to have two LNG processing units initially, each with the capacity to produce 6.5 million tons (9 billion cubic meters) of LNG per year. The project comes with an option to expand to four units in the future. The joint venture is comprised of Shell Canada Energy (50 percent shares), an affiliate of Royal Dutch Shell plc, and affiliates of PetroChina (20 percent), Korea Gas Corporation (15 percent) and Mitsubishi Corporation (15 percent).

Canada is aiming to join the LNG supply race in Asia-Pacific by 2020, but has been falling behind Australia and the U.S. The North American country has 18 proposed projects to export LNG, however so far no investment decision has been finalized on any project because of the uncertainty of tax and environmental laws in the country. National Energy Board, which is the federal regulator of Canada's energy industry, stated that the quantity of natural gas to be exported out of the country must be the surplus left from Canada's internal use. According to the U.S.' Energy Information Administration, Canada is the fourth-largest exporter of natural gas - after Russia, Qatar, and Norway - while almost all of its natural gas exports are sent to the U.S. via pipelines. Canada's proved natural gas reserves are estimated to be 67 trillion cubic feet (two trillion cubic meters) while it has technically recoverable shale gas resources of an estimated 573 trillion cubic feet (17 trillion cubic meters), according to the U.S. agency.

US, Russia to compete for Asian, European energy markets

Sputnik, *15.06.2015*

The United States will challenge Russia as an energy exporter to European and Asian markets, research firm Energy Security Analysis, Inc. President Sarah Emerson told.

"I think we are going to be competitive in Asia. I think we will be competitive in Europe," Emerson said.In the past decade, US total dry natural gas production has increased by more than 35 percent, according to the US Energy Information Administration. US export infrastructure, including liquefied natural gas (LNG) export terminals is still under development. "I do not think we are going to have a wave of LNG initially," Emerson said of potential US exports to European markets.

The impact of new US energy exports on Russia is "a game of inches," Emerson noted. Any new US energy exports will mean "a little bit" of Russian natural gas that is not purchased on the European market, she explained. The focus on Asian markets is concentrated because of the high returns for exporters, Emerson explained. "Everyone is hoping the Asian prices will stay high," she said. Emerson added, it is more likely prices in the Asian markets will stay high, compared to Europe, where the price is likely to level off.

US oil stocks, production decline, imports rise

Anadolu Agency, *18.06.2015*

Oil stocks in the U.S. fell while the country's domestic oil production decreased and crude oil imports rose for the week, the U.S.' Energy Information Administration (EIA) data revealed.

Commercial crude oil inventories in the country fell by 2.7 million barrels, or 0.6 percent, to reach 487.9 million barrels for the week, from 470.6 million barrels for the week ending June 5, the EIA said. This is the seventh consecutive week that oil stocks have fallen in the U.S., after the country experienced 16 consecutive weeks of increases in crude oil inventories.

Meanwhile, strategic petroleum reserves in the country rose slightly, by 0.6 million barrels to stand at 692.9 million barrels for the week ending June 12, from 692.3 million barrels the previous week. As the U.S.' crude oil inventories fall, this may increase expectations in the market that the glut of oil supply worldwide may decline, thus putting an upward pressure on oil prices. According to BP's Statistical Review of World Energy 2015 published on June 10, the U.S. surpassed Saudi Arabia to become the top oil producer in the world, while it kept its position as the biggest oil consumer as well. Domestic oil production in the U.S. also declined, falling below 9.6 million barrels a day on average for the week ending June 12, EIA data shows. Oil production in the country fell to 9.59 million, from 9.61 million barrels a day on average. Crude oil imports of the world's biggest economy increased by an average of 444,000 barrels a day to climb over 7 million barrels per day for the week ending June 12. Oil imports reached 7.07 million, rising from 6.62 million barrels per day the week before.

EIA said June 9 in its Short-Term Energy Outlook that U.S. crude oil production is expected to start declining in the second half of the year until the end of third quarter next year. The U.S. administration projects crude oil production in the U.S. to decline from the current average of 9.58 to 9.39 million barrels a day on average in the third quarter, and to 9.33 million barrels per day on average in the fourth quarter of the year. Moreover, EIA expects crude oil output to continue its decline next year by falling to 9.2 million barrels a day on average in the first quarter of 2016, before slightly rising to 9.22 million barrels per day on average in the second quarter of 2016. Production of crude oil is forecast to dive to 9.17 million barrels a day on average in the third quarter of 2016.

Decline in number of US oil rigs exceeds 60 percent

Anadolu Agency, *15.06.2015*

The decline in the number of oil drilling rigs in the U.S. has exceeded a decline of 60 percent, oilfield services company Baker Hughes' data shows.

With low oil prices, the rig count in the country continues to decline as it fell by seven to reach 635 for the week ending June 12. This marks the 27th consecutive week of the drop in the oil rig count. The number of oil rigs in the country was at its highest level in October 2014 at 1,609, but has fallen by 60.5 percent since then. Falling oil prices put U.S. producers in a difficult position in seeing a return on their investments.

Yet, the recent fall in the number of oil rigs is modest when compared to the double-digit drops in the last months. The rig count fell by 13 for the week ending May 29. The falling number of oil rigs in the U.S. is expected to slow domestic oil production in the country and put an upward pressure on oil prices beginning from the third quarter of the year. In addition, the falling crude oil inventories in the U.S. are also projected to trim the glut of oil supply in the market to relieve the downward pressure on the price of crude oil. The U.S. Energy Information Administration (EIA) data showed last Wednesday that crude oil stocks in the country fell for the sixth week in a row. EIA said crude oil inventories in the country fell by 6.8 million barrels, or 1.4 percent, to reach 470.6 million barrels for the week ending June 5, from 477.4 million barrels for the week ending May 29.

Announcements & Reports

► *Saudi Arabia Oil Policy: More than Meets the Eye?*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/06/MEP-13.pdf

► *Oil Market Report for June*

Source : IEA
Weblink : http://www.iea.org/newsroomandevents/news/2015/june/iea-releases-oil-market-report-for-june.html

► *Economic Impact and Legal Analysis of the Shale Oil and Gas Activities in Mexico*

Source : Wilson Center
Weblink : http://www.wilsoncenter.org/sites/default/files/Economic_Impact_Legal_Analysis_Shale_Oil_Gas_Activities_Mexico.pdf

► *Revamping Saudi Arabia's Energy Policy*

Source : Baker Institute
Weblink : http://bakerinstitute.org/files/9302/

► *This Week in Petroleum*

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

► *Natural Gas Weekly Update*

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

Upcoming Events

► *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

► *Designing A New EU-Turkey Strategic Energy Partnership*

Date : 02 July 2015
Place : Brussels - Belgium
Website : http://www.bruegel.org/nc/events/event-detail/event/537-designing-a-new-eu-turkey-strategic-energy-partnership/

► *IV ACER Annual Conference*

Date : 09 July 2015
Place : Brdo - Slovenia
Website : http://www.acer.europa.eu/annualconference/registration.htm

► *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

► *LNG Global Congress*

Date : 23 - 24 September 2015
Place : London - UK
Website : http://www.lnggc.com/?xtssot=0

► *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

► *Shale Gas Environmental Summit*

Date : 26 - 27 October 2015
Place : London - UK
Website : http://www.smi-online.co.uk/energy/uk/shale-gas-environmental-summit

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► *Abu Dhabi International Petroleum Exhibition & Conference*

Date : 10 – 13 November 2015
Place : Abu Dhabi - United Arab Emirates
Website : http://www.adipec.com/

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► *CIS Oil and Gas Transportation Congress* ***(in Turkey)***

Date : 11 – 12 November 2015
Place : Istanbul - Turkey
Website : http://www.theenergyexchange.co.uk/event/cis-oil-and-gas-transportation-congress-2014/attend

17 th Annual
CIS OIL AND GAS TRANSPORTATION CONGRESS

► *20th Turkmenistan Oil and Gas Conference*

Date : 17 - 19 November 2015
Place : Ashgabat – Turkmenistan
Website : http://www.oilgasturkmenistan.com/

► *Israel's 2nd Annual International Oil & Gas Conference*

Date : 17 - 19 November 2015
Place : Tel Aviv - Israel
Website : http://www.universaloilgas.com/

► *European Autumn Gas Conference*

Date : 17 - 19 November 2015
Place : Geneva - Switzerland
Website : http://www.theeagc.com/

► *Project Financing in Oil and Gas Conference*

Date : 23 - 24 November 2015
Place : London - UK
Website : http://www.smi-online.co.uk/