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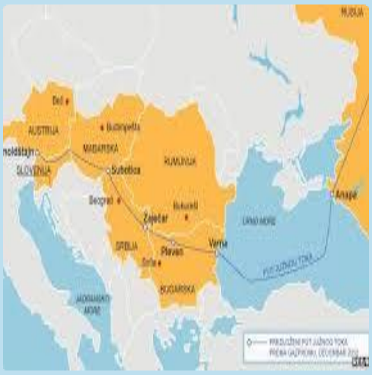
Gazprom denies rumors of cancellation of Turkish Stream

Anadolu Agency, *07.09.2015*



Gazprom and its Turkish partners have decided to focus on the first phase of the project, Gazprom officials say. Russian energy producer Gazprom denied rumors that the Turkish Stream pipeline project had been cancelled by Turkey.

Aleksandr Medvedev, deputy chairman of the management committee at Gazprom, issued the denial at a press conference. He said that talk of Turkey's withdrawing from the construction of the project's second, third and fourth leg was untrue. The Turkish Stream project, publicly announced during Russian President Vladimir Putin's visit to Turkey on Dec. 1 after the cancellation of the South Stream project.

The Turkish Stream project is a Russian proposal which will transport Russian gas to Europe while bypassing Ukraine. The project is planned to carry 63 billion cubic meters of natural gas to Europe via the Turkish-Greek border. Turkey is due to receive 15.75 billion cubic meters out of the total capacity of the pipeline. It is planned to have four phases and will be constructed in parts. Gazprom and its Turkish partners have decided to focus on the first phase of the project for now and to discuss the next steps later on, a Gazprom official said.

QNB: Qatar well placed to handle increased global LNG supply

Gulf Times, *05.09.2015*

Three major projects have recently been completed; over 100mtpy of LNG projects are currently under construction; and 600mtpy of projects are under consideration.

"However, the viability of many of these projects is being threatened by a number of factors, not least the recent collapse in crude oil and LNG spot," QNB said in a report. "Qatar is well placed to compete with the expected increase in supply," QNB said. It is the lowest cost LNG producer globally; already accounts for 31% of the global market (74mtpy in 2014); and sells most of its gas through long-term contracts, ensuring stability of supply.

The three major global projects that have recently been completed have faced some difficulties. The 8.5mtpy Queensland Curtis LNG project in Australia was completed in 2015 after considerable delays. A 4.7mtpy Algerian facility completed in 2014 is only producing at 50% of capacity due to a lack of feedstock. A new 6.9mtpy facility in Papua New Guinea was completed in 2014 and a new 2mtpy facility started production in Indonesia in 2015. There are currently 16 major LNG projects already under construction, which should add around 12mtpy in 2016 and 33mtpy in 2017.

Australia and the US are adding the largest amount of capacity. Australia made large discoveries of natural gas in the 2000s and invested heavily in LNG—$180bn of LNG projects are currently under construction with total capacity of 60mtpy. The US is currently building 50mtpy following its shale gas revolution, which has transformed the US from a hefty importer of natural gas to a soon-to-be exporter. As a result, a number of plants that were designed as LNG importing terminals are being converted to export facilities.

Some additional LNG capacity is also expected from Malaysia (4.8mtpy in 2015-16) and Russia (16.5mtpy in 2017-19). “The plug is unlikely to be pulled on projects that are under construction,” QNB opined. They already have long-term commitments from buyers for the sale of LNG and their breakeven oil price is estimated at around $50/barrel, just about manageable at present. “However, we expect there to be some slippage in the completion date of these projects due to their complexity, rising costs as well as permitting and regulatory issues,” QNB said. In addition to “under construction” projects, there are numerous projects being considered, including around 600mtpy of proposed projects, around 260mtpy of which are in the initial engineering and design phase. However, according to QNB, very few of this massive volume of projects are likely to be considered viable for a number of reasons in the current environment. First, the breakeven oil prices on these projects are estimated at around $70-80/barrel, well above current market levels.

Second, China is expected to be the main source of future demand growth for LNG and concerns about its economy slowing down may undermine the global LNG demand outlook. Third, construction costs more than doubled in 2007-13 compared with 2000-06, with higher labour costs being a particular issue in the US oil and gas sector. Fourth, the large amount of new capacity that is already under construction seems to point to a likely oversupplied market until at least 2020, discouraging the approval of projects that are currently under consideration. Fifth, buyers are reluctant to enter into long-term contracts in the current market environment as spot LNG prices are low and falling. Without long-term gas sales contracts in place, large-scale LNG projects are highly unlikely to be able to put the financing in place, making it hard to get these projects off the ground.

Some companies have already cancelled projects. For example, Royal Dutch Shell cancelled its $20bn Arrow project in Australia at the beginning of 2015 and Woodside has pushed back a decision on its Browse floating LNG project in Australia from 2014 to 2016 at least. “In this environment, we expect few new LNG projects to be initiated in the short-term. LNG projects have a construction period of 4-6 years. Therefore, a delay in initiating new projects over the next year or two, should lead to tighter LNG markets in the early 2020s,” QNB said. LNG capacity, the bank said, was expected to increase sharply up to around 2020 leading to a glut in supply, depressing prices.

“Qatar is in a strong position versus new producers thanks to its competitive pricing power and the long-term contracts it already has in place. In the longer-term (say, by the early 2020s), the current pause in the initiation of new LNG projects could to lead to a tightening of the market as demand catches up,” QNB added.

Spain ready to export Iranian LNG to Europe

Natural Gas Europe, *07.09.2015*

Spain and Bulgaria are looking at Iran to increase energy security. Teheran sees in Madrid a preferential partner. “Talks between Iran and Spain on this topic will continue,” Bijan Namdar Zangeneh, Iran’s oil minister, oil ministry’s news agency Shana wrote.

Spain’s Foreign Garcia-Margallo, Industry, Energy and Tourism Minister Soria and Public Works and Transport Minister Pastor Julian are visiting Iran for three days of talks with Iranian officials. “Spain can act as a canal for Iran’s gas exports to Europe,” Soria was reported as saying, referring to the country’s LNG infrastructure.

According to a separate note published by Shana, Spain could then export Iran LNG to Europe. Also Sofia is considering opportunities stemming from the removal of sanctions against Iran. Bulgarian authorities have already leaked their intentions of resurrecting the Nabucco project to media, which will now be centred on Iranian gas sources.

Mentioning Bulgarian Energy Minister Temenuzka Petkova, Romania Insider wrote that Bulgaria’s gas transmission operator Bulgartransgaz will organize a new procedure to select the contractor that will build the gas interconnector between Bulgaria and Romania, after the contractor that had been previously selected withdrew from the contract. In other words, the interconnector between the two Eastern European countries has been delayed. Preparations for the pipeline from Giurgiu in Romania to Ruse in Bulgaria started in 2010 and the intergovernmental agreement between Romania and Bulgaria was signed in November 2010.

Iran awaits Austrian energy investments

UPI, *08.09.2015*

Iran is preparing to welcome Austrian oil and natural gas company OMV back to the energy sector as sanctions pressure eases, a deputy Iranian minister said. Austrian President Heinz Fischer arrived in Tehran, leading business delegates to the country to review potential trade relations.

Amir-Hossein Zamani-Nia, the Iranian deputy oil minister, told the oil ministry's officials news site SHANA, the Iranian energy sector was opening its doors to investors .”Using new technologies, OMV is ready to double production of Iran's oil and gas fields through enhanced oil recovery and improved oil recovery methods,” he said, without specifics.

SHANA reports Rainer Seele, the chief executive officer at OMV, met Tuesday with Oil Minister Bijan Zangeneh to discuss working in Iran. Zangeneh said last week the country will increase net oil production by more than 1.5 million barrels per day, bringing total production for the Islamic republic to just over 4 million bpd. European energy companies are taking the initiative as sanctions pressures ease on Iran, something Ali Larijani, the speaker of the Iranian parliament, said could help ensure energy security in the region. The Iranian government said representatives from French oil company Total were among those attending an investment conference in Tehran in early 2015.

Bulgaria eyeing Iran and Russia

Natural Gas Europe, *07.09.2015*

Bulgaria's natural gas strategy experienced impressive transformations from overly relying on Gazprom for a project, to outright hostility against Russia. A new trend is emerging where Sofia is eyeing Russia again, while appearing to be settings its sights on Iranian gas supplies.

Bulgarian authorities have already leaked their intentions of resurrecting the Nabucco project. The deals being made since 2013 between Bulgaria and Azerbaijan regarding gas quantities to flow from Shah Deniz via the TANAP-TAP-IGB system of pipelines are not enough for long-term and for a diversification of the overall gas consumption in the country.

Meanwhile, Bulgaria is exploring a wide range of collaboration with Azeri SOCAR, having made clear its intention to attract investments from that company in the country. This includes underground gas depot construction and natural gas filling stations for vehicles however it was not specified whether new quantities needed will be sourced from Azerbaijan after all. As such, the Iran option is fervently sought after and the Bulgarian embassy in Teheran has been in a steady round of discussions with all major energy players in the country. It should be noted that the Iranian embargo is effectively still in place and even if lifted soon, it will take at least a decade before a pipeline is in place towards Europe. This is only if Teheran decides on the matter and if all major EU consumers back it both financially and politically.

Concurrently, it is no secret that the Middle East is in destabilization-mode including Turkey, the main transit route, being in a minor domestic war with its Kurdish minority. Teheran also has a specific aim of establishing its “Shia axis” with Iraq, Syria and Lebanon, thus creating a backlash from the Sunni Kingdoms in the Saudi Peninsula and Israel. It is highly unlikely that the national gas strategy of Bulgaria can wait for long until these complexities are sorted out, if ever.

Recently, Bulgarian Ambassador to Moscow, Boyko Kotzev, relayed to RIA Novosti that a possible deal could be made between the two countries that will enable Bulgaria to become regional gas hub. Furthermore, Mr Kotzev noted that both countries are considering options to deliver gas after the terminated South Stream project along with all officials are working hard to find a solution. At the same time, Bulgarian Energy Minister Temenuzhka Petkova met with her Russian counterpart, Alexander Novak, during the proceedings of the St Petersburg Economic Forum where a proposal was laid down to use Russian gas in transit to Europe via Bulgaria so as to enact a new gas hub in the region.

The tone throughout Bulgarian media is gradually changing in favor of Russia as of late due to the assumption that eventually a Nord Stream 2 pipeline will be established, thus rendering all options for Bulgaria to play any significant role in the EU gas market. In addition the proposed Tesla Pipeline which may include Greece, FYROM, Serbia and Hungary has been seen as a practical exclusion of Bulgaria from regional energy security developments, with further diplomatic ramifications as well. All in all, it is only a matter of time before a high-level summit between Bulgaria and Russian stakeholders takes place to confront with the issues. It should also be mentioned that an option has been reviewed in Moscow and Teheran is calling for an extension and linkage between the Russia-Armenia and Iranian-Armenia gas transmission systems and eventual export in bulk of Iranian gas via Russia to Europe. That would surely be a game changer but it is too soon to assess the validity and viability of such an option.

Gazprom export begins auction for gas supply to North-West Europe

Natural Gas Europe, *07.09.2015*

While reports indicate that Western sanctions hurt Russia's ability to adopt new oil and gas technologies, Gazprom Export begins the biddings within for gas supply to Europe.

According to Gazprom Export, the biddings are to be held from September 7th to September 10th. The Bidders will be offered 127 lots with the total volume of 3.24 bcm. The gas will be supplied during the Delivery Period Winter 2015/2016 in North-West Europe. "The European gas market changes constantly and, meeting its challenges, we want to test the new form of trading the gas and see what benefits it can bring to seller and buyers", Alexander Medvedev commented.

Commenting on the auction, experts said that the Russian company is trying to understand this mechanism, while remaining committed to long-term contracts. According to rumours, a number of European and Russian companies such as Vitol, E.ON, Engi, Goldman Sachs, Glencore and Novatek are among potential bidders.

As reported by the company, there will be three auctions: i) 48 lots 60 MWh/h each at the Delivery Point Greifswald NEL with optional for the buyers Delivery Point VP Gaspool for delivery period from the 1st of October 2015 to the 31st of March 2016; ii) 57 lots 60 MWh/h each at the Delivery Point Olbernhau II with the option for the buyers to purchase entry capacity to the CZ gastransport network from Gazprom Export for delivery period from the 1st of October 2015 to the 31st of March 2016; iii) 22 lots 60 MWh/h each at Delivery Point Greifswald OPAL exempted. Adjacent OPAL capacity with the exit point Brandov can be purchased from the Network Operator for delivery period from the 1st of October 2015 to the 31st of March 2016. Meanwhile, Lukoil President Vagit Alekperov told Vedomosti business daily that a reduced access to capital markets also had an impact on Russian companies' ability to progress with technology.

Gazprom to confirm business plan for Nord Stream-2 in January

Sputnik News, *07.09.2015*

Currently the energy giant is preparing the tenders on several key positions. Gazprom will confirm its business plan and pipeline tenders for the Nord Stream-2 project in January, Gazprom Deputy Chairman Alexander Medvedev said.

"We are currently readying the business plan and simultaneously the tenders on a number of key positions such as the pipelines, which will both be confirmed in January," Medvedev said. Gazprom announced plans to build two additional branches of the Nord Stream gas pipeline, running from Russia to Germany, in a joint project with E.ON, Shell and OMV, with an estimated cost of 9.9 billion euro.

Gazprom and its partner companies signed a shareholders agreement on the Nord Stream-2 gas pipeline at the Eastern Economic Forum in Russia's Vladivostok. The Nord Stream-2 project, which plans to use the original Nord Stream pipeline for 86-percent of the route before branching off, could provide up to 55 billion cubic meters of direct gas supplies to European customers annually.

Why Ukraine has to reform its gas sector

Natural Gas Europe, *07.09.2015*

In April 2015, the Ukrainian parliament passed a long-awaited law on the gas sector which paves the way for the extremely difficult process of reforming and de-monopolising the Ukrainian gas sector. The law will come into force on 1 October 2015 and involves the break-up of the state-owned company Naftogaz, and the gradual creation of a competitive gas market in line with the so-called Third Energy Package.

A threefold increase in the price of gas paid by individual customers and the public sector was introduced. The price had been subsidised for years and no previous government had ever decided to raise it.

The comprehensive reform of the gas sector is one of the most important and most difficult reforms Ukraine has to implement. Its success will be of fundamental importance for the Ukrainian state due to its impact on several major areas of the state's functioning.

Without the marketisation of gas prices and an improvement in Naftogaz's financial standing (in 2014, the company's deficit accounted for 7% of Ukraine's GDP), it will be impossible to reform Ukraine's public finances to end the long-lasting economic crisis. Without an improvement in Ukraine's energy efficiency, which currently is one of the world's lowest, it will be impossible to reduce the country's dependence on the import of gas. Successful implementation of the reform will also be important in the context of the future of Ukrainian-Russian relations. The question of gas supplies has been one of the major aspects of this relationship since 1991. Another extremely important consequence of the reform will be to eliminate the main source of income from corruption in Ukraine., which has benefited the ruling elite since the 1990s. Corruption seems to be the reason behind the reluctance of all previous governments in Kyiv to reform the gas sector.

Ultimately, successful implementation of the reform will be a milestone for Ukraine in its attempt to leave the post-Soviet paradigm of how the state, its political elites, its economy and society function. However, the significant changes implemented so far in the gas sector have been insufficient, and require the adoption of several other laws and introduction of further price increases. It remains an open question whether the Ukrainian government will have sufficient determination and political will to complete the reform which has just been launched.

Gas accounts for around 35% of Ukraine's energy balance. However, due to its economic and political significance, the gas sector has been one of the most important dimensions of the Ukrainian state's functioning for over two decades now. In the peak years of 2000–2006, the level of annual gas consumption was 70–75 bcm, including around 20 bcm from domestic extraction[1]. The volume of Ukraine's gas imports (mainly from Russia) placed it among the world's five largest gas importing countries, and made it the largest single recipient of gas from Russia. Due to a gradual increase in the price of Russian gas, and also the economic crisis, Ukraine's gas consumption fell from 59.3 bcm in 2011 to 50.4 bcm in 2013 and 42.6 bcm in 2014 (see Appendix: chart 1).

The paradox of the situation was that despite Ukraine being a large gas consumer, the price of gas on its domestic market was one of Europe's lowest. Ukraine's great demand for gas, which is disproportionate to the size of its economy, results from the fact that this country has one of the world's lowest energy efficiency ratios[2]. In Ukraine, the amount of energy needed to generate one unit of GDP is three times larger than the average amount calculated for OECD countries. The Ukrainian industrial sector's energy efficiency level stands at 51% of the EU's average level; in the case of the service sector it is 46%, of the construction sector 11.3%, and of the housing sector 61.9%. Such low values are due to several major factors, including outdated heating technology, a backward industry sector and the lack of thermal insulation on residential buildings. This means that Ukraine has a great and still unused potential for energy savings, which in 2011 was estimated at 26 million tonnes of oil equivalent, corresponding to 29.3 bcm of gas. Almost a quarter of these potential savings could be achieved in metallurgy, which was a traditional foundation of Ukrainian industry and the main source of the country's exports. In recent years, Ukraine has seen only a small improvement in its implementation of energy-saving technologies. The level of energy efficiency in the industrial sector grew by around 1.5% a year, whereas the figures for the housing sector experienced a gradual decline of 0.2%. The latter value was mainly caused by the subsidy of gas prices, which offered no encouragement to users to save energy.

According to Naftogaz's CEO Andriy Kobolev, if investments worth US$10 bn were made, within 3–5 years it would be possible to save 5–6 bcm of gas annually, a volume accounting for a quarter of gas imports in 2014. This calculation mainly applies to the heat and power generation sector and to private household. Since the creation of the independent Ukrainian state, the gas trade has been the main source of corrupt profits for the ruling elite. This concerned both the import of gas from Russia and the non-transparent trade in domestically extracted gas. The key role in these mechanisms was played by companies which served as intermediaries in the supply of gas from Russia; these companies had ties to the governments of both countries. The total lack of transparency in Naftogaz was equally important. Naftogaz, Ukraine's largest enterprise, fell prey to all the subsequent governments, which in this way gained control over the revenues from the domestic gas trade. Corrupt gas schemes boomed during Leonid Kuchma's presidency (1994–2005), became consolidated during Viktor Yushchenko's rule (2005–2010)[8] and continued under Viktor Yanukovych (2010–2014). Understanding the mechanism of the dependence of post-Soviet Ukraine's elites on corruption income generated by the gas sector is one of the prerequisites for understanding how the Ukrainian state functioned after 1991 and why it is currently undergoing a systemic crisis.

None of the governments of post-independence Ukraine has been interested in changing the system which had a damaging effect on the state, but at the same time brought massive illegal profits to individuals in power. As a consequence, Kyiv became unable to devise an efficient energy policy or implement reforms (including adopting legislative solutions in the gas sector promoted by the EU, and boosting the country's energy efficiency). This has further magnified the scale of the problems. Systemic corruption has become the main feature of the Ukrainian gas sector, thereby contributing to a further weakening of the state.

Moscow also used gas-based schemes to corrupt the Ukrainian elite, which aggravated Ukraine's dependence on Russia. A key moment in this process was January 2009, when the then Prime Minister Yulia Tymoshenko signed an extremely unfavourable gas contract with Russia. Its main consequence involved a rise in the price of Russian gas to a level which turned out to be one of the highest paid by Gazprom's foreign clients. This contributed to a further decline in Ukrainian public finances (more on this later in the text). The unreformed energy sector, in particular Naftogaz's rapidly rising deficit, had a negative impact on other sectors of the economy, and became one of the causes of the drop in Ukraine's GDP which has been observed since mid-2012. The elimination (or at least the considerable reduction) of the income from corruption obtained from the gas sector is therefore a precondition of the complex reform of the Ukrainian economy and of an improvement of political standards.

Endemic corruption, combined with the rising prices of Russian gas and the subsidies of the prices paid by individual customers, further aggravated the state of Naftogaz's finances. In Ukraine, recipients of gas can be separated into two categories: (1) clients who pay a regulated (subsidised) price for gas: individual customers, the public sector, and heat and power conglomerates; and (2) the industrial sector and the business sector which pay market prices. The share of the first category of clients is around 55% of total gas consumption.

Simultaneously with the price of gas for a large portion of customers being held at an artificially low level, there was a gradual rise in the cost of gas purchased from Gazprom. In 2005–2007, the annual purchase of Russian gas accounted for around 4.5% of GDP, whereas in 2011–2012 this increased to 8.5% of GDP). The high price of Russian gas drove up Naftogaz's debt. The company financed its operations by issuing bonds which were then bought by the state. This led to the de facto shifting of the company's massive debt onto the Ukrainian state budget, which in turn contributed to a gradual aggravation of the condition of Ukrainian public finances, and of its macroeconomic stability, including the country's current account (the share of gas in Ukraine's total imports increased to 17%). This was also one of the main reasons for the increase in the budget deficit from 2% of GDP in 2008 to 7–9% in 2009–2010[14]. In 2014, Naftogaz's deficit was 110 bn hryvnias (around US$9 bn). This sum was covered from the Central Bank's currency reserves. This means that the company's deficit accounted for 7% of Ukraine's GDP. Without the help granted by the state, Naftogaz would have gone bankrupt long ago.

Naftogaz's debt has mainly been caused by the fact that the supply of gas to individual customers and to public sector bodies was subsidised, and by the fact that some industrial conglomerates, in particular from the chemical sector, as well as power plants failed to pay the amounts they owed for their gas supplies. The size of the deficit is all the more striking when comparing the company's debt, which was covered in 2014 by the state (US$9 bn), with the total cost of gas imports from Russia and the West (US$5.7 bn).

The company's disastrous state means that any reform of Ukraine's public finances (and its economy more generally) would be virtually impossible without reforming Naftogaz. This is why in recent years, restructuring Naftogaz and marketising the gas prices for individual customers have remained top priority issues in all the IMF's aid programmes for Ukraine. Successive governments of Ukraine have opposed the plans to increase the price of gas for individual customers because regulated gas rates had formed the basis of the state's social policy for years. The lack of political will within the Yanukovych administration to marketise gas rates was the reason for the suspension of the IMF programme worth US$15.5 bn agreed in June 2010. Despite Kyiv's attempts to resume dialogue with the IMF, no compromise had been reached by the end of Yanukovych's rule due to the lack of agreement on the issue.

The IMF's programme worth US$17.5 bn, which has been in force since February 2015, sees restructuring Naftogaz as its priority goal. This would involve reducing the company's deficit to 3.1% of GDP in 2015, to 0.2% of GDP in 2016, and making the company profitable in 2017. Another condition determining Ukraine's chances for receiving another loan involved raising the price of gas for private households by 231%–326%, depending on the group of recipients, and a 67% increase in the price of heating. However, even as drastic an increase as this would not guarantee a full marketisation of the price of gas and heating. This is why the IMF's programmes provide for another two increases to be introduced in April 2016 and April 2017. To alleviate the impact of the growing prices on society, the government has introduced subsidies worth 24 bn hryvnias (around US$1.2 bn) for the poorest customers. Moreover, Kyiv and the IMF expect that the price increase and the requirement to install gas meters in households will contribute to a reduction in the level of gas consumption.

The increase in the price of gas for individual customers has been criticised by some of the coalition parties (Batkivshchyna, the Radical Party) and by the media, which claim that much cheaper domestically extracted gas could be used to cover the demand of individual customers. The IMF and several experts have put forward reasonable arguments suggesting that holding the price of gas for individual customers at a level several times lower than the market price has been one of the main causes of corruption in the energy sector. Aside from the rise in the price of gas for individual customers and for the public sector, intensified activities aimed at collecting the amounts due for the supply of gas to customers have been planned with the aim of improving Naftogaz’s financial standing. According to estimates, as of mid-August 2015 the value of customers’ liabilities towards the company was nearly US$1 bn, 70% of which are liabilities generated by heat and power plants.

The successful diversification of gas imports, achieved by launching reverse gas supplies from the West, in particular via Slovakia, has contributed to an improvement in Naftogaz’s financial condition. This has become an important argument in Kyiv’s talks with Gazprom over a possible reduction in the price of Russian gas. The expected expansion of the capacity of pipelines running via Slovakia to the current 14.5 bcm per year, combined with the technical maximum capacity of the interconnections with Hungary and Poland (6.1 bcm and 1.5 bcm respectively) would make it possible for Ukraine – for the first time in its independent history – to abandon the need to purchase Russian gas. Aside from the law on the gas market, this has been the greatest success of Ukrainian energy policy since the end of the ‘Euromaidan’. In the first half of 2015, Naftogaz imported 6.1 bcm of gas from the EU and 3.7 bcm from Russia (62% and 38% respectively).

The reform of the energy sector has become one of the major goals announced by the post-Euromaidan government. In March 2014, there was a change in Naftogaz’s leadership, and Andriy Kobolev, then aged 35, was appointed the company’s CEO. In July 2014, the parliament amended the law to allow Western investors to take part in modernising the Ukrainian system of gas transit pipelines. However, specific reform-related actions aimed at changing the status quo in the gas sector lasted several months. On 9 April 2015, the Ukrainian parliament passed a gas market law[23], which is one of the most significant reforms adopted by the new government so far. The parliament’s vote in favour of the new law (290 votes in favour were cast), which had been written in close cooperation with the Energy Community Secretariat, was in fact forced upon it by the IMF, which saw it as a precondition of granting Ukraine another aid package worth US$17.5 bn.

The main purpose of the law is to implement legal acts in Ukrainian legislation which regulate the EU gas sector (including the Third Energy Package). This, in turn, is intended to create a competitive gas market in Ukraine in all segments of the market. The law sets legal and organisational rules for how the gas market should function, provides for gas market de-monopolisation, offers consumer protection and enables consumers to freely choose their gas supplier. The newly-adopted law reveal the need to break up Naftogaz, which currently combines the function of gas producer with the tasks of transporting, storing and distributing gas. Gas pipelines and underground storage tanks will be separated into independent companies controlled by the state, with access to them guaranteed to all market participants. It will also be necessary to form subsidiaries of Naftogaz which will be entrusted with the extraction and distribution of gas.

As a consequence, several separate gas network operators and gas distribution and storage companies will emerge which will operate on the basis of certificates issued by an independent regulatory office. Operators will be obliged to provide all market participants with access to the gas transmission network. The new gas law is intended to deprive Naftogaz of its current status as a monopolist and to foster competition on the gas market. It is also expected to stimulate the investment activity which is necessary to modernise the gas sector. The law will also strike at the interests of some oligarchs who control around 70% of the regional companies which distribute and sell gas (the so-called oblgazes), because it obligates these companies to pay for access to gas networks (previously, such access was free of charge). At the same time, the law fails to answer the question as to what should be done with the mostly privately-owned oblgazes which manage regional gas networks (which are state-owned entities) and at the same time sell gas to end users, which is against the newly-adopted rules requiring the transport and distribution tasks to be separated.

The law will come into force on 1 October 2015 (and some of its provisions will come into force several months later), but a number of issues related to the new shape of the gas market will have to be regulated in several other laws. The current law also fails to answer a number of important questions, such as the role of Naftogaz after the market becomes de-monopolised, or the planned date of the company's split into several operators. It should be assumed that it will take a long time to adopt further laws, and new entities can be expected to enter the market once these new laws are adopted. Currently, work is under way on submitting a draft law to parliament on creating an independent energy market regulator to replace the current National Committee for State Regulation of Energy and Utilities (NKREKP)[26]. According to the draft law, NKREKP is to be replaced with a new, fully independent regulator with a considerably broader scope of competence, which would enable it to carry out investigative activities, initiatives aimed at protecting market competition, and impose fines. The law is expected to be in full compliance with the EU's Directive 2009/72/EC, a part of the Third Energy Package.

Following the adoption of the gas market law, the Ukrainian parliament passed another two laws intended to improve standards in the gas sector. The IMF made the granting of another loan instalment conditional on Ukraine adopting these two laws. On 14 May 2015, the parliament passed a law stabilising the financial standing of Naftogaz. The law expands the scope of legal solutions available to the company to collect its outstanding debts, including from public utility units, heat and power plants and industrial facilities. On 16 June 2015, a law on increasing transparency in the energy sector was passed which obligates extraction companies to publish their financial statements and reports on their business activity. The new law targets mainly state-owned companies such as Ukrnafta and Ukrgazvydobuvanya, and its aim is to introduce the requirement to maintain transparency and to boost the attractiveness of the mining sector in the eyes of investors.

The gas sector reforms carried out so far by Ukraine's post-Revolution government can be viewed as ambivalent. On the one hand, an extremely important law on the gas market has been passed and gas prices for individual customers have seen an increase of around three-fold. On the other hand, it should be noted that the government launched its first real reforms as late as a year after the events of the Euromaidan. Moreover, the adoption of reforms has been de facto forced upon Ukraine by the IMF, which made granting of a rescue loan (without which Ukraine would have defaulted) conditional upon implementing these reforms.

It should also be emphasised that the gas market law adopted in April 2015 is not the end, but just the beginning of reforms of the Ukrainian gas market. On its own, this single, albeit very important legal act will not trigger radical changes in the gas sector; it will have to be supplemented by further laws. Preparing a full set of standards and legal solutions to form the foundations of the new gas market is likely to take several months, if not years. For the time being, Naftogaz has maintained its monopoly in all domestic market segments and the status of the sole importer of gas. The organisational details and the schedule of the planned break-up of the monopolist remain unknown.

Increasing the price of gas for individual customers and for the public sector by around 300% does not mean the end of the marketisation of gas prices. However, this has been an admittedly bold move which all previous governments failed to make, and which the government headed by Arseniy Yatsenyuk had also tried to postpone. The memorandum signed with the IMF provides for another two price increases (the last one is to be introduced in April 2017), which is intended to end the years-long process of subsidising gas prices. At the same time, the decision involving such a drastic price increase will impact consumers starting from the upcoming autumn heating season, and will likely trigger social discontent. The price increase is particularly important in the context of the pauperisation of society caused by the ongoing economic crisis. The government's decision to introduce the price increase has been criticised not only by the opposition but also by some of the coalition parties.

It remains an open question whether the current government will have the necessary political will to continue gas sector reforms. For this to be possible, further laws will need to be prepared and voted on by the Ukrainian parliament. Furthermore, it should be expected that some of the beneficiaries of the old system will oppose the reform, fearing that it might undermine their major interests, and will attempt to block it. Without a consistent and full implementation of the gas sector reform, which should include increasing the energy efficiency of the economy and of the public sector, it will be impossible to improve the condition of Ukraine's public finances, reduce its budget deficit, improve its current account, reduce income from corruption and improve standards in Ukrainian politics. In this context, the gas sector reform can be considered 'the mother of all reforms', and its successful implementation will determine the chances for success of the entire process of transformation currently under way in Ukraine.

Gazprom boosts defense of EU market share with first auction

Bloomberg, *07.09.2015*

Gazprom PJSC will this week hold auctions to sell gas in Europe as the world's biggest exporter of the fuel takes unprecedented steps to defend its market share in the region. The Moscow-based company started the sales at 10 a.m. Moscow time and will hold three auctions for delivery into Germany, complementing its decades-long practice of long-term contracts mainly linked to oil.

Gazprom is seeking to boost supplies to Europe and Turkey by 7 percent to make up for an anticipated 30 percent drop in the price it will receive for its fuel, Valery Nemov, a deputy department head at the company's export arm, said.

Gazprom faces falling prices in Europe, its biggest market by revenue, and plunging deliveries to the former Soviet Union after Ukraine stopped imports from Russia in July. While Europe's appetite for the company's fuel rebounded after the oil drop was priced into contracts, competition from sources including liquefied natural gas has intensified amid stagnating demand. "The move represents a fairly historic shift in Gazprom's marketing of gas to Europe," Trevor Sikorski, head of gas, coal and carbon at Energy Aspects Ltd., a London-based consultant, said by e-mail. "It is one of the most high profile interactions Gazprom has had with the concept of putting spare gas into the spot market. There are some good reasons why Gazprom is making this change now."

The Russian state-owned company, which supplies about 30 percent of Europe's gas, will through seek buyers for 3.24 billion cubic meters (114 billion cubic feet) for delivery in the six months, according to documents published on the website of Gazprom Export. The price will be fixed and determined by the auction. Vitol SA, Gunvor Group Ltd., Goldman Sachs Group Inc., Glencore Plc and Novatek Gas & Power are among potential bidders, Elena Burmistrova, head of Gazprom Export, told reporters in St. Petersburg Monday. While the company will deliver the fuel using the Nord Stream pipeline to Germany because it has spare capacity, other delivery points may be possible in future, she said. The auction price will be higher than Gazprom's average price as gas at hubs fluctuated less than the oil-linked rates, Gazprom Deputy Chief Executive Officer Alexander Medvedev said at the briefing.

“The European gas market is changing constantly and, to meet its challenges, we want to test a new form of trading gas and see what benefits it can bring to seller and buyers,” Medvedev said in a Gazprom Export statement. Gazprom has long defended long-term contracts with an oil-linked price formula, saying it helped it invest in fields and pipelines and offered security of supply to buyers. It has since 2010 offered concessions to customers, via talks or arbitration, and lowered contract prices or included some linkage to spot markets after customers including Eni SpA and EON AG argued the 2008 recession caused a fuel surplus and made spot gas more competitive.

The auction is “an additional instrument of gas sales in the European market,” Nemov said. Gazprom said that 39 bidders pre-qualified for the auction. The results of the auction are expected in four days, Medvedev said. Yet there is no lack of gas in Europe this winter. Surplus LNG cargoes are being diverted from Asia to Europe and the gas influx as LNG production expands will put further pressure on European prices, according to analysts from UBS AG to Sanford C Bernstein Ltd. An extra 3 billion cubic meters of gas in the winter is “moderately bearish,” Sikorski said. U.K. gas for the six months through March fell last month to its lowest level since the contract began trading in July 2010, ICE Futures Europe data show. “The auction will bring additional volumes to northwest Europe, and as the market is already well supplied and most market participants should have hedged most parts of their physical short position for the winter, it does have a negative effect on the market price,” said Andreas Holzer, a senior portfolio manager at Montana Energie-Handel GmbH, a German energy trader. “Timing of the auction is likely not the best to receive high revenues, auctioning volumes in the second quarter would have been more successful.”

The timing of the auction coincides with Gazprom’s preparation to respond to the European Commission’s anti-trust complaints of unfair pricing policies in some countries in Eastern Europe. Gazprom will send the response, and there is no need to use the auction as an argument, Medvedev said. Using a market-based trade instrument “will certainly be seen as moving in the right direction,” Sikorski said. Gazprom’s other obstacle in Europe is its inability to use the Opal onshore pipeline that connects to Nord Stream in full because the EU rules demand third-party access. Using the auction “could probably be a message for the European Commission” about the pipeline access, according to Simon Pirani, a senior research fellow at the Oxford Institute for Energy Studies. “The most interesting feature will be how Gazprom follows this up in terms of frequency of auctions and the size of future volumes,” Sikorski said. “Another sale of 3 bcm for summer 16 would show that Gazprom is responding to the pressures detailed above and will, at least at the margins, compete for market share.”

Russia's Sberbank says to decide on Yamal LNG financing terms by month-end

Reuters, *08.09.2015*

Russia's Sberbank, one of the lenders for the Novatek-led Yamal LNG project, will take a decision about the deal's terms before the end of this month, Maxim Poletayev, first deputy chief executive with the state-controlled bank, told Reuters.

Novatek, Russia's largest independent natural gas producer, has been hit by Western sanctions imposed over Moscow's role in the Ukraine crisis. It had expected to get up to $20 billion from Chinese banks by the end of 2014, but later said that the deal had been delayed and the amount cut to 'over $10 billion.' The project, on Russia's remote Yamal peninsula, is set to produce total of 16.5 million tonnes of LNG per year.

The first stage, which will produce 5.5 million tonnes annually, should start operations in 2017. Total investment required for the project is $27 billion. "Everything is on schedule," Poletayev said. "Sberbank has signed specific obligations and will decide by September-end under which terms it will take part in a deal, how much money it will provide, and under which covenants." Novatek signed a framework agreement last week with China's Silk Road Fund to sell a 9.9 percent stake in Yamal LNG. The deal was announced during a visit by President Vladimir Putin to Beijing. The visit did not yield a deal to secure loans.

Commenting on the deal, the head of China's Silk Road Fund, Wang Yanzhi, said in a statement at the time that he hoped the fund's entry into Yamal LNG would "facilitate an expedited closing of the project's general external financing." When asked last week why Putin's visit did not result in financial agreements for Yamal LNG, Alexander Novak, Russia's energy minister, said: "As far as I know, there are no problems ... Now there are discussions about technical questions on providing cash." Leonid Mikhelson, chief executive of Novatek and one of its co-owners, said in June that Sberbank and Gazprombank had reached an initial agreement to provide the project with $3 billion and $1 billion respectively. Novatek, whose access to Western funds has been limited due to sanctions, declined to comment. Banking sources told Reuters earlier that Chinese lenders had become more cautious about disbursing funds because of sanctions.

A source close to Yamal said that paperwork on "a package of documents" was ongoing at the moment. "This is a package deal involving a number of financial institutions - they should join in one go," he said. The source declined to elaborate why the deadline was not met again and did not provide a new schedule for Chinese financing, saying only it would be above $10 billion but less than $20 billion.

Poletayev played down worries that Chinese banks may have changed their minds. “China did not refuse. In my opinion, they are just waiting for a first step from Russian banks. They (the Chinese) will definitely take part in the project.” Russian news agency Interfax reported in June that the consortium for Yamal LNG financing consisted of Sberbank, Gazprombank, Russian state development bank VEB, China Development Bank and China Eximbank. Russian state development bank VEB pledged $3 billion in banking guarantees to Novatek to back Yamal LNG. . Novatek has also secured 150 billion roubles ($2.20 billion) from Russia’s rainy-day National Wealth Fund. Apart from The Silk Road Fund, others Yamal LNG shareholders include Novatek, which has a controlling stake, and France’s Total and Chinese CNPC, with a 20 percent each.

Russia to face great competition on European gas market

The Hill, *31.08.2015*

Competition is intensifying in the European gas market, Vyacheslav Kulagin, the director of the Center for World Energy Markets Studies, the Energy Research Institute, the Russian Academy of Sciences, said in an exclusive interview with Trend. “This can cause certain problems for Gazprom,” he said. The expert recalled that the supply of Russian gas to Europe slightly declined in 2014.

“However, more gas will be supplied to Europe this year than in 2014,” he said. “In the next five years, the gas supply volumes from Russia will be stable.” “There is no reason for significant growth,” he said.

“But there is no reason for the sharp decrease either. The possibilities of replacing the Russian gas are rather limited. And even if this occurs, the price of purchased gas will increase. And this is unfavorable for our European partners. Therefore, we expect the stabilization of the supply in the market.” “Azerbaijani gas will find its niche in the European market,” he said. “However, given that its volumes are not so big, the Azerbaijani gas will be unable to oust Russia’s gas from the European market.” “As for the possibility of gas supplies from Turkmenistan and Iran to Europe, this remains a big question in the short and medium term,” he said. “There are two key issues related to Turkmen gas supply,” said the expert, adding that the first issue is related to the way of supply and the second is about the availability of free gas in Turkmenistan. The unresolved status of the Caspian Sea hinders the construction of Trans-Caspian gas pipeline which could supply gas from Turkmenistan to Azerbaijan, wherefrom it could be further transported via the Southern Gas Corridor’s infrastructure that is under construction, according to Kulagin. He added that in this situation, it will be impossible to construct the pipeline without agreement of all the parties.

Turkmenistan has already signed agreements on very serious volumes of gas supply, especially, towards the east, said the expert, adding that it is necessary to fulfill these agreements. “Therefore, many doubt that there will be free gas volumes to supply to Europe,” said Kulagin. As for Iran, the expert said that this country has serious potential, but it will be able to play a very serious role in the gas market only after 2025. However, Iran has no technologies to implement all the projects for gas production and given the country’s investment climate, the possibility of attracting foreign investors to this country remains in question, according to Kulagin. “We don’t see prospects for delivering serious volumes of Iranian gas to the European market in the coming 10 years,” said the expert. Meanwhile, considerable volumes of US liquefied natural gas can be supplied to the European market in coming years, he said, adding that to what extent it will be able to compete with Russian gas and in which countries, depends on its price.

Furthermore, Kulagin said Europe’s gas demand would stabilize in the near future. “First, it is expected that the current price imbalance between gas and coal will be offset,” said the expert. “This is already being observed now,” said the expert, adding that gas will take better positions in Europe’s electricity market than it had before. Kulagin also said gas producers have high hopes for actions to limit emissions at large power plants, which will lead to an increase in gas demand. “Meanwhile, domestic gas production in Europe will continue to shrink, although at a considerably slower pace than in the previous 10-15 years,” said the expert. “At the same time, given the growing competition in the European gas market and the appearance of new players there, Europe is unlikely to need extra Russian gas.”

Therefore, Kulagin said, if the gas transit through Ukraine doesn’t stop in 2019, as planned earlier, there won’t be a need to construct new facilities, such as the ‘Turkish Stream’ gas pipeline. “However, if there is a risk related to transit, deliveries on other routes will be needed, since quite large volumes of gas are being delivered through Ukraine,” said the expert. Kulagin added that currently there is no obvious answer, whether it is possible to load the ‘Turkish Stream’ by 66 billion cubic meters - as it was originally planned –if the pipeline is constructed. He said that here the matter rests not even in Ukraine, but in that so far Europe has no an infrastructure that would deliver the gas from the EU’s border deeper into the region. “For this reason, Gazprom decided that only one branch of the Turkish Stream, rather than four planned branches, will be built in the initial phase,” the expert said. It is basically designed for Turkish consumption, rather than supplies to Europe. The next branches will depend on the demand and infrastructure in Europe.

“The remaining three branches is the issue of further negotiations and decisions to be taken given the analysis of the market and the agreements with the European countries that will be or will not be achieved,” Kulagin said. The expert said that the construction of one branch is not very profitable from an economic point of view, because more lowers the cost per unit of delivered product. “That means, if the project was considered from scratch, there would be a big question whether it is worth building a single branch,” said Kulagin. “Now, however, in a situation where the infrastructure on the Russian territory has already been created, pipes bought, a lot of work done and a lot of money spent, construction of at least one branch can be a definite solution for the situation, which will allow not to lose these investment funds.” “So it is most likely that one branch will still be built, and the decision regarding the remaining branches will be made depending on the situation in the coming years,” he said.

Regarding the possibility of abandoning the Russian gas transit through Ukraine, it is unlikely to happen by 2019, despite the desire of the Russian side, according to the expert. He said that it will be possible to give up gas transit through Ukraine by 2019 only given a decrease in the supply of Russian gas to Europe as a result of low demand for gas in the region and establishing of alternative sources of supply. “In this situation, it will be possible to nullify the capacities of Ukrainian pipes if all the other capacities are fully loaded,” said Kulagin. “But if the demand is at the expected normal level, Russia has no chance to refuse the transit through Ukraine without additional transportation capacities.” “The most probable situation is when by 2019 there will be hardly any substituent capacities left, and all the existing ones will be fully loaded,” Kulagin said. “The need for Ukrainian transit will remain, but it will be quite little. It will be 5-6 times less than the volumes observed just a few years ago and today. Ukrainian pipes will be mostly empty.”

Gazprom’s new deals - trick or treat?

Sputnik News, *05.09.2015*

Two European business transactions have ground-breaking significance for its political unity in the face of the ongoing crisis in Ukraine. Gazprom has signed a shareholders’ agreement on the Nord Stream 2 project together with European Engie, Shell, OMV, E.ON and BASF/Wintershall.

Shell, OMV, E.ON and Wintershall were to receive 10 percent of the shares in the project. Engie could receive additional 9 percent. Russian company would retain a controlling interest in the amount of 51 percent of shares. The signing of the shareholders’ agreement is more than the already existing memorandum on an agreement between said companies.

In contrast to the memorandum, which is an act of will, the agreement is a form of commitment, which actually commences the cooperation of companies with the implementation of the project.The decision of the European companies to initiate the expansion of the Nord Stream means the pressure put on the European Commission will increase. The European Commission refuses to accept the release of the overground branches of the Nord Stream from the regulation of the third energy package. The first two threads of Nord Stream with a total capacity of 55 bn m3 per year are partly unused as Gazprom has the permission to exclusively use up to 50 percent of this power. The construction of the third and fourth thread in the Nord Stream 2 project would indicate that this capacity would be doubled, and the shareholders would even more need the approval from the Commission for the release.

Therefore, this is a vote of no confidence against the Ukrainian policy of the European Commission. Brussels insists on the maintenance of the gas transit through the territory of Ukraine in order to stabilise its budget and the economic relations with Russia, which continues its aggression in Donbas and occupies Crimea. Talks on the resumption of supplies from Gazprom necessary for the maintenance of transit in winter, when the right amount of raw material must rest in the storage facilities are announced for the end of September.

Another tragic news piece is the information that Russian Gazprom and German BASF have agreed to end an exchange of assets, which the German company has blocked due to the situation in Ukraine. In a BASF press release one can read that the companies are to complete the transaction by the end of 2015. It has been agreed and approved by the European Commission in December 2013, but its implementation did not take place in 2014 for political reasons. Under the agreement, Wintershall – a company that belongs to BASF– passes the gas distribution and storage of this material in Germany to Gazprom. Gazprom acquires 50% of shares in another company, Wingas, under the same agreement. This company runs gas trade having 20% of share in the German gas market. In addition to the transmission network, Gazprom takes over (as the 100% shareholder and the owner) large gas storage facilities which have been owned by Wintershall so far, including the Europe's largest storage facility – Rehden near Bremen, with a capacity of 4.4 billion m3, which is more or less the amount of the national production of gas in Poland. This constitutes 20% of the entire German gas reserve. Additionally, the Russians will also have shares in two smaller storage facilities: in Jemgum in Lower Saxony and in Haidach in Austria. This storage facility has a capacity of 2.6 billion m3.

In 2014 I wrote that they are gas Mistrals. These assets give Russia a strategic effect as significant as the blocked purchase of the French helicopters. Thanks to the assets in Germany, Gazprom will be able to continue the plan to replace the gas transit through Ukraine with increasing supplies using the German network. This will be an opportunity to deepen the fruitful cooperation in the gas sector between Germany and Russia, undermine the EU policy in this field and the position of Kiev before the upcoming talks of EC-Ukraine-Russia. Poland and other transit countries, whose interests are undermined by the Nord Stream and the redirection of the gas supply from Russia on the German trail must use all available tools to block the expansion of the Nord Stream 2 in Brussels. The European Commission should also be supported in its efforts to stabilize the supplies through Ukraine. If a German-Russian plan succeeds, our country will also lose its transit position, and hence will have a weaker position in the negotiations of a new agreement on gas supplies from Gazprom before 2022.

Blocking the described system is also crucial for the preservation of the energy solidarity in the European Union and the fulfilment of the provisions of the EU documents, which include the declaration of will of independence of the continent from Russian hydrocarbons. Nord Stream 2 and the exchange of the assets of BASF-Gazprom are moving in the opposite direction. They allow Gazprom for a stronger entry onto the European market and weakening the energy security of some of the EU countries. It is also a blow to the Polish initiative of the Energy Union, which aimed at communitising the policy in the sector. That is why Poland should express clear opposition to such transaction and proceed to gather allies to block the Russian-German plan. News about auctions of Gazprom's gas is also tricky. It could be a treat - Russians agree to follow the EU rules and sell gas partly on spot markets. But it also can be a trick. Using auctions to fill the rest of OPAL's capacity can serve Gazprom's purpose of acquiring monopoly on it and increase transit through Germany using Nord Stream, thus hitting Ukraine and Poland interests as a present transit states and increasing the volumes imported from Russia. It would undermine EC policy of stabilizing Ukraine's gas system and decreasing dependence on Russia as the main supplier. Is this how true Energy Union should look like?

Poland slams Russia’s second Baltic gas pipeline to Germany

AFP, *08.09.2015*

Poland’s conservative president on Tuesday slammed a deal between Russia’s Gazprom energy giant and several leading Western firms to build a second gas pipeline under the Baltic Sea, saying it ignores Polish interests.

“Considering that an agreement was concluded on building Nord Stream-2, which completely ignores Polish interests, one must seriously question unity” in the 28-member EU , President Duda told delegates, dubbed Central Europe’s “Davos”. Gazprom agreed with Anglo-Dutch Shell, E.ON and OMV to build the new gas pipeline to Germany, bypassing conflict-torn Ukraine but also EU neighbour Poland.

The route under the Baltic Sea from Russia would have a capacity of 55 billion cubic metres per year and would double the flow of the existing Nord Stream pipeline currently linking the two countries. No timeframe was given for the deal that will boost Germany as a distribution hub for Russian gas in Western Europe but undermines Poland’s role as a transit state. Polish politicians from across the political spectrum have long opposed Nord Stream, claiming it undermines Poland’s energy security stemming from its role as a transit country for Russian gas via the Yamal-Europe pipeline.

As Europe sours on Gazprom, competitors jump in

Natural Gas Europe, *09.09.2015*

While the EU has long been concerned about its over reliance on natural gas purchases from Russian state monopoly Gazprom, deteriorating Western-Russian relations following Russia’s March 2014 annexation of Crimea have given EU efforts an added urgency over concerns that Russia could use Gazprom sales as retaliation for Western imposed sanctions.

Gazprom now supplies more than one-third of Europe’s oil and slightly less than 30 percent of its natural gas and in Gazprom’s interminable wrangles with Ukraine over gas deliveries and transit, the EU sees unsettling precedents.

U.S. and EU sanctions have been countered by Russian sanctions, causing economic disruption all around. According to the EU EUROSTAT agency, more than half of Russia's overall exports go to Europe, and 45 percent of its imports come from Europe. Europe's dependency on Russian gas is more than four decades old and predates the 1991 collapse of the USSR. Between 1970 and 1980 deliveries of Soviet gas to Western Europe increased from 3.4 billion cubic meters (bcm) to 26 bcm. The trade developed despite U.S. opposition partly because West European governments believed gas could be a force for peace, partnership and prosperity and the Soviet Union scrupulously adhered to its contracts, even as the country disintegrated. By 1990, the last year of the USSR's existence, Soviet natural gas exports to Europe had risen to 109 bcm and Western Europe, with 63 bcm of imports, was the largest customer for Soviet gas. The post-Soviet Russian government of President Boris Yeltsin also honored its contracts. In 2014 Gazprom supplied 146.6 bcm of gas to European countries.

The first post-Soviet Caspian nation to propose selling its natural gas to the EU was Azerbaijan. On April 20, 2009, a day after he met with Russian President Dmitrii Medvedev, Azeri President Ilham Aliyev said that he wanted Russia to serve as a transit route for Azerbaijan to begin selling gas to Europe. Medvedev remarked that there was a good chance for their two nations to conclude a gas transit accord, as the previous month Gazprom and the State Oil Company of the Azerbaijan Republic (SOCAR), agreed to start talks on Russia buying Azeri gas with "delivery at the border" as soon as 2010. Five years later Turkmenistan also signaled its interest in supplying the European market – not through Russia, with whom gas sales and transit issues have been rocky for years, but via a new subsea pipeline under the Caspian to take Turkmen gas to Baku, from where it would be piped westwards to Turkey via the projected Trans Anatolian Natural Gas Pipeline (TANAP), and then onwards to Europe. The EU is focused on Turkey as the transit country for both Azeri and Turkmen Caspian gas.

TANAP is intended to transport gas from Azerbaijan's Caspian offshore Shah Deniz field from the Georgian-Turkish border to the Turkey's western borders, from where it will be provided to European customers. TANAP's initial capacity is expected to reach 16 bcm annually, of which 6 bcm will be delivered to Turkey beginning in 2018 and the rest to Europe beginning in 2020. On March 17, 2015, in Turkey's Kars province an official groundbreaking ceremony for the $10-11 billion TANAP project was held, attended by Turkish President Recep Tayyip Erdogan, Azeri President Ilham Aliyev and Georgian President Giorgi Margvelashvili.

Quickening the pace, a trilateral meeting of Ministers of Foreign Affairs Mevlut Cavusoglu of Turkey, Elmar Mammadyarov of Azerbaijan and Rashid Meredov of Turkmenistan was held in Antalya, Turkey. The three ministers discussed projects carried out by their countries in various areas including transport, tourism and sport, regional cooperation, bilateral relations – and energy. Mammadyarov noted that Azerbaijan is situated on regional, energy and transport corridors of global importance, telling his fellow ministers, "This is what opens wide opportunities for mutually beneficial cooperation. Azerbaijan successfully implements regional projects whose foundation was laid by the commissioning of Baku-Tbilisi-Ceyhan oil pipeline. Azerbaijan as the initiator of a number of vital projects in the region connects the most important regions of Eurasia via implementation of the projects of the Southern Gas Corridor, the main lines of which are the TANAP and TAP, the Baku-Tbilisi-Kars railway project and new Baku International Trade Port."

Cavusoglu hailed the trio's trilateral relations, remarking, "Azerbaijan, Turkey and Turkmenistan stand at the center of economic projects carried out in the region. Rapid growth of the trilateral relations contributes to regional development." Meredov drew his audience`s attention to the tasks set by Baku and Ashgabat declarations adopted by Azerbaijan, Turkey and Turkmenistan in May 2014 and in January 2015, saying they accelerated the development of trilateral relations between their nations. As for the EU's Iranian option, the European Commission, the executive arm of the 28-nation EU, in a 2014 policy paper, noted that Europe was seeking new supplies of energy to reduce its dependence on imports from Russia and that countries including Iran could contribute to that goal. The European Commission said in Brussels that it "will explore areas of bilateral cooperation including on energy" with Iran once the Joint Comprehensive Plan of Action (JCPOA) takes effect, adding that at present it's focusing on preparatory work for launching a dialogue on energy with Iran "when the conditions are right."

According to two sources with direct knowledge, the EU is working on a political agreement that would set the stage for future energy deals in Iran, which could be signed as soon as November. The agreement would cover five areas: oil and natural gas contracts, renewable and energy efficiency, power markets, energy infrastructure and investing directly in Iran's energy industry. While the EU is undoubtedly pleased about its growing options, none of them would come online for several years, leaving Brussels at risk from Russian countermeasures. If the EU continues to raise the level of rhetoric, then the EU could face not one, but two harsh winters, should Russia decide to retaliate. One diplomatic telltale sign could well be the upcoming Caspian summit, which is intended to resolve issues of seabed and water division between the five nations bordering its shores. If Russia decides to dig in its heels, then a Turkmen-Azerbaijan subsea Caspian natural gas export line could remain on the shelf for years.

Europe's energy companies go back to business with Russia

Natural Gas Europe, *09.09.2015*

It was just like the old days before the European Union imposed sanctions on Russia in 2014. At the Eastern Economic Forum in Vladivostok, Gazprom clinched three major deals with some of Europe's biggest energy companies.

One of the most important was the revival of a lucrative asset swap between the Russian energy giant and Wintershall, the energy division of BASF, a German chemical company. BASF had abandoned that swap arrangement in December 2014 because of the geopolitical consequences of Russia's invasion of eastern Ukraine and its annexation of Crimea.

The asset swap and other deals signed in Vladivostok show how German as well as Austrian energy companies are loath to quit Russia. They also show how Gazprom wants to tie Europe’s lucrative gas market more closely to Russia. In 2013, Russia supplied the EU’s 28 countries with 30 percent of their gas needs.But more importantly, the deals confirm how Russia is determined to end Ukraine’s role as the major transit route for Russian gas to Europe. Half of the Russian gas imported by Europe crosses Ukraine.

Under the terms of the deal between BASF and Gazprom, BASF’s subsidiary Wintershall will obtain a stake of 25 percent plus one share in the Urengoy natural gas fields in Siberia. Both firms will develop the fields. In return, Wintershall will transfer to Gazprom its jointly owned gas storage and trading business in Germany as well as a stake in its business in Austria. Through the asset swap, Gazprom will also receive a 50 percent stake in Wintershall’s exploration and production of oil and gas in the North Sea. These activities amounted to sales of over €12 billion in 2014, according to BASF. The second deal agreed to in Vladivostok involves Gazprom and a European consortium building a second Nord Stream pipeline under the Baltic Sea. This will enable Russia to send more of its gas directly to Germany, bypassing Ukraine.

The consortium consists of BASF, German energy company E.ON, French electricity company Engie, Austrian oil and gas firm OMV, and Royal Dutch Shell. Gazprom will own a 51 percent share of a new company called New European Pipeline AG, which will develop the project. The other partners will have a 10 percent stake, except for Engie, which will own 9 percent.

“The fact that the global energy majors participate in the project bespeaks its significance for securing reliable gas supply to European consumers,” stated Alexey Miller, chairman of the Gazprom Management Committee. Tell that to Poland and the Baltic states—and Ukraine. They had criticized the first Nord Stream pipeline, which was agreed to under the then German chancellor Gerhard Schröder in 2005. At the time, Warsaw argued that the deal increased Europe’s dependence on Russian energy. Since then, however, Europe has been diversifying its energy supplies, spurred by the 2009 Ukraine gas crisis, which disrupted supplies to Europe because of a dispute between Russia and Ukraine over energy prices.

Also, through its Third Energy Package, the European Commission is introducing more competition in the energy sector by breaking the hold any one company can have over the production, distribution, and trading of gas. That is one of the main reasons why in December 2014 Russia pulled out of the South Stream project, which was to transport gas across the Black Sea to Southeastern Europe. Under the terms of the commission package, Russia would have had to open up the gas pipeline to competition. The third deal reached in Vladivostok involves OMV’s participation in the Urengoy oil and gas fields. When the deal is concluded, OMV will acquire a 24.8 percent stake in the project in exchange for Gazprom obtaining some of the assets of OMV. “This agreement is another step towards cooperation along the entire value chain with Gazprom,” said Rainer Seele, chief executive officer of OMV. “We are importing gas from Russia for our European customers. We are investing together into the security of supply realizing the Nord Stream 2 project and we are now extending our trustful partnership towards the production of natural gas in Siberia,” he added. Together, these deals mean that Europe’s big energy companies want to return to business as usual with Russia, despite the continuing conflict in Ukraine and the EU’s continuing sanctions on Russia.

But Russia too has its reasons for forging ahead with such deals. It needs the technology. It needs Europe's reliable markets. And does it really want to depend on China for its gas exports and its trade? So even though Europe is diversifying its energy sources and the European Commission is insisting that Gazprom play by the EU's competition rules, sanctions or not, Europe is too lucrative for Russia to ignore. So much for the nationalist rhetoric to the contrary from the Kremlin. And sanctions or not, Russia's underdeveloped gas fields are too lucrative for Europe's energy companies to ignore.

Tony Bosworth: We're not 'monumental hypocrites' – opposition to fracking is well-founded

The Yorkshire Post, *06.09.2015*

Sir Bernard Ingham's pro-fracking diatribe in The Yorkshire Post last month was outspoken and entertaining. But it –is also utterly wrong.

The overriding impression is of someone who is simply out of touch. Opposition to the controversial process isn't from a "ragbag of so-called environmentalists" and "a bunch of monumental hypocrites" as Sir Bernard claims, it's from local people, many of whom have never campaigned before. This opposition is springing up wherever fracking is proposed, and it is well-founded. People in Ryedale and elsewhere are concerned about the risks of fracking to their health.

After a three-year study, New York State banned fracking late last year because of health concerns. The State Health Commissioner, Dr Howard Zucker, commented: "Would I let my child play in a school field nearby? After looking at the plethora of reports, my answer would be no." It's not "hypocritical" to be concerned about the impact of fracking on rural areas and rural businesses. A report for the Department of the Environment, Food & Rural Affairs (Defra) that the Government tried to keep quiet but was eventually forced to release, concluded that "shale gas development may transform a previously pristine and quiet natural region, bringing increased industrialisation" and "rural community businesses … may suffer losses from this change such as agriculture, tourism, organic farming, hunting, fishing, and outdoor recreation".

Nor does it make you "aesthetically dead" if you are concerned about the impact on the value of your home. The Defra report showed that house prices near drilling sites could fall by up to seven per cent and that insurance costs for people living up to five miles away could increase because of the risk of explosions.

People are also infuriated at the Government’s underhand attempts to force fracking through, whatever the cost. George Osborne has been revealed to be working with the frackers to help make fracking happen and the Government recently announced plans to fast-track planning applications. And when new licences for exploration were given out a couple of weeks ago, all of the sites were in the North of England. Hardly ‘all in it together’. Sir Bernard seems to have swallowed the claims of the fracking industry and its supporters hook, line and sinker. But so much of this is simply hype. The Prime Minister claims that fracking will cut energy bills. But most experts disagree, including Lord Browne, former chairman of fracking company Cuadrilla, and world-renowned energy economist Lord Sterne, who said Mr Cameron’s claims were baseless. Supporters claim fracking will create a huge number of jobs. But experience from the US, where they have been fracking for a decade or so, shows these claims are often overstated and that the jobs peter out quickly.

Cuadrilla’s fracking test sites, rejected a couple of months ago by Lancashire County Council, would have created just 11 short-term jobs each. Investing in renewable energy and energy saving creates three times as many jobs for the same investment. The industry paints threatening pictures of the lights going out or President Putin holding us to ransom over gas supplies and says we need to get fracking to keep our energy supplies secure. But even if we did get fracking, Government forecasts show that our gas imports will be about the same in 2030 as they are now. Saving energy and developing renewables could cut gas imports by up to a third by 2030. But the key reason to oppose fracking is climate change. Global fossil fuel reserves are already four times as much as we can afford to burn if we want to avoid the worst impacts of catastrophic climate change. We have to get off fossil fuels as quickly as possible, so causing disruption and investing billions of pounds trying to find more is crazy. Sir Bernard’s loathing for onshore wind may be shared by some Tory backbenchers, but not by the population at large.

The Government’s own opinion polls repeatedly show huge support for onshore wind. And the great majority of people would prefer a wind turbine near their home rather than a fracking rig. Fracking isn’t the answer to the UK’s energy problems. Keeping shale gas and oil in the ground, and developing an energy system based around energy saving and renewables, would bring a multiple win for the UK: Better for peoples’ health; better for their local area and communities, better for energy security, better for energy bills, better for jobs, better for the economy and better for the climate. That’s what local people in Ryedale and across the UK are fighting for. Tony Bosworth is an energy campaigner with Friends of the Earth.

Fracking: Think again, campaigner urges environmentalists

BBC, *10.09.2015*

Environmentalists should keep cool heads over fracking, says Friends of the Earth's former climate campaigner. Bryony Worthington - now Labour shadow energy minister - says fracking will create less CO2 than compressing gas in Qatar and shipping it to Britain.

She insists shale gas should only be developed if its emissions are captured underground. The current FoE position is more fossil fuel exploitation will further destabilise the climate. Nonetheless, Baroness Worthington's intervention may prove significant. She is a climate and energy analyst, one of the architects of Climate Change Act.

There has been exploratory drilling at sites in the UK, such as in the village of Balcombe, West Sussex "We have to be realistic," she told BBC News. "We are going to be using gas for a long time because of the huge role it plays for heating homes and for industry. "The important thing is to minimize the carbon emissions from gas. That means if we can get our own fracked gas, it's better to use that than importing gas that's been compressed at great energy cost somewhere else."

She believes NGOs (green groups) have been opportunistic in gathering support for green causes by taking an absolute position on shale gas. "We have the mother of all challenges getting emissions of greenhouse gases out of our energy system - environmentalists should not be adopting a priori objections to technologies but appraising them with a cool head," she argued. Her former colleague, Friends of the Earth's director Craig Bennett, replied: "Fracking won't help us tackle climate change. Even people in the industry agree that shale gas wouldn't make any big difference to our energy sector until the mid-to-late 2020s, which is exactly when the UK needs to start getting out of gas, wherever it comes from.

"Building a whole new gas infrastructure will keep us addicted to expensive fossil fuels for decades to come, just when other European countries will be benefiting from much cheaper renewables." Both Baroness Worthington and Mr Bennett agreed on the need to speed the development of carbon capture and storage (CCS), the process in which CO2 emissions are stripped out of power station exhausts and forced into rocks underground. The Labour peer is urging the government to consider whether firms bringing fossil fuels into the UK should be obliged to take responsibility for capturing the resulting CO2 emissions and burying them. This would re-frame the CO2 issue by treating CO2 as a waste product like any other, to be disposed of by the firm that used the fossil fuel. She concedes that emissions from mobile sources like transport cannot be captured, but says oil importers could pay for the storage of equivalent amounts of carbon emissions in developing countries. She said: "The UK has great potential to lead Europe on the development of CCS. But we need to consider how best to fund and incentivise it.

"The idea of requiring oil and gas extractors and importers to play their part is certainly worthy of exploration, especially done in a way that helps harness market forces to find the least cost solutions." The Conservative peer Matt Ridley is offering his qualified support, as injecting CO2 into North Sea oil fields would enhance recovery of hard-to-get oil. He told the BBC: "A mechanism for supporting CCS without hitting electricity prices further is worth considering to give the North Sea a new lease of life. "Given that fossil fuels are being hit with ever higher taxes, such as the UK's unilateral carbon price floor, perhaps it makes sense to replace that with a requirement that fossil fuel producers and importers divert funds to CCS projects." However, Craig Bennett said: "Betting everything on carbon capture and storage is highly risky. There has been a billion-quid taxpayer subsidy on the table for CCS for a decade and yet it's still not happening. It's increasingly looking like a pipe dream." The government strongly supports fracking. The Green Party opposes it. The Lib Dems support the technology, with tight environmental conditions. They also support CCS. Labour has been cautiously in favour of fracking, although the front-runner for the leadership, Jeremy Corbyn, is anti-fracking.

Eustream's Topolanek: Europe loses with Nord Stream II

Natural Gas Europe, *10.09.2015*

Former Czech PM Topolanek says that the signing of a memorandum of understanding towards building a second line of the natural gas pipeline Nord Stream is another threat that Europe now has to deal with, something which could potentially scuttle the North-South Gas Corridor project, which would connect European gas supply sources from the Baltic, Adriatic, Black Seas to the rest of Europe.

With underlying goal a competing gas infrastructure project called "Eastring, " Mr. Topolanek, who sits on the board of Slovak transmission system operator Eustream, made provocative remarks at Polish Economic Forum in Krynica.

Recalling his role as President of the European Council that tackled the gas shut-off through Ukraine in 2009, he said that for Central and South-east Europe the North-South Gas Corridor must be, "fully physical, geopolitical and economic alternative and potential substitute to Russian supply, to Russian sources of gas. "In the whole eastern sphere, from Poland to Bulgaria and Greece to Turkey, it is necessary to decrease our energy dependence. This must be said very clearly." The North-South Gas Corridor, he said, must have a mutual general agreement among European countries as a European project of common interest – any other approach would make it impossible to realize such a project that needs both financial and political support. He opined, "The main objective to fulfill are the basic goals of the European Energy Union."

However, because the North-South Corridor is only on paper, Mr. Topolanek said that it is in jeopardy because of the MOU recently signed between Gazprom and Royal Dutch Shell PLC, Germany's E.On SE and Austria's OMV AG to build a second line of the Nord Stream pipeline, doubling its 55 bcm/year capacity. According to him, this means that European money and funds should not go towards small interconnector projects that served singular, national interests of member states, although cross border interconnectors may provide the first taste of diversification for some countries. He said he believes such funds should only go towards multinational projects. "The North-South Corridor must be able to transport big volumes of gas in both directions, via reverse flow, to increase energy security," he said.

Mr. Topolanek continued, "If we accept the enlargement of Nord Stream as the best solution we will be losers in this geopolitical game." Harking back to the 2009 gas crisis, he added that he is afraid Europe may be on course to repeat the same mistake repeatedly. The Eastring project, he offered, which involves refurbishment and development of existing gas infrastructure, is a potential solution to the problem.

Wintershall awards rig contract for Maria field to Odfjell drilling

Natural Gas Europe, *07.09.2015*

Wintershall awarded a $175 million rig contract for Maria Field to Odfjell Drilling. The contract for the Deepsea Stavanger semi-submersible rig has been assigned in alignment with the other Maria license partners, Petoro and Centrica.

"In a difficult market environment, Wintershall is pushing ahead with our first operated development. Maria is a major subsea development on the Norwegian Continental Shelf and this is major rig contract signed in 2015. With the procurement of the Deepsea Stavanger we demonstrating that we are still prepared to invest in this core region even in a difficult oil price environment," Hugo Dijkgraaf, commented.

Under the terms of the contract, the Deepsea Stavanger unit will drill six wells on the Maria Field starting from April 2017. In addition, the contract has options for additional wells. Odfjell is expected to drill and complete three production wells in each of Maria's two subsea templates located at a depth of around 300 metres on the Halten Terrace in the Norwegian Sea. The whole region is suffering low oil prices. Aker Solutions notified its employees that it will reduce the workforce capacity in its Norwegian subsea business, explaining that the decision has to do with a continued market slowdown. The UK's Oil & Gas Authority wrote in its Six Months On update that it 'is working with companies to encourage the retention of training and development programmes,' underlining the importance of companies' investments in training and developing people.

It also stressed that it is vital to protect critical infrastructure to avoid a 'domino effect' that 'could lead to the premature decommissioning of critical infrastructure, with the potential to shut down whole areas of the UKCS, stranding valuable resources.' This is particularly important as the British population continues being adverse to shale gas. A recent report published by Community Energy Coalition did indeed find that shale gas is the least preferred method of energy generation, with just 2% of public support. Statoil wrote on Twitter that it 'continues Mariner jacket installation on the UKCS.'

Riled locals fight output from Europe's largest gas field

Bloomberg, *10.09.2015*

A Dutch court heard arguments that production from Europe's largest natural gas field should be suspended because of earthquakes linked to extraction.

The Netherlands has progressively cut amount of gas won from Groningen in the north amid protests over the tremors, the biggest of which measured 3.6 on the Richter scale in 2012, with the Economy Ministry slashing this year's output cap by 29 percent. The Administrative Jurisdiction Division of the Council of State heard appeals from about 40 local political parties, environmental organizations, individuals against production from area in packed courtroom.

It is expected to make a final ruling in October or November. "The majority of the homes aren't built to survive a big earthquake," Jewan de Goede, a representative for several local groups, said at the hearing. "Security of supply stands above safety of the people." Further cuts in output from Groningen would limit options for gas buyers in the Netherlands, Germany, Belgium and France, which built their networks to use the low-calorific fuel the field produces and don't yet have the capacity to convert enough richer gas from nations including Russia. It would also be a blow to the Netherlands, which expects gas sales of 9.1 billion euros ($10 billion) this year, more than 60 percent of which comes from Groningen.

The court in April suspended production from one cluster of the field in an accelerated motion on the case, after which Economy Minister Henk Kamp in June lowered the 2015 cap by 29 percent to 30 billion cubic meters (1 trillion cubic feet). Hans Besselink, representing the Dutch Ministry of Economic Affairs, said it would be unwise to cut production further. "For the period we're talking about, an acceptable situation has been reached and an immediate cut, or a further cut, is not needed and not possible," he said Thursday. "The seismic threat won't be gone immediately and low-calorific gas is badly needed."

Nette Kruzenga, representing political party Groningen Centraal, disagreed, arguing that gas production needs to be “halted with immediate effect” because of the uncertainty about its safety. It’s unlikely the court case would have an impact on gas prices in the near term, Jonathan Stern, chairman of the Oxford Institute for Energy Studies, said by e-mail Wednesday. “The main impact is not likely to be immediate -- although there may be some winter repercussions, especially if it’s cold -- but longer term, especially post-2020,” he said. “It’s probably not as crucial as we thought unless the outcome is to radically reduce production.” Groningen generated about 10.7 billion euros in revenue last year. The field, operated by a Royal Dutch Shell Plc-Exxon Mobil Corp. joint venture that owns 60 percent of it, accounted for 61 percent of Dutch production in the first half of 2015, down from 66 percent a year earlier. Every cut of 1 billion cubic meters lowers the state’s proceeds by about 200 million euros, Dutch central planning agency CPB said in June. Production from the deposit fell 25 percent from a year earlier to 20.5 billion cubic meters in the year to August. With at least 33 billion cubic meters of low-calorific gas needed to ensure consumers have enough supply to heat their homes and cook, according to the State Supervision of Mines, the Economy Ministry plans to make up lost production by pulling gas out of storage.

1959: Groningen gas field discovered.

1986: First tremors in Groningen province reported.

January 2014: Dutch Economy Ministry limits Groningen gas production to 42.5 billion cubic meters a year in 2014 and 2015 and to 40 billion cubic meters in 2016. In 2013, the field produced 54 billion cubic meters of gas. Also sets aside 1.2 billion euros for home repairs.

December 2014: Dutch Economy Ministry scales back gas extraction from Groningen in 2015 to 39.4 billion cubic meters in response to increased seismic activity in south of field. Opposition groups file a lawsuit to challenge this output level.

February 2015: The government-funded Dutch Safety Board concludes: “The parties concerned failed to act with due care for citizen safety in Groningen with regard to the earthquakes caused by gas extraction.”

April 2015: Dutch Council of State, the country’s highest court, issues a preliminary ruling to immediately halt production around the village of Loppersum, where the most severe earthquakes have taken place, unless absolutely necessary for security of supply.

May 2015: Council of State rejects request by local residents to suspend production from Eemshaven cluster of Groningen field.

June 2015: Dutch Economy Ministry restricts production to 30 billion cubic meters for 2015, and 13.5 billion cubic meters for the second half of 2015, based on advice given by State Supervision of Mines.

September 2015: Council of State hears arguments from both sides in appeal of Economy Ministry’s Groningen gas extraction decision.

October or November 2015: Court expected to announce judgment on appeal.

December 2015: Government plans to make decision on Groningen gas production in 2016.

UKCS decommissioning spend to overtake development spend in 2019, Wood Mackenzie

BBC, *30.08.2015*

Despite the increase of production after 14 years of stark decrease, the UK oil and gas industry might have to face even higher hurdles due to a downward trend in global gas demand, and a simultaneous jump in decommissioning spending. Wood Mackenzie published a report indicating that 140 fields might cease over next five years.

'The report forecasts that while a small number of decommissioning projects have been completed to date, decommissioning activity and spend are forecast to ramp up over the next five years as mature fields are no longer viable in low oil price environment' reads the note.

According to Wood Mackenzie, around 140 UKCS fields will cease over the next five years even if oil prices return to US$85 a barrel ($/bbl). "In 2015 operators have reacted to the low oil price environment by deferring spend and delaying sanction of new developments. We have analysed the impact of the low oil price on decommissioning activity looking at the timing of cessation, retained decommissioning liabilities from previous deals and batch decommissioning" Fiona Legate, UK upstream research analyst for Wood Mackenzie, commented.

But the picture might be even gloomier. Wood Mackenzie said that we may see around 50 fields ceasing even earlier than expected if the oil price returns to a level around US$70/bbl. This is compared with 38 new fields that are expected to be brought onstream in the same period. "17 fields are expected to be sanctioned over the next 5 years. In the current price environment there is a risk projects may be cancelled or delayed. We could start to see a shift away from work in new developments to decommissioning projects" Legate said in report prepared for the Offshore Europe 2015 conference. As a result, decommissioning spend is expected to increase by over 50% by 2019 and 'will overtake development spend in the same year.' Oil & Gas UK's asked the UK Government to further cut taxes on oil and gas activities. Meanwhile, also global trends are less rosy than expected. 'Cedigaz revised and final statistics confirm that 2014 was a second year of moderate natural gas activity worldwide. Marketed natural gas production increased by only 1.3% to 3445 bcm in 2014, on a par with the year 2013, which saw a quite similar trend (+ 1.2%). These results are in contrast with sustained average growth in the order of 2.8% per year recorded in the 2000s' reads a note released by Cedigaz.

China's LNG surplus heads west

BBC, *30.08.2015*

The LNG glut is coming. Everyone's been saying that for years. But how is it actually going to pan out? We already have indications. It seems like some firms over-contracted, and are likely to dump leftovers in the LNG market. By some firms, we mean Chinese firms. We mean more specifically state-controlled oil companies CNOOC, Sinopec, PetroChina.

CNOOC issued a tender to sell two October-November cargoes from the 8.5mn t/yr QCLNG project in Australia. Market participants said CNOOC was also looking to sell more QCLNG cargoes over the next three years, indicating that it has more LNG supply than it needs.

CNOOC has two LNG supply agreements with UK-listed energy firm BG totalling 8.6mn t/yr that BG is expected to fulfil mainly through the QCLNG plant, which it operates. Sinopec could be in bigger trouble. It is contracted to buy 7.6mn t/yr from the 9mn t/yr Australia Pacific LNG (APLNG) plant, which is expected to start up this month. But Sinopec is not expected to absorb all its contracted volumes as it faces construction delays at two new 3mn t/yr import terminals. Its only operational terminal — the 3mn t/yr Qingdao facility — already receives cargoes under a 2mn t/yr contract with the 6.9mn t/yr Papua New Guinea LNG project.

Sinopec's contract is structured on a fob basis and the firm has been allowed to divert some of its cargoes to other terminals in China. Sinopec has negotiated a special arrangement with the APLNG project to sell around 1mn t/yr of LNG on the spot market, market participants said. And PetroChina has a contract for 2mn t/yr from Chevron's much-delayed 15.6mn t/yr Gorgon plant in Western Australia. Can PetroChina reduce pipeline gas imports to take more LNG? "Contractually, we have some flexibility under our pipeline contracts to reduce our offtakes from central Asia. But we have already done this and used up all the flexibility on hand," PetroChina told Argus. Can the world's largest LNG buyer, Japan, soak up the excess? Well, not really as it prefers rich LNG and new Australian supply is lean. And Tokyo is slowly turning the country's nuclear plants back on. South Korea is also well supplied, while India's LNG terminals are underutilised and consumers are switching to oil products following the fall in crude prices. In Brazil, hydropower water levels look higher than in recent years, although they are still historically low. And Argentina has cancelled buy tenders, again citing more hydropower availability. Maybe new importers Egypt, Jordan and Pakistan can absorb a few extra cargoes. But their import capacity is not high enough. Only Europe has enough LNG import infrastructure and a deep enough gas market to take the rest. And with the Angola LNG plant due to restart and the US to begin exports before the end of this year, the excess is only going to grow.

Announcements & Reports

► *The Cost of Price De-Linkages Between European Gas Hubs*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/09/NG-101.pdf

► *Short-Term Energy Outlook*

Source : EIA
Weblink : http://www.eia.gov/forecasts/steo/report/natgas.cfm

► *Natural Gas Weekly Update*

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

► *This Week in Petroleum*

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

► *Drilling Productivity Report*

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

Upcoming Events

► *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

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► *LNG Global Congress*

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

► *The 3rd Azerbaijan and Caspian Sea Oil & Gas Week 2015*

Date : 28 – 29 - 30 September 2015
Place : Baku - Azerbaijan
Website : http://www.azerbaijansummit.com/

► *Shakalin Oil and Gas*

Date : 28 – 30 September 2015
Place : Yuzhno – Sakhalinsk - Russia
Website : http://www.sakhalin-oil-gas.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

► *Gastech*

Date : 27 - 30 October 2015
Place : Singapore
Website : http://www.gastechsingapore.com/

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► *Abu Dhabi International Petroleum Exhibition & Conference*

Date : 09 - 12 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/