Oil & Gas Bulletin

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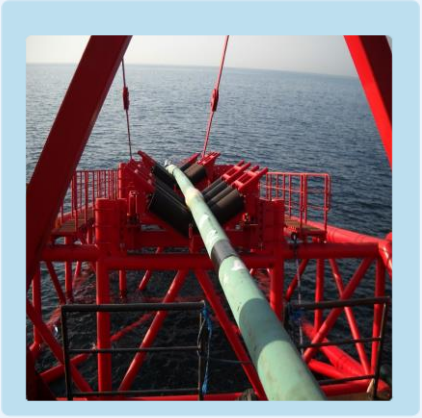
Turkey issues permit on surveys for Turkish Stream, Gazprom confirms

Natural Gas Europe, *23.06.2015*



Turkey issued a permit on engineering surveys for the offshore section of Turkish Stream, Gazprom confirmed. 'The document stipulates that investigations will be carried out within the exclusive economic zone and territorial waters of Turkey in order to place the first offshore string of the gas pipeline' reads the note.

According to the Russian company, the offshore section of Turkish Stream will consist of four strings, each with a throughput capacity of 15.75 bcm. The gas pipeline should stretch for 660 kilometers within the existing corridor of South Stream and for 250 kilometers within a new corridor.

'Natural gas from the first gas pipeline string is expected to meet the growing demands of the Turkish market only' Gazprom wrote. According to several reports published on Tuesday, Russia and Turkey plan to agree the text of the intergovernmental agreement on Turkish Stream by July.

Russia-Greece pipeline: Will Turkish Stream ever stream?

Asia Times, *22.06.2015*

Russia and Greece inked a deal on Friday to build an extension for Turetskiy Potok (Turkish Stream), the prospective gas pipeline planned to carry Russian gas to European markets via the Black Sea and Turkey.

The agreement was signed at the margins of an international co-operation forum in St. Petersburg, albeit in the absence of a key stakeholder. The Turkish Minister of Energy, Taner Yıldız, cancelled his trip to Russia at the last minute, without an explanation by Turkish authorities. An agreement between Turkey and Russia for the Turkish Stream pipeline project is yet to be signed.

The Turkish Stream project is both important and urgent for Russia. Having abandoned an earlier version, the South Stream, which would have taken Russian gas beneath the Black Sea to Bulgaria, in response to European sanctions, Moscow now relies on the yet-to-be-built Turkish route for access to Western markets. Russian energy company Gazprom has recently announced that deliveries are envisioned to start as early as December next year. From the Turkish perspective, however, the picture is more complicated. The aims of Turkey's energy policy are two-fold: first, to satisfy surging energy demand from a growing economy, and second, turning Turkey into an energy transit corridor between the producers to its east and the consumers to its west. Under the right conditions, Turkish Stream can serve both aims, and this is why, instead of rushing to jump on the Russian bandwagon as the debt-ridden Greeks did, Ankara wants to bargain its way to an optimal deal.

Turkey is an energy-buying country and it currently depends on imports for about 93% of its oil consumption and 98% of its gas consumption. Russia is a main source for Turkey's energy imports: out of the 41.1 billion cubic meters (bcm) of gas Turkey bought from abroad during 2014, 26.9 bcm came from Russia. In recent years, Turkey managed to diversify its sources; ten years ago, in 2004, Russia's share in Turkey's gas imports was 80%, it has gone down to 65% by 2014. However, given the large volumes involved, and the instability plaguing alternative sources in the Middle East, Turkey is likely to remain dependent on Russia for its gas in the foreseeable future. The planned capacity of the Turkish Stream project is 63 bcm per year and Turkey is to use about 14 bcm of this for domestic consumption while the rest will be exported to Europe via Greece. Turkey relies on gas imports from Russia, while at the same time Russia relies on Turkish collaboration for selling its gas to Europe, and from Ankara's point of view, this interdependence creates a favorable setting for obtaining a better deal from Moscow. A discount of 10.25% on the sale of gas is currently on the table. However, the parties have so far not managed to agree on a contractual formula to apply it. In the meantime, arguments are being made in the corridors of Ankara that the discount should be no less than 15% so that Turkish Stream can actually benefit Turkey.

Turkey and Russia are likely to agree on a discount rate for the price of gas in the near future. However, the other dimension of the project about Turkey becoming an energy transit corridor indicates a more complex situation. The Turkish Stream, if and when completed, will for sure consolidate Turkey's position as a Eurasian energy bridge. However, it is not the only project under consideration in that respect. The Trans-Anatolian Natural Gas Pipeline (TANAP) is expected to carry 16 bcm of Azeri gas per year as an initial component of a larger project, the Southern Gas Corridor (SGC), which will carry 60 bcm of gas from the entire Central Asian and Caucasian region through Turkey to Europe. Russia, with its options dramatically shrunk after the Ukrainian crisis, is very keen on the Turkish Stream; while at the same time SGC/TANAP, which involves neither Russian gas nor Russian territory, is supported by the EC and the US. Turkish authorities take every opportunity to claim that they do not have to choose between the Turkish Stream and SGC/TANAP; these two projects are not competitors, but they are complementing each other, etc. While this line of argumentation can make sense from a purely economic perspective, the geopolitical nature of the issue puts Turkey in a position where it will have to strike a fine balance between its interests vis-à-vis Russia and those with NATO allies. This will be a difficult task, similar to the one Turkey has recently experienced with respect to the procurement of a missile defense system. Turkey had to choose between a Chinese offer that made more sense economically and the offers made by its allies in the West.

Turkish authorities argued then that the missile defense system to be bought from China didn't necessarily compete with those from the NATO allies. The argument was that they could actually complement each other, etc. The fact is, however, that Ankara still has not made a final decision on the issue and with each passing day the likelihood increases for the missile defense system tender to fall victim to a clash between conflicting economic and geopolitical concerns and may have to be annulled. Minister Yıldız's no-show in St. Petersburg reveals that Turkey is going through a similarly difficult decision-making process with respect to the new pipeline. The Turkish Stream can still stream, if the Turks can figure out how to maximize economic benefits while at the same time balancing conflicting geopolitical concerns. In the meantime, it is important to keep in mind that it is not uncommon for pipeline projects to succumb to geopolitical wrangling, even though they might seemingly offer economic benefits for all the parties involved. Remember Nabucco?

Iran, Turkey agree to boost gas export with discount

Natural Gas Europe, *23.06.2015*

Iran says it has reached an agreement with Turkey on increase gas export at a relatively modified price. Iran's statement following Ankara rejection of Tehran's proposal two months ago to double gas intake from Iran. According to Turkish media outlets, Iran sells a 1000 cubic meters of gas to Turkey at $480, while Russia and Azerbaijan sell $420 and $340 respectively.

Iran's Ambassador to Ankara Ali-Reza Bigdeli told reporters on June 23th that "Iran and Turkey have reached agreement in principle on increase in the amount of gas flow from Iran to Turkey as well as relative discount Iran gives to the country".

Under a contract signed in 1996, Iran should export 10 billion cubic meters per year (bcm/a) of gas to Turkey. Iran delivered 9.7 bcm of gas to Turkey last year. However, Ali-Reza Kameli, Managing-Director of National Iranian Gas Exports Company said on June 1st that current infrastructures has a capacity to deliver more 1.2 bcm/a of gas to Turkey, but if Turkey installs compressors on their own soil, Iran can deliver more 2 bcm/a of gas to Turkey. He said that Iran has offered to build thermal power plants in Turkey and feed them with Iranian gas. Iran's ambassador to Turkey hasn't revealed any figure, but for significant increase in gas export, Iran must construct the 1850-km 9th cross-country pipeline, which would start from South Pars gas field to Turkish borders and cost $6 billion. Iran has also announced that it is keen to deliver gas to Europe through Turkey. Iranian Foreign Minister Mohammad Javad Zarif said on June 5th that Tehran and Moscow are not currently negotiating Iran's possible participation in the Turkish Stream gas pipeline project, aimed to deliver 63 bcm/a of Russian gas to Turkey and EU. A week prior to Zarif's comments, the National Iranian Gas Company commentrd that Iran might use the Turkish Stream gas pipeline to deliver gas to Europe, if that route is the most ideal.

Turkey’s natural gas imports fell in April

Anadolu Agency, *24.06.2015*

Turkey’s natural gas imports fell by 13.17 percent to 3.57 billion cubic meters in April 2015, compared to the same month last year, according to Turkey’s energy watchdog.

In April 2014, 4.11 billion cubic meters (bcm) of natural gas was imported, Turkish Energy Regulatory Market, EMRA, announced on Wednesday in the Natural Gas Market Sector Report of April 2015. Turkey imported the most natural gas from Russia with 1.89 bcm. Azerbaijan and Iran followed with 530 million cubic meters and 514 mcm respectively. Additionally, LNG imports in April rose by 13.42 percent to 636 million cubic meters.

Natural gas export increased by 38.24 percent and reached 52 million cubic meters. Greece was the only export country. Production fell to 34 million cubic meters, less than 17.14 percent, while consumption rose by 4 percent to 57 million cubic meters, compared to April 2014. Natural gas output fell the most in the western city of Edirne, by 72.22 percent. The most production, 23 million cubic meters, took place in Tekirdag, also located in the Thrace region in the west of Turkey. The most natural gas was consumed in the housing sector with 1.18 bcm, followed by electricity plants with 953 million cubic meters. Istanbul consumed the most natural gas followed by Izmir and Kocaeli.

Six firms to bid for TANAP’s Marmara pass construction

Anadolu Agency, *23.06.2015*

Management of the Trans Anatolian Natural Gas Pipeline (TANAP) announced Tuesday that six companies won the pre-tender phase for the construction of the subsea pipeline project for the Marmara Sea.

After the successful evaluation of the project’s self-sufficiency, six companies were invited to take part in a tender for TANAP’s subsea pipeline, fiber optic cables and the purchase and construction of the pipelines for the Marmara sea crossing. The pre-tender took place in the second quarter of 2015 and the six successful companies have now qualified for the last phase of the tender.

Construction of the project already started in March in eastern Turkey with a groundbreaking ceremony. The alphabetical order of companies who were invited after the self-sufficiency evaluation was conducted includes: Micoperi S.r.l., MRTS-Fernas İnşaat AŞ Joint Venture, Saipem S.p.A, Swiber Offshore Construction PTE LTD, TL Offshore Sdn. Bhd. (a Sapura Kencana Petroleum Group Company), Valentine Maritime LTD Honeywell AŞ.

Turkey's crude oil imports increased in April

Anadolu Agency, *24.06.2015*

Turkey's crude oil imports in April 2015 increased by 28.02 percent while diesel oil (excluding biodiesels) imports increased by 8.76 percent compared to April 2014, according to Turkey's energy watchdog.

"In April 2015, imports of crude oil increased by 28.02 percent to 1.84 million tons and the import of diesel fuel (excluding biodiesels) increased by 8.76 to 0.93 million tons," Turkish Energy Regulatory Market, EMRA, announced on Wednesday in the Oil Market Sector Report of April 2015. Additionally, gasoline exports in April rose by 18.95 percent to 0.24 million tons.

Wood Mackenzie: 75% of Iran's oil reserves untapped

Anadolu Agency, *25.06.2015*

Three-quarters of Iran's vast oil reserves, which have not been extracted yet, may become a key source of global oil supply after 2020, Wood Mackenzie said.

Iran is estimated to hold the fourth-largest crude oil reserves in the world with 158 billion barrels, according to BP's Statistical Review of World Energy 2015. However, its oil production capacity is limited due to sanctions and lack of foreign investment. As the June 30 deadline to reach a final accord between Iran and P5+1 approaches, a nuclear agreement would remove the sanctions on Iran and open up its oil and gas sectors to foreign firms and investments.

Estimating that sanctions on the country would be fully lifted by mid-2016, Wood Mackenzie said on its website that Iran could add 600,000 barrels per day (b/d) to the global crude oil supply by the end of 2017. This would be implemented incrementally on an annual average basis, as the country intends to increase 120,000 b/d by end of 2015, another 260,000 b/d by end of 2016 and another 220,000 b/d by the end of 2017. “This gradual rate of growth is not expected to have a significant downward effect on oil prices”, Wood Mackenzie emphasized. Meanwhile, the global consulting company expects Iran to raise its crude output capacity to reach 3.4 million b/d in 2020 and 4.4 million b/d by 2025 with foreign direct investment in the upstream sector.

Unlike the rise in oil output, Wood Mackenzie expects a spike in production of natural gas in Iran, which has the largest proved gas reserves in the world, according to BP’s Statistical Review of World Energy 2015. “We expect gas production to increase sharply, from 19.3 billion cubic feet a day (bcfd) in 2014 to 24 bcfd in 2017, representing a 24 percent increase,” the global research company added. “Five new South Pars phases are coming onstream in 2014-2015, which will eventually increase production capacity by more than 6 bcfd,” Wood Mackenzie concluded. The South Pars field is estimated to hold 14 trillion cubic meters of gas, holding nearly 40 percent of the country’s total gas reserves.

EIA: Iran’s new contract model to attract for. invest.

Anadolu Agency, *24.06.2015*

Iran’s new Integrated Petroleum Contract model aims at attracting foreign investment and international oil companies to the country, EIA says.

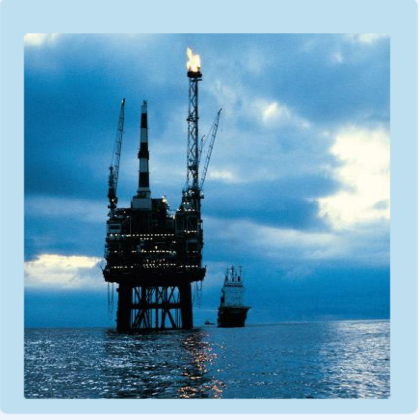
In its new country analysis brief on Iran, the EIA noted that under Iranian law, all production-sharing agreements are prohibited and the Iranian constitution prohibits foreign or private ownership of natural resources. In addition, due to its nuclear program, sanctions on Iran have hit the country’s energy sector. Foreign investment, expertise and technology cannot find their way into Iran as its oil and gas industries are mostly run by local firms.

Right now, the Iranian government allows buyback contracts, in which international oil companies (IOCs) agree to explore and develop oil and gas fields with the government through Iranian subsidiaries. However, IOCs are required to bring in their own capital and know-how to invest in and develop oil and gas projects in Iran. After production begins, the project is operated by the Iranian subsidiary or the National Iranian Oil Company (NIOC). Moreover, IOCs “do not get equity rights to the oil and gas fields. The NIOC uses revenue from the sale of oil and gas to pay the IOCs back for the capital costs. The annual repayment rates to the IOCs are based on a predetermined percentage of the field’s production and rate of return, ranging between 12 to 17 percent, while the payback period is between five and seven years,” the EIA explained.

Iran is planning to change all that with its new oil contract model, the IPC. Although it is not yet finalized, Iran is expected to launch it this September in London, with the hope of eradicating sanctions if nuclear negotiations with P5+1 countries are concluded successfully next week. The purpose is simple -- to attract foreign investment into the country which has the fourth-largest proved crude oil and second-largest natural gas reserves in the world. Iran also hopes the new contract model will provide the necessary means for foreign oil firms to reverse decline rates in its mature fields, something NIOC has limited expertise in. With the new model, global oil companies can establish joint ventures with the NIOC to participate in almost every aspect of energy deals and projects, from management and exploration to development and production.
In the old buyback model, the international companies were only allowed to be involved in the exploration and development phases. However, IOCs will still not be allowed to have any ownership rights in the oil and gas reserves under the new model. “They will be paid a share of the project’s revenue in installments once production starts,” the EIA said. The new contract model will also have a life of between 20 to 25 years - much longer than the obsolete buyback models, which only allowed IOCs around half of that time. Lastly, the new IPC model will help Iran transfer know-how and technology from foreign oil and gas companies.

Greek Cyprus and Israel pledge long term energy cooperation

Natural Gas Europe, *23.06.2015*



A delegation headed by President Nicos Anastasiades visited Israel last week to meet with Israeli Prime Minister Benjamin Netanyahu and high ranking officials from the Israeli government.

Ministers of energy of Greek Cyprus and Israel, Yiorgos Lakkotrypis and Yuval Steinitz initiated a dialogue for the purpose of reinforcing energy ties between the two Eastern Mediterranean countries. The two ministers discussed the importance of concluding a unitization agreement on the joint exploitation of cross-border gas reserves and the plan to sell gas-powered electricity from Israel to Europe.

Greek Cyprus and Israel have made significant discoveries off their shores and are engaged in talks to export gas to their immediate neighbours. The two countries share the same aspiration to sell natural gas to energy-thirsty Egypt undergoing a severe energy crisis and in desperate need for cheap natural gas. Lakkotrypis and Steinitz discussed the possibility of merging pipelines from Israel and Greek Cyprus to deliver gas to Egypt. The Greek Cypriots turned to their Israeli neighbors in the past to propose the construction of a joint LNG facility on the Vassilikos coast of the island, a proposition rejected by Israel at the time. Since then, Greek Cyprus has moved away from its original plan to build an LNG facility for not having encountered sufficient amounts of natural gas to justify to commercial viability of the multi-billion dollar endeavour.

The two sides were in favour of increasing cooperation in the field of energy as they discussed ways of optimizing their natural gas resources in a climate described as very favorable to constructive dialogue. The Greek Cypriots and Israeli delegations also examined the EurAsia Interconnector that would connect the electricity grids of Israel, Greek Cyprus and Greece to sell gas-powered electricity to Europe via submarine cable. In Israel, the pending dispute between the partners in the Leviathan and Tamar fields, and the Antitrust Authority is threatening to endanger regional gas deals, with Egypt and Jordan. An agreement with the companies controlling Israel's largest gas fields will be presented by the regulators to the cabinet next week as reported in Israeli financial daily Globes. The approval of the proposal will be key in ensuring the timely development of the Leviathan and Israel's timely entry into the regional market.

Foreign Minister: Bulgaria fully compliant with EU rules after South Stream cancellation

Novinite, *21.06.2015*

Bulgaria ensured compliance with all EU rules after the suspension of the South Stream gas pipeline project, according to Foreign Minister Daniel Mitov.

Mitov's statement came in response to the signing of the Russian-Greek Memorandum of Understanding on the construction of the Turkish Stream pipeline. The Turkish Stream gas pipeline project was proposed by Russian President Vladimir Putin in December 2014 alongside the announcement of Russia's plans to quit the South Stream project. The South Stream gas pipeline was terminated over its noncompliance with the EU's Third Energy Package.

"When it comes down to solidarity, we must speak in one voice. How do I explain to the people in Bulgaria that South Stream is impossible and at the same time Turkish Stream in Greece is possible," Mitov stated at an international energy forum in Bratislava, according to reports of the Bulgarian National Radio.

Serbia, Bulgaria to work on gas interconnection

Natural Gas Europe, *24.06.2015*

Serbia and Bulgaria have signed an agreement on the construction of a gas interconnection, and the Serbian Government hopes the European Union will help with the construction of this pipeline which is important for increasing the region's energy security.

The agreement on the construction of the gas interconnection, which should connect the Serbian city of Niš and the Bulgarian town of Dimitrovgrad, was signed earlier this month in Belgrade. After signing the agreement, officials said that they were expecting the gas pipeline to be built by 2018 and for gas to start flowing through it in 2019.

Serbian Minister of Mining and Energy Aleksandar Antić said that the two-directional gas pipeline should have a length of 150 kilometres and an annual capacity of 1.8 billion cubic metres of gas. The minister added that 60 percent of the gas pipeline would be in the territory of Serbia and that Bulgaria would support Belgrade in efforts to secure financing for the construction of the Serbian part of the project from EU funds. Bulgaria with EU assistance has already secured financing for its part of the gas pipeline. Asked by journalists which gas Serbia would be supplied with via the interconnection with Bulgaria, Antić said that the point of constructing gas interconnections was to allow diversification of gas supplies. "Serbia is fully open to all projects that can bring gas to this part of the Balkans. We are not a country on which the construction of Turkish Stream depends, this is a matter which, at this stage, primarily depends on Russia and Turkey", said Antić.

According to him, the gas interconnection with Bulgaria will also give Serbia the possibility of receiving certain quantities of the gas flowing through the Trans-Adriatic Gas Pipeline (TAP) and the Trans-Anatolian Gas Pipeline (TANAP), but also the liquefied natural gas (LNG) terminal in Alexandroupolis, which will be connected to TAP. "If needed, the two-directional interconnection will allow us access to gas supplies from Azerbaijan, Turkmenistan and Iran, or gas from Algeria or Qatar via the terminal in Alexandroupolis," said Antić. Following the signing of the Serbia-Bulgaria agreement, European Commission Vice-President for the Energy Union Maroš Šefčović said on June 10 that the gas interconnection project was one of the European Union's priorities and that Brussels would consider giving financial support to the project. During his visit to Serbia, Šefčović said that a working group had been formed that should facilitate the greater integration of the countries of the Western Balkans into the European gas network and guarantee them access to at least three different sources of gas. "If the gas supply interconnection is built, we want to guarantee that the whole region will have access to at least three different sources of gas, because we want to overcome certain countries' over reliance on one source," said Šefčović.

Serbian Prime Minister Aleksandar Vučić confirmed that the European Union has backed the construction of the gas interconnection between Serbia and Bulgaria, and added that Serbia was expecting the EU to finance the construction with 50 million euros, while Serbia would give about 15 million euros. “For us, the matter of gas supply is extremely important, especially from 2019 (when Russia will stop gas deliveries via Ukraine). The European Commission will continue working with Serbia on ensuring energy security for our economy and citizens,” Vučić said after meeting with Šefčović. But, according to Russian sources, seemingly Serbia has continued negotiations with Russian gas giant Gazprom about participating in the Turkish Stream project, which would see gas from Russia arrive in the Western Balkans and Central Europe via Turkey and Greece.

Deputy Chairman of Gazprom Alexander Medvedev said that Gazprom was “negotiating with Serbia about the Turkish Stream gas pipeline”, but did not go into the details of those negotiations. Gazprom CEO Alexei Miller was in Belgrade on May 28. Medvedev also added that according to preliminary estimates, TurkishStream will cost about 3.3 billion euros, and that a commercial contract with the Turkish company Botas on gas supplies would be signed by the end of June. Medvedev said that Europe may face a 80-billion-cubic-metre gas shortage in 2025, and that “the dreamers in Washington would find it difficult” to supply Europe with more than 50 billion cubic metres of gas annually. However, Šefčović said that the only information the European Commission had about Turkish Stream was from the media for now. “The European Commission has not received an explanation as to why the gas supply via Ukraine using a gas system that has reliably supplied Central and Eastern Europe for decades needs to be terminated,” he said, adding that he did not see economic justification for terminating Russia gas supplies via that gas pipeline. After Russia announced that it would stop gas supplies via Ukraine in 2019, Serbian officials began searching for new sources and gas supply routes. Serbia needs about two billion cubic meters of gas annually, of which only 20 percent is domestically produced. The rest is imported from Russia, via Ukraine and Hungary. However, despite the government’s wish to find new gas supply routes, experts believe that Serbia currently has no adequate replacement for Russian gas.

EU scrutiny for Russian pipeline through Greece

New Europe, *22.06.2015*

A Gazprom-driven pipeline that wants to bring Russian gas to Europe through Greece and Turkey will have to comply with EU law, European Commission’s Vice President for Energy Union Maros Sefcovic told.

Russia and Greece signed a Memorandum of Understanding to create a joint enterprise for construction of the Turkish Stream pipeline across Greek territory. Asked about Alexander Novak’s statement that state giant Gazprom will not own the Greek part of Turkish Stream, but Moscow will assist Athens in financing the project, and if that would apply with EU law, Sefcovic said.

"A memorandum of understanding, it's quite far still from something more concrete," Sefcovic said on the sidelines of the GLOBSEC 2015 forum in Bratislava. "We learned about it [the Greek-Russia deal] really from the press and for us, as with any other project which is announced, of course, the EU law-Third Energy Package will be absolutely crucial to make sure that all rules are respected and applied in these projects," Sefcovic said, asked if the EU will treat Turkish Stream the same way as Russia's scrapped South Stream. Tsipras and Russian President Vladimir Putin have discussed plans for a pipeline that would run from the Greek-Turkish border, through Greece, and then northward into FYROM, Serbia and into Hungary. In Gazprom's transit deal with Ukraine expires. But Sefcovic slammed the Russian Energy Minister's earlier statements since South Stream was cancelled in December 2014 that after 2019 Russia will deliver its gas to the Turkish-Greek border and it will be up to the EU to build the necessary infrastructure. "We do not have the contracts which stipulate that the entry points or the price of deliveries is the Turkish border and therefore we I think we have to respect the agreements that are in place," Sefcovic told New Europe. The EU Vice President stressed that Russian gas must keep flowing to Europe through Ukraine even after 2019. "We have to do our outmost to keep the transits through Ukraine operational," he said, adding that stopping the gas transit will have "very negative consequences for the whole region and the whole energy security of Europe so therefore I think that it should be in the real interest of Europe that this transit continues".

John McCain: US will be able to supply gas to Ukraine in two years

Sputnik, *20.06.2015*

The United States will be able to supply gas to Ukraine and other countries of Europe within two years, Senator John McCain said at a press conference in Kiev.

"The United States will supply natural gas to Ukraine and other parts of Europe in two years," John McCain said. Europe's dependence on Russian gas supplies is a major obstacle that makes Europe unable to strengthen further sanctions against Russia. In the first quarter of 2015, Ukraine received Russian gas at a discount of $ 100 per thousand cubic meters, which was provided under the so-called 'winter package', after lengthy negotiations with the Commission.

The validity of the 'winter package' expired on March 31, but the Russian government continued providing a similar discount and for the second quarter, thus stating the intention of making a decision about the discount on quarterly basis. Currently Russia, Ukraine and the European Commission are trying to agree on a draft protocol on Russian gas supplies to Ukraine, which is supposed to cover the entire autumn-winter seasons of 2015-2016. The document is expected to be signed at the trilateral ministerial meeting on gas, which as stated by the Minister of Energy, Alexander Novak, will be held most likely after June 20.

Slovakia rejects Ukraine complaint over gas flows

Reuters, *24.06.2015*

Eustream rejected Ukrainian government complaints about Slovakia's refusal to provide more capacity for reverse gas flow to Ukraine, saying any change must be negotiated on a multi-lateral level.

Ukraine has long called on Slovakia to reverse the flow in one of the four main pipelines that carry Russian gas to Europe via Ukraine. Slovakia has refused, saying it would violate its contracts with Gazprom and threaten shipments of Russian gas to a number of countries in the European Union. Documents seen by Reuters showed Ukraine has complained to the EU over a contract between Eustream and Gazprom.

It says the deal violates EU law in allowing the Russian group to prevent the reverse flows. The gas is handed over to Eustream at the Slovak-Ukraine border by Gazprom, rather than by the Ukrainian national pipeline company, which would be the norm on other cross-border points. "Eustream recognizes the Ukrainian aim to achieve a fully standardized operation on its borders," Eustream, a 51 percent government-owned company, said. "The solution lies in multilateral negotiations among Ukraine, European Commission, Gazprom and Eustream," it said. Eustream said Ukraine's complaint that the way gas is handled at the border metering station violated European rules was beside the point. "We must articulate that the Ukrainian complaints in connection to Eustream's transmission contracts with the Russian supplier are irrelevant. "The operation of the measurement station in Velke Kapusany is not governed by the above mentioned contract but by separate agreements on technical conditions of transmission. These agreements do not form part of the transmission agreement."

Instead of reversing one of the main pipelines, Slovakia last year upgraded and extended a separate pipeline and uses that to pump gas from the west to Ukraine. This pipeline has capacity of 14.5 billion cubic metres per year, about 40 percent less than each of the four main pipelines and less than Ukraine's import needs. Eustream noted that Ukraine was now using only about half of the daily capacity of this smaller pipeline, or about 20.3 million cubic metres per day.

Ukraine expects gas discount from Russia in Q3

Anadolu Agency, *25.06.2015*

Ukraine is expecting discounted pricing on Russian natural gas prices in the third quarter of 2015, according to Igor Prokopiv, president of Ukrtransgaz.

"We expect a dumping price from Russia compared to Europe," Prokopiv was quoted. According to Prokopiv, Kiev will operate on a simple basis by selecting the most competitive price from external gas suppliers. Russian President Vladimir Putin said that the final gas price for Ukraine should be at the same level of neighboring nations such as Poland, adding that Russia will have to calculate the discount and make a decision.

"We cannot provide the discount in the same volume as earlier against such a significant oil price drop which has influenced gas prices. The ultimate price for Ukrainian consumers must be at the level of neighboring nations, such as Poland," Putin said. Russian energy giant Gazprom and Ukrainian state company Naftogaz signed an agreement in April on gas supplies to Ukraine for the second quarter of 2015. Currently, Naftogaz pays $247 to Gazprom for a thousand cubic meters of gas, which includes a discount of $100. Additionally, the Ukrainian company has $2.4 billion debt to Gazprom for natural gas deliveries.

Gazprom building global alliance with Shell

The Moscow Times, *23.06.2015*

Gazprom is building a global strategic alliance with energy major Shell that will include asset swaps and allow the Russian gas giant to penetrate new markets, its chief executive has said.

Gazprom, the world's top gas producer, said that Shell and its longtime gas buyers in Europe had agreed to build two new Nord Stream gas pipelines under the Baltic Sea to Germany. Alexei Miller said the agreement with Shell also foresaw an expansion of the firms' joint $20 billion liquefied natural gas plant on the eastern island of Sakhalin as well as global upstream asset swaps.

“Documents of such significance are signed only once every five years or maybe even 10,” Miller said on the sidelines of Russia’s top forum for investors in St. Petersburg last week. The deal with Shell is a coup for Gazprom at a time when many Western companies are reducing their exposure to Russia because of Western sanctions over Moscow’s actions in Ukraine. Gazprom, which is under U.S. but not EU sanctions, is fighting for market share in Europe in the face of increasingly oversupplied gas markets, and is locked in a long-running dispute over payments to Europe with conflict-stricken Ukraine. “Many of our traditional partners are positioning themselves as strong regional players. … Shell is a global player. And as the global gas markets develop … we will be creating a global strategic partnership,” said Miller. Shell agreed to buy smaller rival BG for $70 billion plus debt earlier this year and Miller said the deal was adding extra potential to cooperation, such as upstream asset swaps between Gazprom and the Anglo-Dutch giant. “The deal will take some time to materialize. Shell for instance needs to become the full owner of BG,” he said. “We plan that next year we could sign such a deal in St. Petersburg at the same forum.” Shell needs to win anti-monopoly clearance for the BG purchase from authorities in Brazil, Australia and China where it already has a very significant presence. “We know about Brazil, Australia and about the Asian market. And that allows us to talk about a global partnership,” Miller said.

Asked how he persuaded Shell to boost cooperation at a time many Western companies were curbing exposure to Russia, Miller said business was winning over politics. “As far as Nord Stream is concerned — there was no politics at all. The decision was taken in November 2011 and all the work has been done based on the decisions taken three years ago,” he said. Cooperation with Shell would not be limited to asset swaps or swaps of Gazprom’s pipeline gas in Europe for Shell’s LNG and could include oil products and other fuels, he said. Gazprom and Shell also agreed on Thursday to expand the Sakhalin LNG plant, Russia’s sole LNG plant, by adding a third LNG train to the plant, which currently produces 10 million tons. The third train was the expansion plan most favored by Shell, which has a minority stake in the project. In Europe, Miller said two new Nord Stream pipelines under the Baltic to be built with Shell, E.ON and OMV would transport an extra 55 billion cubic meters of gas, or more than a tenth of Europe’s gas demand by the end of 2019. Gas will travel far beyond Germany, he said, as OMV aims to turn Austria into one of Europe’s largest gas hubs.

The project will cost no more than 9.9 billion euros ($11.2 billion) and maybe less due to cost savings, compared with 8.5 billion euros spent on the two existing lines. The project will be financed in the same way as the first two lines, with 30 percent coming from shareholders and 70 percent from bank loans. “Our level of readiness is very high,” Miller said. Preparatory work on such large projects usually takes years but Miller said a great deal of work had been already done, including project and route design, selection of many contractors and pipe supplies. The 1,225 km pipeline would start near the Russian port of Ust-Luga near St. Petersburg and enter German territory not far from the current entry point of Nord Stream 1 and 2. Nord Stream currently has an annual capacity of 55 billion cubic meters. Its shareholders are Gazprom, BASF’s Wintershall, E.ON, Gasunie and France’s ENGIE.

Miller said Wintershall will likely join the project to build the two new pipelines under the Baltic and said the project was designed to deliver new gas to Europe, rather than replace the Turkish Stream project to build a new pipeline in Europe's south. "This is not a competitor of Turk Stream in any way." Gazprom wants to bypass Ukraine, its key gas export route to Europe, and plans to build the Turkish Stream pipeline under the Black Sea to ensure smooth transit of Russian gas when the transit contract with Kiev expires in 2019. Gazprom is currently allowed only limited access to the Nord Stream pipeline under a European Union law which seeks to prevent energy suppliers from dominating infrastructure. But Miller said over time Europe's gas demand was poised to rise and new pipelines from Russia would be needed. "We met our partners in Europe and they are signaling to us that supplies from traditional European gas production sources is falling, and falling substantially. Without new volumes of Russian gas they simply cannot cope," Miller said.

France's Total to return 25% stake in Shtokman gas field project to Gazprom

Sputnik, *24.06.2015*

Total will give Gazprom its 25-percent share in Shtokman Development AG, created in 2008 to develop the first phase of the Shtokman gas field, Vedomosti reported, citing sources close to both sides of the negotiations.

Located some 230 miles northeast of the city of Murmansk in a Russian section of the Barents Sea, the Shtokman field is one of the world's largest natural gas fields. Reserves in the Shtokman deposit amount to 3.9 tcm of natural gas, according to the company. The newspaper reported that the final agreement on Total's withdrawal from the project was reached.

The original shareholders in the Shtokman project were Gazprom, with a stake of 51 percent, Total, with 25 percent, and Norway's Statoil, with 24 percent. Their initial agreement came to an end in the summer of 2012, without a final investment decision on the project being made. Statoil then returned its share to Gazprom, writing off $335 million in losses. Total chose to remain in the project and wrote off $350 million in losses in April 2014. Late in April 2015, after the European Union imposed sanctions on Russia over its alleged interference in Ukraine's internal affairs, Total said it had received permission from the French government to work only on three projects in Russia: Yamal LNG, Kharyaginsky and Thermokarst deposits. Another reason for Total's pullout is the overproduction of gas in the American market, for which the Shtokman gas was originally intended. Experts believe that the project will regain international relevance in 5-7 years, according to the newspaper.

Gazprom lays bare West's vulnerability

Press TV, *23.06.2015*

Despite Europe's efforts to reduce dependence on the Russian energy have been dealt a new blow after reports that the Anglo-Dutch energy behemoth Shell was teaming up with Gazprom on several projects.

Shell as well as Germany's E.ON and Austria's OMV Group signed a memorandum with Gazprom last week to build two new Nord Stream gas pipelines under the Baltic Sea to Germany. They hope to ship 55 billion cubic meters of gas to Europe each year. Shell and Gazprom also signed an agreement of strategic cooperation which will cover a vast area, including asset swaps.

The expanded partnerships fly in the face of European and American sanctions which ban joint ventures with Russian energy companies. They signal fissures in the anti-Russia alliance which have already been exposed by Germany's objections to the widening of sanctions on Moscow. Shell CEO Ben van Beurden cited natural gas an integral part of the European energy mix and Gazprom an important part of the energy matrix. His assertion comes while European officials seek to diversify away from Russia for gas supplies and Iran is being frequently cited as a possible replacement. But Western sanctions on Tehran make the country a hard choice. Tehran, meanwhile, has made it clear that its priority for now is to transfer its gas to the immediate markets.

Standing out in the new convoluted landscape is American companies' absence from the lucrative trade with Russia. US firms have already lost the ground to their European rivals because of Washington's sanctions. Western sanctions on Iran and Russia have adversely affected US and European companies' fortunes. They have also given a precious chance to Asian entities to move in and fill the vacuum. Moreover, a new economic bloc independent of the West is taking shape with the leadership of Russia, China and Iran. US and European firms seem to be ahead of their governments in taking heed. There is no better testimony to that than the new Gazprom-Shell partnership.

EU extends sanctions against Russia, Moscow speaks of reciprocity

Natural Gas Europe, *22.06.2015*

EU Foreign Ministers agreed to extend economic sanctions against Russia over its "destabilising role in Eastern Ukraine," triggering a strong reaction of Moscow.

"It looks especially cynical that the decision … was taken, the day when Nazi Germany invaded the Soviet Union," the Russian Foreign Ministry wrote. The sanctions, agreed at a meeting in Luxembourg without debate. They mainly comprise restrictions in the financial, energy and defence sectors. Apart from political posturing, a decision from European leaders is likely to come with an extension of Russian ban on European agricultural productions.

Moscow is more and more advocating the principle of reciprocity in foreign affairs. "The response will be reciprocal. This is inevitable. It is the only way of acting in the international arena. Reciprocity may be positive or negative, as in this case. Now we are working to reverse the seizure of the accounts of our diplomatic agencies in the first place" Foreign Minister Sergey Lavrov said last week, commenting on some European countries' decision to seize Russian assets in connection with the Yukos case.

Last week, during the St. Petersburg International Forum, Russian companies signed a flurry of deals with European companies. 'Rosneft and BP signed final binding agreements for Rosneft's sale to BP of a 20 per cent share of Taas-Yuryakh Neftegazodobycha (Taas), creating a new joint venture in East Siberia. The document was signed by Rosneft Management Board Chairman Igor Sechin and President of BP Russia David Campbell' BP said, reporting one of the most relevant deals. During the first day of the international conference, Gazprom agreed to build a new pipeline to Germany under the Baltic Sea with Germany's E.ON, Anglo-Dutch Shell, and Austria's OMV.

Competing gas hub theories and the Europeanisation of energy politics

Natural Gas Europe, *22.06.2015*

The EU's revamped energy security strategy, combined with significant geopolitical and market developments in the Union's south-east corner, have raised the regions significance on the EU agenda.

New interconnection projects, LNG capacity extensions as well as the potential for domestic production have triggered discussions with regards to the potential establishment of a natural gas trading hub. The regional governments' desire for the establishment of such a hub within their territories has been exceptional, and countless discussions have taken place in various platforms on this precise issue.

Nevertheless, an ingredient which has been largely missing from these discussions has been a clear definition of what a natural gas trading hub is, as well as the benefits and requirements for a host country. Looking into the definition of a natural gas trading hub - which can differ depending on the maturity of the markets which it serves - a natural gas trading hub is a platform which facilitates the physical and/or financial trading of natural gas. The main pre-requisite for a natural gas trading hub to be able to function, apart from the necessary regulatory framework and a fully liberalized market, is the existence of multiple suppliers and buyers. This is because these actors will have the role of determining the market price through the process of bidding and offering, which leads to the issue of liquidity, as the traded volumes must be significant enough to maintain a market driven benchmark.

Typically, gas hubs can be virtual (balancing) and/or physical. In the case of virtual gas hubs the hub provides a trading platform for the entire country or a trans-regional zone, which allows all gas to be injected into the grid at any point within the zone through a tightly meshed system (the point of extraction matters less). The physical hubs in turn are established at a physical intersection of pipelines, therefore the traded gas has to pass through a precise location. Although the virtual trading hubs offer more flexibility with their entry-exit system, an advantage of the physical gas hubs, is that it has the capacity to transport large volumes of gas. Both formats deliver significant benefits for the host country, which apart from financial are also qualitative, as the functioning of a hub foresees the creation of jobs for a highly skilled work force. From a political standpoint, it is evident that a hub can also increase a country's position on the geopolitical chessboard.

The South-East European markets are lagging behind compared to their western counterparts. This is due to factors restricting the demand and supply of these markets. On the one hand, the number of suppliers is limited; while on the other, the existing infrastructure networks are scarce, the lack of interconnectors is yet to be resolved and lack of adequate storage capacity does not help. Simultaneously, the issue of pricing transparency and liquidity also pose a restrictive factor which will have to be addressed along with the market culture which, at present, is not conducive to the trading of natural gas. Energy markets in South-East Europe remain largely under the control of state-owned entities operating in closed environments; thus the EU's goal of inspiring market liberalization is an objective welcomed by energy players who aspire for a more competitive and open energy market environment. Taking into account all the above, it is clear that the development of trading hubs in South-East Europe, be they virtual or physical, will be a long process; nevertheless, the first steps are clear as the construction of the physical infrastructure is a prerequisite in both cases, followed by diversified supplies from exporting countries, and also production of indigenous resources which is a game-changing factor for any economy.

One can name about half a dozen Projects of Common Interest (PCI) and other initiatives envisaged in Greece, Romania, Croatia and Bulgaria, which are certainly important for improving regional interconnectivity and energy security, along with the upstream initiatives in the respective countries. All of these projects are well known and have been fiercely promoted by the governments over the past years. Nevertheless, the main question in people's minds remains unanswered by the regulatory bodies promoting this wide number of projects: where will this new hub be based? This uncertainty has led regional governments into a race to the finish line. Competition could prove to have a positive effect in this process, as the sense of urgency might lead the governments to act more decisively. However, it might also lead to the unharmonious development of a region in which interconnectivity, coordination and regional cooperation with the aim of building an integrated energy market should be primary objectives. The reality of the energy industry is that it is never a sprint to the finish, but a marathon which is predicated on win-win scenarios. In this case, this is a process that will take time and effort, regional cooperation, investments from private and public actors with the backing of EU and independent financial institutions - and they would all have to see the 'win' before they buy in.

The future is unknown, but when it comes to energy markets, which are highly capital-intense, once a player secures market dominance, it is very hard for it to be displaced. The country that will manage to take the first decisive steps towards the development of the right projects and infrastructure will probably be the one which will manage to lead as a key player in the regional gas trading zone. But is this the optimal solution for the region? Applying the theory of the recently deceased Nobel Prize winner, John Nash: cooperation between the countries in the region for the establishment of a regional solution would optimize the returns of all the actors involved, as it would prove central for lifting the trans-national projects, and it would be able to absorb the comparative advantages of each country involved. What is more, the political benefits of cooperation in the energy sector would be immense for a region, which has always been characterized by inherent political fragility and tensions.

The EU has the tools and policies to drive this agenda forward. Already, through the Energy Union, the EU is advocating for an increase in the powers of the Agency for the Cooperation of Energy Regulators (ACER) and a regional approach to energy policy decisions and combatting potential disruptions. Energy policy choices of one member state affect the choices of another and we expect that the aforementioned issues addressed in this article will be covered at length in the second meeting of the fledgling Central East South Europe Gas Connectivity Group (CESEC) on July 10th in Dubrovnik. Thus, an optimal solution to competing hub theories can be found through the Europeanisation of South-East Europe's energy markets.

Lithuania slams Russia for blocking Ukraine LNG gas supply

Ukraine Today, *21.06.2015*

Lithuanian officials says their country is ready to start pumping gas to Ukraine from its new LNG terminal but that Russia was stubbornly blocking the move by excercising its control over Belarusian gas pipeline infrastructure.

Lithuanian Energy Minister Rokas Masiulis said: "We asked Belarus's transmission system operator to let our gas through. The system is operated by Gazprom. We received a negative reply, that it's impossible to transport the gas. We don't agree with that." Lithuania opened a floating LNG terminal last year and enabling the Baltic country in January to start exporting LNG, to Estonia.

Ukraine has been trying to reduce its dependence on Russian gas, even before its conflict with Russia over eastern Ukraine broke out last year. Ukraine, which used to cover most of its gas needs with supplies from Russia, started buying gas from the European Union in late 2013 in a bid to reduce bills and its energy dependence on Moscow. About 50 percent of its gas imports now come from Slovakia, Poland and Hungary. The later resumed exports to Ukraine earlier this month.

Energy security in the EU: Pipelines, powers, and political relations

Geopolitical Monitor, *22.06.2015*

The term "energy security," despite its pessimistic applications and loose definitions, is profligately used in policy circles and academic fields. Limiting disruptions of supply to broader definitions, which have political, economic, and/or environmental bearing, is common of energy security treatments.

According to the UK Department of Energy and Climate Change, it is taken as a country's ability to ensure that the "risks of interruption to energy supply, are low." Three dimensions of energy security should be underscored: physical security, price security, and geopolitical security.

Optimum energy security is achieved by avoiding physical interruptions, "unnecessary price spikes due to supply/demand imbalances or poor market operation" and "undue reliance on specific nations so as to maintain maximum degrees of freedom in foreign policy." While some cover energy security from the perspective of the consumer, the significance of energy dependence on supply-countries still tends to receive less coverage in the media. The term frequently emerges within the geopolitical discourse of Europe and the European Union (EU), and the EU polity's relationship with the Russian Federation. Energy security is a salient issue as it regards the geopolitical context of southeast Europe and the Black Sea region. Ukraine receives considerable attention because of its position between Russian and particular member states of the EU, making it a transit country – and one perceived with increasing unreliability as it provides Russia with its monopoly over supplies to much of the European market.

In early 2015, Gazprom head Alexei Miller announced that EU gas transit via Ukraine would be cut. South Stream was brought to a close by the EU Commission due to non-compliance with the EU's energy laws. The EU's gas disputes with Gazprom and the current Ukraine crisis, including the Crimea crisis of 2014, pro-Russian unrest and fighting in eastern Ukraine (subsequent political destabilization of Ukraine), and the implementation of Minsk II and its subsequent blocking, and strain on EU-US-Russia-NATO relations, has launched energy security into the highest levels of the EU's political agenda due to its importance to every nation's security. Similarly the flooding of the global oil market by Saudi Arabia has countries such as Iran and Russia struggling because it undermines them as lead exporters. When speaking of state's relationship with energy, reference is made to a supplier whose economy heavily relies on energy exports. A supplier's economy is also heavily reliant on energy exports to a specific state or region. Energy importers usually have diverse energy portfolios, and are mainly dependent on one or few energy suppliers. Countries are also both large-scale energy importers and exporters. The first type of role in the energy relationship is complex; most large-scale energy exporters possess economies that are heavily dependent on those exports. Saudi Arabia's position is unique because it is purely an energy exporter free from the dependency of exporting to a single destination.

Saudi Arabia was at the forefront of the Organization of the Petroleum Exporting Countries' (OPEC) decision in November 2014 to adhere to output targets rather than cutting back. Riyadh's oil exports have soared by 30% since 2000 – currently standing at nearly 13 million barrels per day (bpd). By the end of 2014, new global economic conditions resulted in Iran's oil revenues withering by 30%. April 14 marked China's (PetroChina) highest crude oil exports since 2006 (approximately 750,000 tonnes of crude oil in March, or 177,000 bpd). Energy, similar to humanitarian aid, is a means of achieving foreign policy aims. Those who do not need it are in a strong political position, while the ones who require or rely on it are condemned to adhering to the rules and ultimatums of suppliers. This is especially the case when it comes to gas, while oil is flexible in its transport methods. Oil can be transported across vast distances of waters by means of barges and tankers. Open-waters access enables states to freely purchase oil thereby allowing for the diversification.

Gas remains largely confined to being transported by pipelines and these pipelines cultivate dependence, and in some cases, interdependence. This interdependence is exemplified through the trade relations between the EU and Algeria. As of 2013, Algeria was ranked the EU's third largest energy provider and rising oil exports accounted for the increased albeit tremulous partnership between the EU and Algeria. Reliance can be avoided but the cost of independence is high, and some countries cannot afford to pay it, while others are limited in their options due to geographic conditions. Saudi Arabian oil giants such as Saudi ARAMCO (now Saudi Arabian Oil Company) have a firm grip over the global oil market, with the power to undermine other oil exporters around the world – Saudi oil was formerly under US control as Saudi ARAMCO was formerly the Arabian-American Oil Company. Nearly a 60% increase in its shares by 1974 placed the company in an exceptional position: it was able to take control of its business without having to enter into risky negotiations with the United States or compromise its own strategic interests. The company took full control in 1980. Although ARAMCO has not been nationalized, it has close ties to the government and indirectly imposes policies that are beneficial to Saudi Arabia. Some four decades ago, the company flooded the global market with the aim of crippling the Iranian economy. A similar act is now playing-out whereby the Russian economy is heavily impacted resulting in rampant inflation.

Russia's power in Eastern Europe continued even after the collapse of the Soviet Union. In the absence of military projection, energy continued to feed Moscow's appetite for power. This dynamic continues today. The relationship between Russia and the EU is based on mutual reliance. The Russia-Ukraine gas dispute in 2008-2009 affected 80% of European gas supplies delivered through pipelines passing through Ukraine. Numerous countries experienced unexpected shortcuts in their gas supplies, which led to imperfections in the European energy security concept. The biggest problem facing the EU is that its constituent states lack energy diversity. While highlighting the shortcomings in the EU's energy security, it reveals something far more significant about their partner, Russia, namely that Russia will use its pipelines as a political weapon in negotiations. This has been the case for years but pipeline politics has emerged once again with new gas routes not only reviving Russian rivalry with the EU and the West, but even greater strength than before.

Although Russia is able to boast the ability to export a tremendous amount of energy while claiming that the EU is in dire need of its exports, those same energy commodities require needy markets if Russia's to benefit from them at all. About 88% of Russia' total oil and some 70% of its gas exports reach European energy markets. These exports make-up a significant part of Russia's federal budget revenue as oil and gas account for 52% of the total value. The European energy market is also willing to pay relatively higher prices for both oil and gas. At the same time, the numbers provide Russia with its continued power instrument and for binding Russia to an indispensible partnership. Projects such as the North European Gas Pipeline (North Stream) were constructed with the aim of guaranteeing a continuous flow of energy to western EU member states and contributing to the diversification of energy supply in Western Europe. However, while it appears that arrangements such as these would increase European energy security, in actuality an opposing situation emerges. The project avoided several countries, which resulted in "de facto loss in their leverage as a transit country, a status that was regarded as the main bargaining chip in the negotiations about prices and as insurance against vulnerability in relation to Russia. Both North and the planned but cancelled South Stream, weaken European energy security rather than strengthen it, enhancing Russia's influence over Europe, and fostering insecurity within the EU.

Energy security, and especially security of supply, is a decisive factor in Russian relations and will remain one until the EU is able to find ways of diversifying is supply sufficiently enough to create an asymmetric relationship with Russia in which they can act independently. While most EU member states are wealthy enough to at least begin to diversify their energy portfolios, the dependence of some countries heavily influences the available range of policy choices against Russia during such political challenges as the illegal annexation of Crimea, cultivating deep and destructive conflict in eastern Ukraine, and even similar forms of aggression like that witnessed in 2008 in Georgia. Thus, both the EU and Russia find themselves embroiled in a Gordian knot predicated on energy dependence and power leverage. Energy security will continue to grow as a threat to national and regional security arrangements. West Africa already plays host to foundation of conflict and potentially future war labelled 'climate wars' in relation to Mali, Niger, and Nigeria fighting over waters of the Niger River basin and overpopulation stretching already-limited resources. Countries such as Russia and Saudi Arabia will continue to be regional powers, or at least considerably influential in the case of the latter, with significant resources coveted by Western states such as the United States and rising powers like China. The EU will continue to search for energy efficiency and interconnection capacities as political defense, and will have to act in the interest of security of supply by such means as refining its multi-purchasing initiatives. Russia demonstrates dedication to export diversification practices even amid its commitment to a "Divide-and-Conquer" strategy, which proves injurious to the EU and itself. While the strategic relationship between Russia and the EU has yielded benefits in relaxing political tensions between the two in the past, the extent to which energy is used as a foreign policy tool remains a monumental challenge.

Shale gas in the Netherlands: The story so far

Shale Energy Insider, *23.06.2015*

“There will be no US-style shale gas revolution in Europe,” said Jerome Ferrier, president of the International Gas Union (IGU), at the World Gas Conference in Paris earlier this month. Is this really going to be the case, or will one of Europe’s nation states prove him wrong?

Home to the largest natural gas field in continental Western Europe, the Netherlands has always been a large producer and consumer of natural gas. The Dutch state-owned energy company, Energie Beheer Nederland, recently revealed its ambitious plan to achieve 30 BCM production of gas from small fields by 2030.

To achieve this, the country will need to invest in new technologies and new areas including, in all probability, shale gas development. Various international bodies have estimated that the Netherlands’ plentiful natural gas reserves will be exhausted by 2025. With 98% of the Dutch population depending on natural gas for their everyday lives, this is cause for concern. This will also lead to an increase in natural gas imports, which will affect the economy. If Holland wants to remain self-sufficient past 2019, it will have to start looking into unconventional gas sources, including shale gas. Shale gas development would not only bring in some euros but also produce far less greenhouse gas emissions than those generated by foreign gas imports.

Historically, the Dutch government has always been very supportive of sustainable and clean energy use – its current aim is to extract 16% of its energy from renewable resources by 2023. However, to be in a position to maintain the country’s energy security, the remaining 84% will have to be obtained from a mix of fossil fuels. Additionally, there is also the belief amongst government energy officials that shale gas could act as a bridging fuel, helping the country pave the way to a 100% renewables energy policy. Like in most other European nation states, concerns around the safety of drilling and hydraulic fracturing have given rise to public opposition. Gas-related earthquakes in 2013 connected to shale extraction in the Groningen filed have served to inflame public opinion. To address these public concerns, the government very wisely started discussions with local authorities including regions, provinces and municipalities as part of a broader public consultation programme.

The government also teamed up with the Netherlands Organisation for Applied Scientific Research (TNO) to create an independent and transparent knowledge platform on shale gas which takes into account the points of view of all interested parties and provides an understanding of technology methods based on research and facts. Furthermore, the government commissioned a study on all the possible risks and effects of shale gas exploration and drilling. This study concluded that further research is essential to establish the effects on both people and the environment and that location-specific investigations are necessary. This further study is expected to be completed at the end of the year and, until then, no exploration licences will be granted and those operators who already have one, will have to put them on hold. While the government awaits the study's results, drilling at the country's only shale gas exploration well has been temporarily suspended. TotalDrillingRigWhat does the future hold for shale gas in the Netherlands?

The Dutch government has made it very clear that it would only consider lifting the fracking moratorium if the above mentioned study concludes that shale gas development is safe for both the environment and for human beings. However, the fact that multiple studies are being carried out at the same time means that the government is serious about shale gas' potential as an important ingredient in the country's future energy mix. When the Strategic Environmental Assessment concerning exploration of unconventional hydrocarbons is published in October this year, we will have an indication as to whether the country's position will shift in favour of shale and, who knows, we may see the start of the shale revolution in Europe.

Statoil cancels contract with cosl pioneer, mixed picture for Norway

Natural Gas Europe, *24.06.2015*

As Statoil decided to cancel the contract with COSL Pioneer some 13 months before the expiry date of August 2016, a mixed picture for the Norwegian gas industry emerged.

On the one hand, Lundin Petroleum's subsidiary commenced the drilling of three wells. 'Lundin Norway AS has commenced the drilling of its second Alta appraisal well in the Barents Sea South and the drilling of an appraisal well on the Edvard Grieg field in the Norwegian North Sea. Drilling has also commenced on the partner-operated Zeppelin exploration well in the southern North Sea' reads a note released.

On the other hand, as said, Statoil, which suspended the contract with COSL Pioneer since 8 October 2014, did not find alternative activity for the rig during the intervening period. Therefore, it decided to cancel the contract. “COSL Pioneer and its crew have demonstrated a good safety culture and delivered efficient drilling operations to Statoil. Cancellation is a consequence of overcapacity in the rig portfolio” supply chain senior vice president Jon Arnt Jacobsen commented. At the same time, the Norwegian Petroleum Directorate wrote that Suncor Energy Norge AS has concluded the drilling of exploration well 25/10-13 S, and that the well is dry.

All in all, though, the picture is not that gloomy. Figures published on Wednesday suggest that gas production in Norway was as expected. Preliminary figures say that production was higher than in April 2015, and higher than May 2014 too. ‘The total petroleum production for the first five months in 2015 is about 94.0 million Sm3 oil equivalents (MSm3 o.e.), broken down as follows: about 37.1 MSm3 o.e. of oil, about 9.2 MSm3 o.e. of NGL and condensate and about 47.7 MSm3 o.e. of gas for sale. The total volume is 2.0 MSm3 o.e. higher than for the same period in 2014’ the Norwegian body wrote.

European strategy takes shape: Algeria, widespread endorsement

Natural Gas Europe, *24.06.2015*

The European energy strategy is coming together, with a mix of national decisions and interventions of European Commissioners around the continent.

While European Commission Vice-President Maroš Šefčovič was starting its two-day tour in Germany, Climate Action & Energy Commissioner Miguel Arias Cañete took part in a Parliamentary hearing in Rome. “Germany’s ‘Energiewende’-agenda plays a pivotal role in Europe’s Energy Union strategy, given its geographic location, existing regional cooperation, and state-of-the-art technological innovation’ Šefčovič said.

Meanwhile, Algerian gas could become more and more accessible for European consumers. According to an article published by The Financial Times, France, Spain and Portugal are expected to seal a political deal early next week that is intended to increase exports of Algerian gas into Europe. In a few days, at a dinner in Paris, the French, Spanish and Portuguese energy ministers should agree to a political plan prioritising the strategic importance of the MidCat gas pipeline, the British newspaper wrote.

Central and Eastern European governments go on a utility shopping spree

Natural Gas Europe, *25.06.2015*

The combination of asset sell-offs by major European energy players and increased concern over energy supply security has served to bring back the decade-old utility privatization trend in Central and Eastern Europe. States are attempting to get their hands on long-term gas supply contracts with the Russian natural gas exporter Gazprom and pave the way for a multi-commodity energy supplier business where they can influence end-user prices directly.

If mismanaged, such trend in the medium to long-term may reduce investments into pipelines and thus decrease the desired security of supply.

The former socialist Central and Eastern European countries reformed their state energy enterprises upon joining the European Union a decade ago. The main objectives of EU energy sector regulation, such as consumer liberalization, structural disintegration (unbundling), competition and regulated market mechanisms, in most of the CEE countries resulted in at least partial privatization of the main energy companies. Some CEE countries, for instance, Hungary, implemented privatization even before joining the EU. Often it was investors from the Western European countries such as Germany (in the Baltic States and some other countries together with Russia's Gazprom in joint venture), Italy's Enel, French utility Gaz de France that stepped in to buy the assets.

However, after a decade of a sweeping wave of utility restructuring and privatization in Central and Eastern Europe, the state role has been getting back the grip. In 2013-2014, several countries, such as Lithuania, Hungary, Estonia, and Slovakia, were returning the main energy companies (either the network part, or end-user supply business, or both) to state ownership. In Lithuania, nationalization of the main natural gas incumbent was a result of the process of implementation of the EU's Third Natural Gas Directive in 2011. The Lithuanian politicians imposed the ownership unbundling on the main incumbent natural gas company Lietuvos Dujos. Previously vertically integrated company Lietuvos Dujos was restructured: new spin-off company Amber Grid became the natural gas transmission system operator, Lietuvos Duju Tiekimas supplies gas to end-users, and Lietuvos Dujos remained a distribution system operator. By 2014, former owners Germany's E.ON and Russia's Gazprom sold the shares of Lietuvos Dujos to the Lithuanian state-owned electricity company Lietuvos Energija and of Amber Grid to the state-owned company EPSO-G. E.ON also sold its minority shares in the Lithuanian electricity distribution system operator LESTO to Lietuvos Energija.

The next step was a consolidation process that has started by 2015. Lietuvos Energija started to merge the Lithuanian electricity distribution system operator LESTO with the gas distribution system operator Lietuvos Dujos. A supplier Lietuvos Duju Tiekimas is merged with a new company Litgas, which a designated gas supplier to the brand-new Lithuanian LNG terminal. At the same time, electricity distribution company LESTO, natural gas supply company Lietuvos Duju Tiekimas and distribution system operator Lietuvos Dujos started to serve their customers in joint centers located in major cities of Lithuania. In other words, once the assets landed back into Lithuanian state hands, the process was started of consolidation of the similar activities in national utility companies and delivering joint services.

Hungary has chosen a strikingly similar model of energy market structure: previously privately owned natural gas companies were placed under the state electricity company. The Hungarian state started rolling back the privatization in the natural gas market by 2013. Hungary's state-owned utility MVM acquired a 49.8 percent stake in Fogaz, gas distributor to households and business in Budapest, from German utility company RWE. At the same time, MVM acquired 100-percent shares in largest gas supplier Gas Trade Ltd. (E.ON Földgáz Trade) and Hungarian Gas Storage Ltd (E.ON Földgáz Storage) from E.ON. MVM Group became a vertically integrated group of companies in multiple areas of the energy sector. Moreover, MVM acquired a 50 percent stake in gas trading firm Panrusgaz from Germany's E.ON under an earlier option agreement. Panrusgaz is a joint Hungarian-Russian gas venture, responsible for the import of natural gas from Russia and holds the long-term gas supply agreement with Gazprom.

In addition to all the acquisitions, the Hungarian government crafted the plan to create non-profit First National Utilities Company (ENKSZ), which will supply gas and electricity, and eventually district heating to the Hungarian domestic consumers. ENKZ subsequently have announced its plans to acquire the universal electricity supply business of ELMŰ-ÉMÁSZ, the electricity supplier to Budapest and Northeast of Hungary, controlled by Germany's RWE Energy. Neigbhoring Slovakia took a similar path. In 2014, the Ministry of Economy of the Slovak Republic increased its shares of the main gas supplier for households Slovenský plynárenský priemysel (SPP) to 100% after former strategic investors E.ON Ruhrgas and GDF SUEZ decided on divestment. The SPP supplies both electricity and gas and promotes savings to consumers by being a single supplier of both kinds of energy. The Slovak prime minister revealed that the rationale behind the acquisition of the company was gaining full control over the calculation of the end-user energy prices.

It may be not the final energy utility shopping carried out by the Slovakian government. Italian utility Enel has launched a program to sell its holdings in Slovakia and Romania including its 66% stake in Slovakian utility and nuclear operator Slovenské Elektrárne, which generates almost 80% of the overall electricity production in Slovakia. The tender is not yet over; however, and the Slovakian government shows interest to acquire control in the company. There are two things in common between those instances: high import dependence on Russian Gazprom and expiring long-term agreements with this supplier combined with the political concern over the utility prices, possibly fueled by the still recent global financial crisis.

Both Lithuanian and Hungarian long-term agreements with Gazprom are due to expire in 2015, and now the state will stand as a main negotiator for new contracts. Even in the Slovakian case, where the SPP and Gazprom long-term contract is due to expire in 2028, the government took on the shares of SPP after renegotiation of the terms of the agreement. Another reason is for the state to take on direct control of end-user utility prices. As the European energy regulation rules require independence of the energy regulators from both the industrial interests and political interests, it diminishes possibilities to regulate prices based on political will. Nationalization of energy companies that are active in the retail business allows states to control energy prices directly even before they reach the energy regulator. Whereas the main political argument in support of the changes in Lithuania is the energy security, the Hungarian and Slovak counterparts are public about their intentions to keep the end-user prices low.

The consolidation of the energy companies into multi-commodity businesses and providing opportunities to pay single bills for many kinds of energy indeed may offer efficiency and savings. There are risks, however. If the state-owned energy suppliers start selling energy at artificially low prices, it will drive the competition out of the market. In Hungary, two foreign-owned gas supply companies, E.ON and GDF Suez already returned universal supply licenses in late spring 2015, in June 2015 followed by Tigáz, which is owned by Italy's Eni. Whereas consumers may enjoy low energy prices in the short term, energy price cuts, if improperly managed, in the long-term may result in worsening consumer services, a lack of investments in infrastructure and thus deteriorating security of supply.

Finnish Gasum sells local gas distribution

Anadolu Agency, *22.06.2015*

Even Gasum agreed to sell its local distribution network to British SL Capital Partners. SL Capital Partners, will acquire the shares of Gasum subsidiaries: Gasum Paikallisjakelu and Helsingin Kaupunkikaasu.

Gasum, the Finnish importer and supplier of natural gas, said the transaction is a part of its strategy to focus on the development of the Nordic gas market and energy infrastructure through environmentally-friendly solutions. The company aims to make liquefied natural gas more popular in the region as it has invested in the its distribution infrastructure.

"LNG offers an excellent opportunity for reductions in transport emissions on land as well as at sea. Biogas helps achieve even larger carbon dioxide emission cuts than natural gas," according to the company. Gasum Paikallisjakelu has gas network operations in twelve areas in Finland while Helsingin Kaupunkikaasu owns the Helsinki natural gas network. The transaction will ensure the employees of both companies continue in their current positions. Gasum and Estonia have agreed on the construction of two LNG terminals in November.

The countries plan to start construction by 2019. “This transaction enables us to release capital from strictly regulated network business to the development of the Nordic gas market and the capital expenditure required for that. We’re building a gas ecosystem based on natural gas, biogas and LNG that will improve access to resource-wise and competitive forms of energy throughout the Nordic countries,” said Johanna Lamminen, Gasum’s CEO. “This local gas distribution business represents an excellent first investment for our fund. As a regulated utility in a safe and stable economy, it fits squarely with our strategy to invest in core infrastructure across northern Europe,” commented Roger Pim, the managing partner of SL Capital Partners. The agreement was signed and is expected to be completed within approximately one week.

Elering buys Gazprom’s shares in Estonian gas network

Anadolu Agency, *22.06.2015*

Estonia’s state-owned electricity system operator, Elering, signed an agreement with Gazprom to acquire Russian energy giant’s stake in the Vorguteenus Valdus Holding, according to Elering’s announcement.

The Estonian company acquired 37 percent of Gazprom’s stake in Vorguteenus Valdus Holding, which holds 100 percent of Estonia’s gas shares. Elering will acquire the stake for 19.9 million euros and the acquisition will be completed. “Our goal is to increase the holding to 100 percent and the transaction brings Elering one step closer to that goal,” Taavi Veskimagi, Elering CEO said.

Earlier in June, Elering also acquired shares which were held by other minority shareholders. These acquisitions will ensure that Elering will hold an 89 percent interest in the holding. Elering aims to become the sole owner of the transmission network to bring management of the electricity and gas networks together under one company.

Annual Groningen production cap reduced by 24% to 30bcm

ICIS, *23.06.2015*

Natural gas production from the Groningen field in the Netherlands will not exceed 30 billion cubic metres in 2015, according to a revised production cap set by economy minister Henk Kamp.

The 2015 annual ceiling has been reduced by 24% from the previous 39.4bcm limit. Production in the second half of the year could now reach 13.5bcm and would be 30% lower compared to the same six months of 2014 when 19.38bcm was extracted. The minister's decision was based upon the advice of government monitoring agency the state supervision of mines (SSM).

A lower production cap had been widely anticipated by the market, but a number of sources polled by ICIS said that a restriction to 30bcm would be greater than expected. Several traders said they had been expecting a minimum cap of 33bcm – derived by annualising the government's 16.5bcm half-year cap. Another source said he had been expecting a 35bcm limit, which was a figure cited by Kamp in his 9 February letter to parliament as the minimum production level needed for security of supply in the event of a cold winter 2015/16 and maximum use of quality conversion capacity. A government statement said that the SSM had recommended production in the second half of 2015 to be restricted to 16.5bcm - the minimum level it said would be necessary for security of supply in northwest Europe. However, the government capped output further at 13.5bcm because it said an additional 3bcm had been extracted from the previously dormant Norg facility this year. The Norg facility is now used as the key low-calorific (L-gas) storage facility in the Netherlands. The statement also indicated that a further 2bcm may be produced from Groningen above the 30bcm cap if absolutely necessary because of technical problems in the gas system. The government is now investigating whether a change in long-term strategy towards L-gas security of supply can be implemented. This would entail increased high-calorific natural gas (H-gas) imports and prioritising the quality conversion of H-gas, which at present plays only a supporting role to Groningen production. The government intends to make a decision on this on 1 January 2016.

Following Tuesday's decision, the Netherlands will have up to 13.5bcm Groningen production and a total of 3.4bcm L-gas already in reserve to satisfy demand for the remainder of the year. Grid operator GTS also has capacity to convert just under 40GWh/hour (89 million cubic metres (mcm)/day) of H-gas to the L-gas grid, according to its latest network development plan. L-gas stocks at the 5.6bcm capacity Norg facility, operated by NAM, currently stand at 3.1bcm, or 55% of capacity. There is a further 260mcm of L-gas stored at the smaller Zuidwending and Alkmaar storage facilities, which together have a combined capacity of 818mcm.

In the second half of 2014, L-gas demand in northwest Europe totalled 18.8bcm: domestic Dutch demand from households and small buildings totalled 7.5bcm, while combined L-gas exports at interconnections to Germany and Belgium reached 11.3bcm. Assuming the same demand profile in 2015, the Netherlands would need to rely on quality conversion capacity to cover around 1.9bcm of demand that would not be covered by production or stored gas. Higher H-gas demand so far in 2015 has seen the Netherlands become a net importer of H-gas this year. A net total of 4.7bcm was exported at H-gas interconnections in the first five months of 2014, but more H-gas has been imported than exported in the same period of 2015. This has largely been due to a 2bcm year-on-year drop in exports to Britain on the BBL pipeline and a 1.4bcm increase in Norwegian imports, with less pronounced changes in flows observed at Belgian and German interconnections as well. According to Dutch grid operator GTS, a total of 8.4bcm H-gas has been converted to L-gas so far in 2015, more than triple the 2.6bcm converted in the same period of 2014. With 13.5bcm production permitted from Groningen between July-December, the field's operator NAM may choose to restrict output more heavily in Q3 to retain flexibility for the first winter quarter when weather-driven consumption begins to rise. Last year, output was relatively stable between July-September as 6.6bcm was produced, but gas extraction jumped by nearly 1bcm/month in Q4 2014 as production rose to 12.8bcm.

EU-Central Asia energy dimension: new positive steps for a Trans-Caspian Corridor?

Natural Gas Europe, *23.06.2015*

Several recent developments seem to indicate that progress could be made on the implementation of the Southern Gas Corridor (SGC), with a concrete involvement of Turkmenistan in order to enhance the capacity of this energy route, through the realization of the Trans Caspian Pipeline (TCP), the "missing link" along the Caspian Sea.

If trilateral negotiations among EU, Turkmenistan and Azerbaijan have paved the way to improve reciprocal relations, trying to address unsolved issues, the recent trilateral dialogue involving Turkey with the two Caspian countries have revitalized TCP, producing interesting results.

As a matter of fact, in November 2014 Turkmenistan signed a framework agreement with Turkey to supply the Trans Anatolian Natural Gas Pipeline project (TANAP), a section of the Southern Gas Corridor project, aimed to deliver 16 billion cubic meters (bcm) of gas a year from Azerbaijan's Shah Deniz II field in the Caspian Sea to Europe via Turkey. Turkmenistan's participation will enhance the capacity of this energy route – which is expected to reach 31 bcm in 2026 and 60 bcm in 2030 – also considering that this Central Asian republic holds the fourth world largest natural gas reserves.

In January 2015, during a trilateral meeting held in Ashgabat, these three countries decided to further enhance their cooperation in energy field and the ministers of Turkey and Azerbaijan invited Turkmenistan to join TANAP project. In addition to these positive developments in the regional energy cooperation, also a convergence of strategic interests among EU, Turkmenistan and Azerbaijan has contributed to revive the project. A western corridor of gas exports would allow Turkmenistan to diversify its energy routes, lessening the strong dependence on a single customer, China, which currently purchases over 60 percent of Turkmen gas exports, and offsetting Russian decision to cut its gas imports from Turkmenistan by nearly two-thirds. Moreover, the slow implementation of the TAPI (Turkmenistan-Afghanistan-Pakistan-India) gas pipeline has temporarily frozen Turkmen project of diversification eastward, pushing Ashgabat to find alternative export routes.By the end of 2015 Turkmenistan will be able to complete the East-West Pipeline – connecting large gas deposits in the southeast of the country to the Caspian Sea coast – designed to supply the TCP or generally the western corridor, with an expected capacity of 40 bcm of natural gas per year (thanks to additional gas volumes from Caspian deposits).

Azerbaijan represents a reliable energy partner for the EU, given its decisive contribution to the launch of the SGC following the forthcoming realization of the Trans Adriatic Pipeline (TAP), exclusively fueled with Azeri gas. However, this special energy status could be seriously threatened by Putin's decision to replace South Stream with a new pipeline project crossing Turkey, called Turkish Stream, which will undermine Baku's exclusive role as EU alternative supplier along a southern route bypassing Ukraine. Furthermore, SGC's expected capacity will reach approximately 30 bcm/year – without the contribution of Turkmen gas – representing less than half of the Turkish Stream potential capacity. Consequently, Azerbaijan could strategically support Turkmenistan's participation in the SGC in order to increase the capacity of this pipeline and its geopolitical relevance for the EU energy security, also enhancing the role of Caspian suppliers. For the EU, the worsening relations with Russia have further highlighted the vulnerability of its energy security and the need to coherently undertake a diversification strategy of import routes, aimed to lessen the "unbalanced" reliance on Russian gas imports crossing Ukraine.

Consequently, the SGC implementation appears an urgent and strategic goal to achieve, involving both Azerbaijan and Turkmenistan in a new trilateral round of talks regarding the TCP, with the intention to sign a new Memorandum of Understanding (MOU) on energy cooperation by the end of this year. The EU's diplomatic engagement has produced significant concrete steps: in February 2015, Maros Sefcovic, the European Commission's Vice President in charge of the Energy Union, declared that the EU intends to find a technical and legal basis for the Turkmen gas supply via Azerbaijan, mainly because the EC has considered the TCP as a project of common interest". On May 1, during a meeting of energy ministers of Azerbaijan, Turkey, Turkmenistan and the EU representatives in Ashgabat, the parties signed the Ashgabat Declaration, focused on the development of cooperation in the energy field. Turkmenistan has reaffirmed its commitment to engage in the SGC, even if Russian opposition to TCP remains unchanged. According to Sefcovic, there are two potential routes to export Turkmen gas to EU market: transiting through Iran, and building an underwater Trans Caspian pipeline.

In spite of the enthusiasm about these progresses, several key issues remain unsolved, especially the concrete implementation of the two potential export routes for Turkmen gas. The lack of a legal definition of the Caspian Sea currently hinders the realization of TCP, even if Turkmenistan and Azerbaijan share a common position concerning the possibility to build an underwater Caspian pipeline, considered as their sovereign right since the pipeline will run through their territorial waters. However, Russia and Iran oppose at this solution, privileging consensus among five littoral states because TCP affects interests of all of them. Russian traditional influence in the Caspian geopolitical scenario could delay any EU attempt to realize the “missing link”. At the last Caspian summit held in Astrakhan in September 2014, Russia obtained to postpone the discussion about the definition of the Caspian legal status to the next summit in 2016: before this, Azerbaijan and Turkmenistan will remain cautious, avoiding to take significant decisions which could antagonize Moscow. The financial issue is another key point to solve: technical support and economic investments of international energy companies will be required to build a 300 km undersea pipeline between Turkmenbashi and Baku port, estimated to cost US$ 5 billion.

Given that Azerbaijani companies are already engaged to finance TANAP’s realization and Turkmenistan usually finances the realization of export pipelines up to national borders, the EU should take over the financial support to build the infrastructure. Following the recent positive development of the EU-Iranian relations, the possibility of an overland pipeline delivering Turkmen gas through Iranian territory to Turkey could be an interesting alternative option, in order to reach the EU market. In January 2015, the Iranian government has announced construction plans for four pipelines at a cost of $12 billion. Three of them will increase natural gas exports while the fourth is designed to reduce imports from Turkmenistan. The main aim for the Iranian government would be to finance and realize domestic energy infrastructures in order to connect them with the Turkish border, delivering additional volumes of natural gas which will boost TANAP capacity. However, this option is also strictly dependent on several preconditions: as a matter of fact, Iran must increase gas production and develop domestic interconnections in order to meet a rising domestic demand, even if the future evolution of the relations with the West is the geopolitical key that will influence the feasibility of this project.

Given the existent scenario, Sefcovic’s statement that natural gas could start being exported to Europe through a pipeline under the Caspian Sea by 2019 appears optimistic, in spite of positive diplomatic steps. Furthermore, bilateral relations with Turkmenistan have been traditionally complicated. Energy cooperation with Turkmenistan will enhance the European diversification strategy, but it is also useful to remember that EU and Turkmenistan already signed a MOU on energy cooperation in 2008, aimed to develop energy transport infrastructure of mutual interest, and Ashgabat indicated a willingness to allocate 10 bcm/year to European markets. Unfortunately no progress has been registered.

BP, Egypt reportedly clinch LNG cargo deal for 2015/2016

Natural Gas Europe, *23.06.2015*

UK-based BP and Egypt reportedly agreed a liquefied natural (LNG) supply deal through 2015 and 2016. According to Reuters, BP will supply 16 cargo units under a deal with the state-run EGAS. Previously, negotiations envisaged 21.

All in all, BP is intensifying its ties with Egypt. In May, it increased its stake in the West Nile Delta (WND) project in Egypt, buying 17.75% of in the ongoing Phase 1 from DEA. The project is entering into its capital intensive phase. With the deal, BP will be the second supplier of LNG to Egypt after commodity trader Trafigura, which won the right to supply 33 cargoes in January 2015.

The North African country is trying to fill the gap stemming from decreased production in the aftermath of the so-called Arab Spring. Commentators expect the country to significantly increase production in the medium to long term. In 2014, BP Statistical Review estimated Egypt's proved reserved at 65.2 trillion cubic feet, listing it at the third place in Africa after Nigeria (179.4 tcf) and Algeria (159.1 tcf). Egypt is indeed expected to have more gas than Libya (54.7 tcf).

Number of oil rigs in US fall for 28th week

Anadolu Agency, *22.06.2015*

The number of oil rigs in the U.S. fell for the 28th consecutive week, data from oilfield Services Company Baker Hughes revealed.

The rig count in the country continues to decline when it reached 631, declining by four for the week ending June 19. The number of oil rigs in the country was at its highest level in October 2014 at 1,609, but has fallen by 61 percent since then, as falling oil prices put U.S. producers in a difficult position in seeing a return on their investments. Yet, the recent fall in the oil rig count is modest when compared to the double-digit drops in the last months.

The decline in oil rig count in the U.S. is expected to slow oil production in the country and put an upward pressure on oil prices beginning from the third quarter of the year. The U.S. Energy Information Administration (EIA) data showed last Wednesday that crude oil stocks in the country declined for the seventh week in a row, falling by 6.8 million barrels, or 1.4 percent, to reach 470.6 million barrels for the week ending June 5. In addition, domestic oil production in the U.S. also declined, falling below 9.6 million barrels a day on average, EIA data shows. Oil production in the country reached 9.59 million barrels per day for the week ending June 12.

EIA: US crude imports from Saudi Arabia halved in Q1

Anadolu Agency, *22.06.2015*

The U.S.' medium-grade crude oil imports from Saudi Arabia more than halved in the first quarter of 2015, compared to the same period in 2014, the U.S.' Energy Information Administration (EIA) said.

"Imports of medium crude oil from Saudi Arabia decreased by 52 percent from 0.9 million barrels per day in the first quarter of 2014 to 0.4 million barrels a day in the first quarter of 2015," the EIA said. The U.S. remains the largest consumer of oil in the world. However, it managed to surpass Saudi Arabia to become the world's biggest oil producer in 2014, according to BP's Statistical Review of World Energy 2015.

Since its shale revolution in 2008, the U.S. increased its oil and gas production significantly. Crude oil output in the country rose from about 5 million barrels a day on average in 2009 to around 9.6 million barrels per day in the second quarter of 2015. Meanwhile, the U.S.' crude oil imports decreased from nine million barrels per day on average in 2009 to 7.3 million barrels a day in 2014, according to EIA data. The EIA noted that almost all medium-grade crude oil imports of the U.S. are from Middle Eastern countries. Crude oils with American Petroleum Institute (API) gravities of 27 to 34 are considered as medium-grade crude oil. The institute's scale expresses the lightness or heaviness of crude oils.

US oil stocks decline, domestic oil production recovers

Anadolu Agency, *24.06.2015*

Oil stocks in the U.S. fell for the eighth week in a row, while domestic oil production recovered by rising slightly above 9.6 million barrels a day on average, the U.S. Energy Information Administration (EIA) data revealed.

Commercial crude oil inventories in the country fell by 4.9 million barrels, or 1.1 percent, to reach 463 million barrels for the week ending June 19, from 467.9 million barrels for the week ending June 12, EIA said. This is the eighth 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 0.4 million barrels to stand at 693.3 million barrels for the week ending June 19, from 692.9 million barrels the previous week. As U.S. crude oil inventories fall, this may increase expectations in the market that the glut of global oil supply 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. Domestic oil production in the U.S. remained almost unchanged, rising by a modest 15,000 barrels a day on average for the week ending June 19, EIA data shows. Oil production in the country climbed slightly above 9.6 million barrels a day. Crude oil import of the world's biggest economy decreased by an average of 302,000 barrels a day to below 7 million barrels per day for the week ending June 19. Oil imports reached 6.76 million barrels a day, decreasing from 7.06 million barrels per day the week before.

EIA said on 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.

Natural gas: A voice too soft?

Natural Gas Europe, *22.06.2015*

Is the voice of gas too loud, loud enough or too soft? Of those in attendance who took part in the instant polling at the World Gas Conference 2015 in Paris, France, 78% contend that the voice of gas is too soft.

How can gas raise it's voice? asked speaker Beate Raabe, Secretary General, Eurogas, who opined that it is not how loud gas's voice is, but what it's saying, which can differ depending on one's geography. She offered, "Gas is in a very different situation if you are in the US, or whether you are in Europe."

Ms. Raabe noted that gas has lost market share in Europe. She reported, "From 2013-14, it was 11%, and between 2010-14 it was 20% - so we lost one-fifth." She said this is due to a number of circumstances. "Gas is facing challenges in all the three areas: climate policy, security of supply and competitiveness," she said, explaining that the EU wants to achieve greenhouse gas emissions reductions of 80-95% by 2050, with targets in between. She said, "Gas is good, it's poor in CO2 compared with other hydrocarbons, but it still has got carbon and because of that it's not particularly popular – maybe accepted as a necessary evil in the transition, but that's all.

Ms. Raabe pointed out that regarding security of supply, the crisis between Russia and Ukraine has given gas the reputation of being a political weapon, pushing some countries away from using natural gas. "As far as competitiveness is concerned, gas has been squeezed between subsidized renewables – because the EU also wants to increase them; it's rooted in the EU treaty and targets have been set on that side as well. On the other hand, coal has been very cheap, a lot cheaper than gas, because the US is producing gas and the coal has been available to Europe." What can be done, given this scenario? She said gas has something very important to offer: "It can grow together with renewables – it can actually help renewables to grow by complementing the intermittency of wind energy, solar energy, and that's something we need to focus on, because if we rub the politicians' nose into the fact that the share of coal has risen, that emissions have not gone down as much as they could have without the coal revival, then you get very embarrassed looks, because everyone's aware of that."

If the natural gas industry were to help the EU reach its goals with gas, she opined, it would be a different story. "We can do that by showing how gas can help in power generation and in heating, by being complementary to intermittent renewables, and it can also help in transport," she explained. Of the completely different situation in the US, Dr. Paula Gant, Deputy Assistant Secretary for Oil and Natural Gas, US Department of Energy (DOE), offered some perspective, saying she brought some really good news. "It turns out we have a tremendously abundant supply of natural gas," she said, explaining the transformation of America's psyche from one of energy scarcity to one of abundance – something that is creating a lot of opportunity.

She reported, “We’ve seen an increase in domestic production over the last decade, from 65 BCF/day to now around 92 BCF. Ten years ago, the top well produced 5 MCF/day and this past year that went up to 30 MCF/day, an increase in production fuelled by investments, many from companies in this room, and governments investing in science and technology.” Such developments, she said, have allowed for the US to reduce its greenhouse gas emissions, and contribute to the growth of the economy. According to her, GDP is up 8.7% over 2007. She commented, “The outlook is robust. We expect it to outpace our expectations that the shale resource contributes to domestic energy supplies. Meanwhile, she offered that the EIA estimates the US will be producing 42 BCF/day by 2020. Of the DOE’s role, she explained, “We’re very focused on making sure that the nation and the world are able to realize the promise presented by this abundant domestic resource. “In our office, in particular, we’re working on efforts to ensure that we have the public’s confidence that this resource can be produced in a responsible way, doing the right kinds of research and developing the right kind of technology to mitigate any unintended consequences for producing these resources,” said Dr. Gant. Pierre Breber, Corporate Vice President and President, Chevron Gas and Midstream, opined that gas already has a strong voice according to the turnout at WGC, and spoke of Chevron’s flagship LNG projects off the coast of Australia, Gorgon and Wheatstone, making the company one of the world’s largest suppliers. He offered, “We expect energy demand to grow by 40% by 2035, because the word’s middle class will continue to grow and it aspires to the quality of life that we enjoy. Demand for natural gas alone is projected to grow by 50% over the next 20 years, which will make it the fastest growing fossil fuel.” That demand, he said, will be met by the current wave of LNG being developed in Australia and export coming from the US. In the future, said Mr. Beber, greater convergence is expected between the world’s markets as US LNG exports connect for the first time the deep and liquid markets in the US and Europe with those of Asia. Lots of robust competition can be expected from the next wave of LNG projects coming from Canada, East Africa, expansions in Australia and other areas competing with US exports.

Mr. Breber explained, “The projects that go forward will be cost competitive, will enhance supply diversification and security and will need strong buyer support.” The current market, he noted, entails the risk of increasing supply while demand is growing slowly in Asia. “There is the risk that buyers and producers will not maintain momentum for the new supply required to meet demand to 2020,” he said, explaining that the industry needs to plan 5-10 years ahead with multiple, geographically diverse LNG projects and hubs to meet future demand – this involved buyers, sellers and host governments working together to meet buyers’ needs and provide suppliers with adequate returns on investment, according to Chevron’s Pierre Breber.

Announcements & Reports

► *East-Mediterranean Gas potential: Opportunities and Barriers*

Source : IFRI
Weblink : http://www.ifri.org/en/publications/publications-ifri/articles-ifri/east-mediterranean-gas-potential-opportunities-and

► *Guidelines for Good Governance in Emerging Oil and Gas Producers*

Source : Chatham House
Weblink : http://www.chathamhouse.org/publication/guidelines-good-governance-emerging-oil-and-gas-producers

► *Will Equals Way: Unconventional Gas in Russia*

Source : PISM
Weblink : http://www.pism.pl/files/?id_plik=20015

► *Is Natural Gas Green Enough For The Environmental and Energy Policies?*

Source : IGU
Weblink : http://www.clingendaelenergy.com/inc/upload/files/IGU-2015_Is_Natural_Gas_Green_Enough_TF3_IGU_Final_May_2015.pdf

► *International Law and the Use of Maritime Hydrocarbon Resources*

Source : IGU
Weblink : http://www.ifri.org/sites/default/files/atoms/files/law_of_the_sea_tf3_igu_final_may_2015.pdf

► *Local Content Strategies in the Oil and Gas Sector: How to Maximise Benefits to Host Communities*

Source : IGU
Weblink : http://www.ifri.org/en/publications/publications-ifri/articles-ifri/local-content-strategies-oil-and-gas-sector-how

► *Prioritization in EU Energy Policy Energy Security First, then Energy Union*

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Source : Brookings
Weblink : http://www.brookings.edu/~/media/Events/2015/03/25-brookings-doha-energy/En-Tamimi-PDF.pdf?la=ar

► *Between A Rock and A Hard Place : International Market Dynamics, Domestic Politics and Gazprom's Strategy*

Source : CADMUS
Weblink : http://cadmus.eui.eu/handle/1814/35398

Upcoming Events

► *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/