Oil & Gas Bulletin

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Mix of Turkish-South Stream gas routes fix for all

AA Energy Terminal, *04.08.2016*

A combination of routes, one string from the Turkish Stream natural gas pipeline to Turkey and one string from the planned but redundant South Stream route to Bulgaria would be an acceptable solution both commercially and politically to supply Russian gas to Europe, Katja Yafimava, a seasoned energy expert, said.

Yafimava, a senior research fellow at the Oxford Institute for Energy Studies Natural Gas Research Program, advised that Russia's Energy Minister Alexander Novak's announcement confirmed that the Turkish Stream natural gas project was back on track.

Speaking to Russian news channel Rossiya 24, Novak said Turkey wants to export 15.7 billion cubic meters of natural gas from Russia via the planned direct route. "The talks with Turkey restarted for the construction of two pipelines for the Turkish Stream natural gas pipeline project. The second pipeline plans to carry natural gas to southeast Europe," Novak said.

Alexey Miller, CEO of Gazprom, announced that Putin had canceled the construction of the South Stream Natural Gas Pipeline in December 2014 with Putin laying the blame on the European Union for axing the project. After terminating the project, Putin announced that Russia's state gas company, Gazprom, would build a natural gas pipeline to Turkey, bypassing Ukraine and naming the project the Turkish Stream.

However, Yafimava asserts that both projects can proceed but with amendments to the Turkish Stream project. "The unchanged element is that Russia is still interested in supplying gas to Turkey, which is a big and important gas market, and will want to build the Turkish Stream to do so.

Turkey is likely to need Russian gas in the 2020 timeframe, and although it might be reluctant to further increase dependence on Russian gas, other realistic alternatives are extremely limited," she said.

Yafimava noted the lack of clarity on whether and on which conditions Russia and Ukraine will be able to agree on a new transit contract via Ukraine, once the existing contract expires at the end of 2019.

"The thing that has changed is that Russia is likely to be far more cautious about Turkey becoming a major transit country for its gas exports to Europe; hence I believe that one string of Turkish Stream is more likely than two but would not rule out the second string. Europe for its part, is facing what appears to be a worsening political relationship with Turkey, and might be wary of Turkey playing a transit role in respect of Russian gas to Europe," she said.

According to Yafimava, Europe therefore might become more open to a South Stream ‘lite’ version, which would run across the Black Sea in parallel to one string of the Turkish Stream but then land in Bulgaria rather than in Turkey, and then further connect to the Interconnector Turkey-Greece-Italy pipeline, (ITGI) thus providing a southern route of Russian gas exports to Europe reducing, but not eliminating their dependence on Ukraine.

“In short, I think one string of the Turkish Stream to Turkey and one string of the South Stream ‘lite’ to Bulgaria/ITGI might be an acceptable solution for all from both commercial and political points of view,” Yafimava stressed. The Turkish Stream project aims to transfer Russian natural gas to Europe via the Black Sea and Turkish soil.

However, a lack of progress in the project was put down to Russia’s non application of the 10.25 percent gas price discount to Turkey’s gas contract with Russia which was previously agreed on. After the Russian jet downing last July, both Turkish and Russian officials issued statements about freezing talks on the Turkish Stream project.

Dr. Tim Boersma, fellow at the Brookings Institution’s Energy Security and Climate Initiative also said that what has arguably changed is that the Turkish president and the Russian president are on speaking terms again. “That generally helps move these projects forward. But how long relations remain good, and whether it will be sufficient to move the project forward, may be a little early to tell,” Boersma noted.

Turkish President Recep Tayyip Erdogan will meet his Russian counterpart Vladimir Putin in St.Petersburg. The meeting will be the first since Russia and Turkey began normalizing relations following the downing of the Russian jet in November last year.

Turkey’s energy role to continue post coup attempt

AA Energy Terminal, *03.08.2016*

Turkey’s role as a key strategic energy actor in its region is expected to continue without much negative impact from the failed coup attempt, experts told Anadolu Agency.

“Turkey’s regional energy role remains a key element of Turkey’s economic dynamism,” said David Merkel, a senior fellow at Dinu Patriciu Eurasia Center of the Washington-based Atlantic Council. “If Turkey returns to stability and has competent officials in energy-related agencies and ministries, I suspect the impact [of the coup attempt] will be minor,” he added. The coup attempt has brought questions to ongoing energy projects which acts as a strategic bridge.

Experts said that Turkey's key position in between these two regions will not be affected by the failed coup attempt. "Turkey's importance for European energy security will not be significantly reduced," Merkel said. "I think Turkey is too critical to European energy security, especially in efforts to reduce dependency on Russia for Europe," he added.

Around 30 percent of Europe's annual natural gas consumption is dependent on Russian supplies. Europe has been trying to lower that dependency through diversification, and Azerbaijan's gas resources in the Shah Deniz field as a major supply source have contributed to this aim.

Turkey's Trans Anatolian Natural Gas Pipeline Project (TANAP) is an integral part of the Southern Gas Corridor that plans to carry Azeri gas via Georgia, Turkey, Greece, and Albania through to Italy. TANAP is planned to become operational in 2018 with an initial capacity to carry 16 billion cubic meters (bcm) of gas. Total capacity is planned to increase to 23 bcm by 2023 and to 31 bcm by 2026.

Volkan Ozdemir, head of the Institute for Energy Markets and Policies (EPPEN) said TANAP will continue as planned, and added that most of its investment comes from Azerbaijan. "Investments in Turkey's energy sector have not come from Europe in recent years. It is mostly foreign investors outside Europe that finance it," he said.

Although Merkel said Turkey's key regional position would help European energy security by lowering its dependence on Russian gas, Ozdemir highlighted the fact that Turkey and Russia's recent attempt at reconciliation after relations soured last November, could indirectly affect Europe.

"If the Turkish Stream gas pipeline project comes back on the agenda, this could have an indirect impact on Europe," Ozdemir said. He added that there are two conditions for the Turkish Stream project being taken off the shelf -- the rapprochement between Turkey and Russia, and the impact of the Nord Stream II pipeline project coming online.

The Nord Stream II project plans to deliver 55 bcm of Russian gas under the Baltic Sea to Germany, and further into France, the U.K., the Netherlands and Denmark. The Turkish Stream, which was initially planned to carry 63 bcm of gas to Europe via Turkey, had its project capacity trimmed down to 31 bcm later on. However, the project was shelved after Russia and Turkey failed to agree on the existing gas price discount which Russia was due to apply on Turkey's gas imports. Turkey's downing of the Russian jet last November, worsened bilateral relations leaving a stalemate in talks on the project between both sides.

"If a decision to build the Nord Stream II is taken, Russia will scrap the Turkish Stream," Ozdemir warned, adding that "relations between Russia and Europe remain uncertain." "I believe, Turkey and Russia will get closer again after the failed coup attempt. And if the two countries can agree on building the Turkish Stream, Russia will be able to have another gas route to Europe through a southern corridor. That is something Europe would not want," he explained.

Ozdemir asserted that relations between Turkey and Europe are uneasy. He added that with a potential Ankara Moscow reconciliation on the agenda, the realization of the Turkish Stream project is more likely than the Nord Stream II. "I think a period has begun that will benefit Turkey, but will be unfavorable for Europe," he concluded.

Turkey, Russia pursue gas pipe dream as EU frets

Reuters, *01.08.2016*

Declarations by Russia and Turkey last week reviving plans for the TurkStream natural gas pipeline linking the two have worried EU diplomats who see it strengthening Moscow's hand - but analysts say the project is more rhetoric than reality.

EU officials fear that TurkStream will be expanded to bypass Ukraine as a transit route for supplies to Europe, increasing dependence on Russian gas export monopoly Gazprom (GAZP.MM) and shutting in alternative supplies from the Caspian region.

"Turkey's new friendship with Russia might become an issue if Russia tries to replace Turkey for Ukraine," a senior EU official said. "It makes sense for Turkey to get cheap gas from Russia, but it will come with strings attached: That is likely to be a problem for us."

However, the entente, almost a year after Turkey's downing of a Russian warplane, remains fragile, analysts say, particularly amid turmoil caused by the failed coup in Turkey. "In times of instability, if you are sane, you don't commit to huge infrastructure projects," said Simone Tagliapietra, an energy fellow with Brussels-based think tank Bruegel.

Moscow and Ankara are more keen on "signaling political messages than about advancing projects in reality," he said. Russia's drive to reroute gas to Europe around Ukraine, including by expanding the Nord Stream pipeline to Germany, has met with heated opposition in Brussels since Moscow annexed Ukraine's Crimea region in March 2014, prompting EU sanctions. Turkey's own role in facing off with Russia and as an energy corridor has tempered EU criticism of President Tayyip Erdogan authoritarian turn.

EU officials will be watching warily as Erdogan and his Russian counterpart Vladimir Putin are set to agree a deal on TurkStream next month at their first meeting since Russia imposed sanctions over Turkey's shooting down of the jet near the Syrian border last November.

For now, Russia is planning construction of two out of an initial four projected pipelines. Capacity of one line is around15.75 billion cubic metres of gas per year. That would mean retaining gas flows via Ukraine - albeit reduced - after Moscow's transit contract with Kiev expires in 2019. Ukraine plans to ship around 72 bcm of Russian gas in 2016 - more than 40 percent of Russia's gas supplies to Europe.

Part of the line would lay along the same route as Russia's canceled South Stream pipeline, which ran up against EU opposition on competition grounds in late 2014. TurkStream follows a different logic, delivering gas only to the EU's border to avoid falling foul of EU rules.

Russian Energy Minister Alexander Novak said on Friday Turkey will "play a large role as a transit country" to supply Europe - the very prospect which worries EU officials. Brussels is instead promoting a chain of pipelines known as the Southern Gas Corridor to transport gas from the Shah Deniz field in Azerbaijan to European markets by 2020.

"We follow the developments in Turkey closely," European Commission Vice-President Maros Sefcovic said in an email to Reuters. "Turkey is fully aware of its responsibility as a key country for the implementation of the Southern Gas Corridor."

Shaky Russian-Turkish ties are just one reason analysts are sceptical TurkStream will be built to its full, 63 bcm capacity. "I don't believe Russia wants to replace a problematic Ukrainian relationship with a problematic Turkish one," said Katja Yafimava of the Oxford Institute for Energy Studies.

Turkey, Russia's second-largest gas market after Germany, has its own worries about being too reliant on Russian gas. TurkStream also competes with Russia's own plans to double capacity along the Nord Stream route to Germany, with European demand too weak to justify both projects, experts say. "Turkish Stream will give way," said Sijbren de Jong, an analyst with the Hague Centre for Strategic Studies. "It is highly unlikely that the pipeline will extend into Southeastern Europe."

Turkey yet to announce LNG FSRU charter

ICIS, *03.08.2016*

Turkey may be looking to purchase an old LNG floating storage regasification unit ahead of this winter to increase its security of supply, but decisions regarding the purchase may not be made until the domestic political situation normalises, sources active in the Turkish gas sector said.

Turkey's high-profile construction group Kolin is spearheading the introduction of the first FSRU on the western Aegean coast near Aliaga. State company BOTAS had reportedly booked full capacity at the terminal, and was due to select the FSRU provider from eight offers received from international companies.

A source familiar with discussions told ICIS on Wednesday that Kolin may be looking to buy an old FSRU in time for winter. "It's possible that they will be looking to purchase the unit, and not just lease it, to increase energy security," he said. The source said BOTAS was also in talks over a second FSRU project, but not for this upcoming winter. The number of FSRUs has grown recently as newbuilds have join the global fleet.

Additionally FSRU supply benefits from the flexibility of some providers which also employ the vessels as LNG carriers. France-based ENGIE currently has two vessels with regasification capacity, one of which is used as an FSRU in China, and the other used as an LNG carrier.

Given the length in the LNG carrier market, ENGIE could redeploy its 145,000 cubic metre GDF SUEZ Neptune as an FSRU through a sub-charter with Kolin. US-based Excelerate has recently redeployed one of its vessel to operate as a fast-track FSRU in Abu Dhabi from this week.

Nine out of Excelerate's 10 vessels have regasification capacity but only one could potentially be available as an FSRU as early as this winter, according to ICIS LNG Edge. Even decisions related to the charter of the first Turkish FSRU and supply of volumes may be postponed for now, as Turkey is reeling from a failed military coup in mid-July, a source close to discussions said.

The source said an upcoming meeting between Turkish and Russian presidents next week could also determine further developments on Turkey's FSRUs. The presidents are expected to resurrect talks about TurkStream, a 63 billion cubic metre/year pipeline, which would carry Russian gas to Turkey and further to the Turkish-Greek border for consumption in southern Europe.

The project was suspended at the end of last year when Turkey downed a Russian fighter jet that had allegedly breached its airspace. The sheer size of the pipeline project might render FSRUs superfluous.

Nevertheless, another source active in the Turkish LNG sector said FSRUs were highly needed to increase Ankara's leverage in its negotiations with other gas suppliers. If completed, the FSRU will reportedly have a 22.5 million cubic metre/day send-out capacity, and will be able to accommodate Q-Max or Q-Flex sized vessels.

The Kolin/BOTAS FSRU is one of at least four offshore projects dotting Turkey's coastline from Canakkale in the Marmara Sea down to the Mediterranean that had been in discussion. Neither BOTAS nor Kolin could comment by publication time.

Getting gas out of Iran - new trading patterns

Natural Gas Europe, *04.08.2016*

Iran says it is preparing to triple gas exports to Armenia, start exports to Georgia and store its gas in Azerbaijan's underground facilities. For now, Iran barters about 1mn m3/d of gas with Armenian power at 1 m3 per 3kWh. Iran said the volume of the gas-to-power deal would reach 3mn m³/d by late 2018 at the improved rate of 1m3 per 3.2kWh.

On the other hand, the managing director of the National Iranian Gas Company Ali Reza Kameli said Iran has signed a deal with the Georgian International Energy Corporation to export 40mn m³ over a four-month period to test the feasibility of sealing a long term gas export agreement.

He added that that the deal becomes operational once Armenia has issued the needed permissions by late 2016. Georgia's deputy energy minister Mariam Valishvili told Trend that the ministry has no information on the conclusion of contracts for the import of Iranian gas to the country. Valishvili added that the Georgian government has not concluded the contracts for such gas supply. "Theoretically, private companies can sign a contract like that," she said.

For now, Georgia receives more than 87% of its 2.5bn m3/yr demands from Azerbaijan (1.36bn m3/yr as commercial imports plus 5% of Azerbaijani gas transit to Turkey as fee) and takes 10% of Russian gas deliveries to Armenia as fee.

Iran also announced August 2 that it is willing to store its gas in Azerbaijan's underground gas facilities. Azerbaijan has two gas storage facilities that can hold 5bn m3, of which a third is idle. For now, two countries swap about 1mn m3/d of gas, while Iran has a 10% share in Azerbaijan's Shah Deniz gas field. Iran's sole commercial buyer is Turkey. According to official statistics, Iran increased deliveries to Turkey in five months of 2016, while Azerbaijan and Russia cut gas deliveries to this country.

Iran aims to export 68bn m3/yr of gas by 2021 and is preparing to announce a joint tender with Oman for choosing a contractor to build a $1.5bn pipeline project in the Gulf of Oman, aimed to transit 10bn m3/yr of Iranian gas to Oman. Some of that gas could be liquefied as the Oman LNG terminal is not fully used.

Kameli said that "activities related to the gas pipeline project are being carried out rapidly as the marine survey has been completed and evaluation of the obtained information is being undertaken. After receiving the results of studies, we will decide with the Omani side who will be the contractor for the 200-km undersea pipeline."

Iran is also preparing to start a restricted amount of gas supply to Baghdad this month at 5-7mn m3/d. This figure is to reach 25mn m3/d, based on agreements, in the coming years. Iran has two agreements with Iraq to export 50mn m3/d of gas to Baghdad and Basra in total.

Iran also has a 22mn m3/d gas export agreement with Pakistan, projected to become operational in early 2015, but the pipelines are not completed in either country yet. Iran is also looking for a contractor to resume building the Iran LNG project, which was half complete when it was hit by western sanctions. Gazprom is one of the companies to express an interest in taking part but it said August 2 that Iran hadn't responded to its request yet.

Tehran has invested $2.5bn in this project which is hoped will produce 10.4mn mt/yr of LNG by late 2018. Gazprom does not need extra gas but the Russian company most likely would like to suspend the growth of Iran's gas exports," said Mikhail Korchemkin, head of East European Gas Analysis. There is a threat of competition facing Iranian LNG projects, not from Russia but other players in the gas market although Iran's LNG would have one of the world's lowest feedstock prices.

Iran and Turkmenistan have also expanded their gas deals. Last year, Turkmenistan doubled deliveries to Iran to above 9bn m3/yr. Iran said June 27 that it will import gas worth $30bn from Turkmenistan over the next ten years and export engineering goods and services to Turkmenistan to an equivalent value.

Turkmen gas is recognized as a potential source for feeding the Southern Gas Corridor (SGC), aimed to deliver 16bn m3/d of Azerbaijani gas to Turkey and EU by 2021. The volume would increase to 25bn m3/yr by 2025 and 31bn m3/yr in early 2030s.

The part from Azerbaijan to west Turkey is being built, while the European part of the SGC, Trans Adriatic Pipelinem (TAP), is being progressed. TAP said July 29 that 14,000 pipes have already been delivered to Greece and Albania for it. This amount accounts for about 30% of all pipes that will be used for the pipeline.

The 870-km TAP will be connected to the Trans Anatolian Pipeline (Tanap) on the Turkish-Greek border, run through Greece, Albania and the Adriatic Sea, before coming ashore in southern Italy. The Initial capacity will be 10bn m3/yr in 2021. The European Bank for Reconstruction and Development (EBRD) confirmed earlier that it started talks to provide direct financing of €500mn and attract €1bn from banks.

The current cost of the SGC from the Shah Deniz 2 reservoir to landfall in southern Italy, is now estimated at around $40bn, comprising $9.3bn for Tanap, $6bn for TAP and $23.8bn for developing SD2 as well as the expansion of the South Caucasus line (SCPX).

Iran says crude market oversupplied, balance to be restored

Reuters, *01.08.2016*

Iran's Oil Minister said on Monday the oil market was oversupplied but predicted balance between demand and supply will be restored, Iranian state television reported.

"The oil market is oversupplied now but there are expectations that there will be balance between demand and supply in the market," Bijan Namdar Zanganeh was quoted as saying by Iran's state TV, without saying when that may happen. A Reuters Survey showed the OPEC's oil output was likely to reach its highest in recent history in July as Iraq pumps more and Nigeria manages to export additional crude despite militant attacks.

Supply from OPEC rose to 33.41 million barrels per day (bpd) in July from a revised 33.31 million bpd in June, according to the survey based on shipping data and information from industry sources. Since a landmark nuclear deal was reached with major powers in 2015 leading to lifting of sanctions, Iran has been planning to raise its crude production to the pre-sanctions level of four million barrels per day (bpd). To regain the production level, Iran has sweetened the terms it offers on oil development contracts to draw the interest of foreign investors. Iran needs $200 billion in foreign money to reach its goal. Zanganeh said that the first of Iran's new oil and gas investment contracts for international companies will be launched this week.

"The government will approve the new contracts on Wednesday," Zanganeh told reporters, state TV reported. The launch of Iran's new oil contracts, the Iran Petroleum Contract (IPC) has been postponed several times as hardline rivals of pragmatist President Hassan Rouhani resisted any deal that could end the buy-back system.

Iran's top authority Supreme Leader Ayatollah Ali Khamenei said last month that no new oil and gas contracts for international companies will be awarded without necessary reforms. "Iran's priority is developing jointly owned oil and gas fields, as well as those in which we are after improved oil recovery." Zanganeh said

Oil majors have said they would only go back to Iran if it made major changes to the buy-back contracts of the 1990s, which companies such as France's Total or Italy's Eni) said made them no money or even incurred losses. Under Iran's buy-back system foreign firms have been banned from booking reserves or taking equity stakes in Iranian companies.

Despite low oil prices, Saudi Arabia stabilizing economy

Oilprice, *04.08.2016*

The Saudi economy is stabilizing after the government implemented pivotal reforms in order to address a fiscal and economic crisis because of plunging oil prices. Over the past two years, Saudi Arabia cut energy subsidies, slashed public spending, and started to look for new ways to raise revenue outside of the oil sector.

The IMF forecasts the Saudi budget deficit to narrow from 13 percent of GDP in 2016 to 9.6 percent in 2017. That is a dramatic improvement from the 16 percent deficit the country posted last year. The improved forecast earned praise from the IMF.

"The fiscal adjustment is under way, the government is very serious in bringing about that fiscal adjustment," Tim Callen, the IMF's Saudi mission chief, told Bloomberg in an interview. "We're happy with the progress that's being made."

Although Saudi Arabia is running a huge deficit, it does not appear to be an emergency. In countries without huge cash reserves, such a deficit would be a major problem. But Saudi Arabia has hundreds of billions of dollars in reserves, allowing it to coast for a while.

Saudi Arabia did see its credit rating downgraded earlier this year by Moody's because of the collapse of oil prices. "A combination of lower growth, higher debt levels and smaller domestic and external buffers leave the Kingdom less well positioned to weather future shocks," Moody's wrote in May. But with the deficit-to-GDP ratio falling, the IMF is not concerned.

“We would be worried if the fiscal deficit were to remain at the levels it reached last year for another couple of years, because that would mean there will be large fiscal financing requirements,” he said. But the IMF’s Tim Callen said that balancing the budget by the end of the decade should be “doable.” Oil prices should rebound in the years ahead, which should put cash back into Saudi government coffers.

Still, Saudi Arabia is not exactly sitting pretty. GDP growth is still at a moribund 1.2 percent in 2016, with only a modest improvement to 2.25-2.5 percent over the medium-term. That won’t be enough to absorb the bulging population of young people in the country. For decades the government has employed legions of people in the public sector, but the ongoing “fiscal adjustment” – a euphemism for cutting the size of the state – will mean that young Saudis will no longer be able to fall back on cushy government positions.

That leaves the private sector to pick up the slack. But it may be a struggle to expand the relatively small private sector in a country that has long depended on the state for growth. The state will continue to play a very large role in the economy, and the high levels of social spending needed to keep its population happy means that Saudi Arabia has a rather high breakeven oil price for its budget, even though it produces oil for only a few dollars per barrel.

With its budget breaking even at $67 per barrel in 2016, Saudi Arabia cannot live indefinitely with oil prices where they are at today. If unrest hits Saudi Arabia, or even sweeps the region the way it did in 2011 during the Arab Spring, the government will be forced to step up social spending to maintain order. That will put further strain on the country’s fiscal positions.

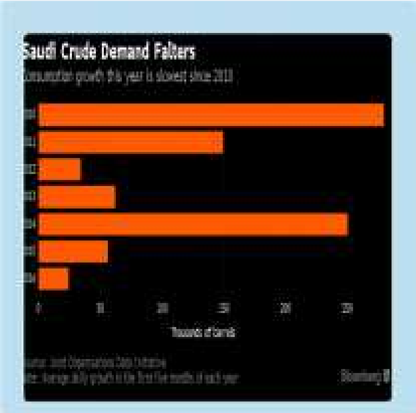
The longer-term picture is more unclear. Saudi Arabia is in the early stages of a transformational economic plan, which intends to diversify the country away from crude oil as the sole source of revenue.

That involves taking a small slice of state-owned Saudi Aramco public, and using the proceeds to invest in non-oil sectors of the economy. Last month the CEO of Saudi Aramco said that low oil prices won’t affect Aramco’s drilling plans or its decision to launch an IPO. But the IPO won’t happen for another year or so, and other investments will take a lot of time, so the country will remain entirely dependent on oil for years at least.

Meanwhile, the near-term strategy for Saudi Arabia boils down to continuing to fight for market share, producing at elevated levels and exporting as much as possible. Saudi Arabia continues to pump at near record levels at 10.5 million barrels per day. Earlier this week Saudi Arabia slashed its prices for oil heading to Asia, hoping to edge out competitors for sales in that region.

Saudi Arabia oil demand growth at 6-year low on slowdown

Bloomberg, *31.07.2016*



Oil consumption in Saudi Arabia, the world's biggest crude exporter, is expanding at the slowest pace in at least six years as low energy prices hurt economic growth.

The kingdom's demand for oil increased by an average of 24,000 barrels a day in the first five months of 2016, the slowest growth rate for that period since at least 2010, the first year for which data are available from the Joint Organisations Data Initiative in Riyadh. The International Energy Agency is now looking for a drop in demand in Saudi Arabia for all of 2016, after forecasting an increase earlier this year.

Consumption of gasoline, kerosene and other refined products contracted this year, slipping by 22,000 barrels a day in the first decline since at least 2002, when JODI began tracking data. JODI monthly data on total oil demand, which includes crude burned to generate electricity, dates back to 2009.

Demand has been crimped after governments in the oil-rich region cut or removed fuel subsidies, BMI Research said in a July 27 report. "If the oil slump continues into next year and governments are not in the position to use counter-cyclical fiscal measures to support the economy, we aren't going to see a huge contribution to oil-consumption growth from the region," Edward Bell, a commodities analyst at Dubai-based lender Emirates NBD PJSC, said in an interview.

Saudi Arabia has boosted output for years to sustain export income while also satisfying domestic demand. The kingdom's consumption spikes between June and September when air-conditioning use peaks. Demand for refined fuels such as gasoline has doubled since 2003, according to JODI.

Saudi Arabia, the United Arab Emirates, Qatar, Oman and Bahrain have reduced or eliminated fuel subsidies over the past year to limit government spending because of low oil prices. Brent crude, an international benchmark, has dropped 16 percent in the past year and traded at $43.72 a barrel by 9:14 a.m. in Dubai compared with over $100 a barrel as recently as in 2014.

Gasoline demand in Oman grew 1 percent during the first four months of this year, far below the annual average growth rate of 9.6 percent over the past decade, according to BMI. "The slowing consumption in Oman causes concern that other countries that have enacted or plan to roll out subsidy reforms might see a greater impact than first anticipated," it said in the report last week. Saudi Arabia, the Middle East's largest economy, was expected to contribute almost half of the 100,000 barrel-a-day increase in regional demand that the IEA forecast for this year.

The Organization of Petroleum Exporting Countries expects the kingdom to contribute a comparable share of a projected 180,000 barrels a day in new consumption from the Middle East in 2017, the group said July 12 in its monthly report.

Slower economic growth is having a greater impact on energy demand in the region than subsidy removals, Bell said. Emirates NBD expects Saudi Arabia’s economy to grow less than 2 percent this year compared with 3.4 percent in 2015, a deceleration “that’s going to eat into demand for fuel,” Bell said. Energy use in the region is projected to grow, but at a slower pace. “The Middle East is somewhat counter to all economic logic,” Bell said. “When we have an economic slowdown, energy demand never goes negative.”

Russell: Is Saudi Arabia back in the oil market share game?

Reuters, *02.08.2016*

Sometimes actions really do speak louder than words, with Saudi Arabia’s slashing of crude oil prices to customers in Asia contrasting with recent comments from the kingdom’s top oil executive that chasing market share isn’t a priority.

Saudi Aramco, the state-controlled oil company, cut its official selling price (OSP) for its benchmark Arab Light grade for September-loading cargoes by $1.30 a barrel to a discount of $1.10 to the regional marker Oman-Dubai. The reduction was the largest since October last year and has taken the OSP from a premium of 60 cents a barrel to the biggest discount in nine months in just two months.

Saudi Aramco doesn’t release commentary with its pricing statement and doesn’t officially comment on its policy in setting the OSP, but the actions of the past two months suggest the world’s largest crude exporter may not be quite as relaxed about its market share as its chief executive recently stated.

Chief Executive Amin Nasser told Reuters on July 20 that Saudi Aramco wasn’t worried about rival producers, such as Iraq, Iran and Russia, gaining ground in key market Asia, destination for about two-thirds of the kingdom’s exports. “Customers are increasing, no we are not,” he said when asked if he was worried about other producers gaining market share in Asia.

While Nasser is correct insofar as Saudi Arabia’s exports to Asia are increasing, it may be galling for the market leader to see its rivals doing that much better. Top customer China barely increased its purchases from Saudi Arabia in the first half of 2016, taking 0.24 percent more at 26.455 million tonnes, according to customs data. On a barrels per day (bpd) basis, Saudi Arabia’s exports to China in the first half were actually slightly down, given there was an extra day this year because of the leap year.

China imported 1.061 million bpd in the first six months of 2016, down from 1.064 million in the same period in 2015. Saudi Arabia's share of China crude imports in the first half was 14.2 percent, down from 16.2 percent a year ago.

In contrast, Russia's share went from 11.9 percent to 14.1 percent and it is almost level pegging with Saudi Arabia as the leading supplier to China. It's a stronger story for Saudi Arabia in India, the second-largest crude importer in Asia, where the kingdom has increased market volumes.

India imported 828,500 bpd from Saudi Arabia in the first half of the year, up from 765,600 bpd in the same period in 2015, according to trade sources and vessel-tracking data from Thomson Reuters Supply Chain and Commodities Research. But even though Saudi Arabia has seen its shipments to India rise by 8.2 percent, it has been overtaken as the South Asian nation's top supplier by Iraq, which exported 844,400 bpd in the first half of 2016 compared to 594,600 bpd a year earlier.

The numbers show that while Saudi Arabia is increasing its exports, it's not doing so by as much as its main regional rivals. Up to recently it did appear that the kingdom was fairly relaxed about this situation, as indicated by Aramco's Nasser in the recent interview. Aramco raised its OSP in three out of the four months from April to July, and the one month it cut was a token reduction of just 10 cents a barrel.

This suggested that Saudi Arabia was gaining some confidence that the oil market was starting to re-balance, a view that was supported by an 88-percent jump in global benchmark Brent crude between late January and early June.

However, since then Brent has retreated by almost 18 percent, which may have dented confidence in the view that the market is close to re-balancing. This alone may have been enough to prompt Saudi Aramco to move aggressively to discounting its OSP.

However, there is another factor at work, namely the sharp contraction of the premium of Brent over the benchmark Middle East grade, Dubai. The difference, known as the exchange for swaps, dropped to $2.22 a barrel on July 29, the lowest since Nov. 13 last year. The Saudi OSP tends to track movements in the Brent-Dubai spread to try and ensure that refining customers pay more or less the same for oil no matter where in the world they are located.

However, when the Brent-Dubai EFS was last in a declining pattern between May and August last year, the Saudis were actually raising the OSP, albeit from discounted levels. Overall, while there are market factors that would help explain the sharp drop in the Saudi OSP, it's also likely that the kingdom isn't quite so relaxed about both its market share and pace of re-balancing between crude supply and demand.

Iran approves new oil-field contracts to woo Western investors

WSJ, *03.08.2016*

Iran's government on Wednesday approved new oil-field contracts designed to attract Western oil investors following the lifting of sanctions in January, an oil-ministry spokeswoman said.

However, Iranian officials didn't disclose the terms of the new contracts, which have long been awaited by international oil companies that once worked there such as Total SA of France, Eni SpA of Italy and the Anglo-Dutch firm Royal Dutch Shell PLC. The spokeswoman also said the terms of the new deals would still have to be approved by a parliamentary committee.

The contracts have been at the center of a struggle between President Hassan Rouhani, a relative moderate in Iran, and conservative hard-liners opposed to foreign influence. Iran had been working to revamp the terms, even before Western sanctions over its nuclear program were lifted in January.

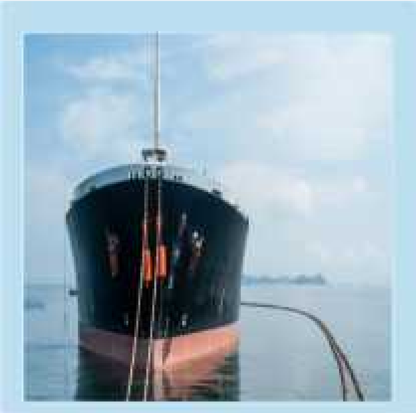
Mr. Rouhani's oil ministry proposed new contracts that would allow foreign oil companies to at least recoup their costs and last up to 20 years. The new deals were supposed to address concerns with the pre-sanctions contracts, called "buybacks," which included a fixed lump sum and, typically, a five-year deal. After pressure from hard-liners in recent weeks, Iranian officials have said that the contracts for working in some parts of the country would continue to resemble the buyback deals of the past.

Mr. Rouhani's cabinet approved an amended version of the contracts on Wednesday, the oil ministry spokeswoman said. Big oil companies have been hot and cold about returning to Iran, expressing excitement about the country's oil riches but skepticism over the terms of working there.

Iran has ramped up its production by over 800,000 barrels a day since December, but the country needs to attract $130 billion in its oil and gas fields to meet its goal of raising its oil production capacity to 5.7 million barrels a day by the end of 2020.

Austrian OMV deems Iranian contracts unfit for investment

Oilprice, *03.08.2016*



OMV does not believe Iranian oil contracts are fit for investment, according to statements made by the CEO. In January, Iran struck a deal regarding the status of the country's nuclear program with the US, the UK, France, China, Russia and Germany, causing several sanctions against the struggling Iranian economy to be lifted.

OMV signed a memorandum of understanding with the National Iranian Oil Company regarding the terms of new development projects. CEO Rainer Seele said the process to finalize the details of contract with Iran had not been completed yet, making it difficult for new projects to start.

"This process is still ongoing, this is taking quite a long time... We have not yet defined a clean framework for the projects that are interesting for us," Seele said to Reuters in an interview when asked about how long developing a contract might take. "We can make an investment decision only when we really know what the framework and the conditions are."

OMV has demonstrated interest in two major Iranian oil fields: the Zagros area in western Iran and the Fars field in the south. The company has previously commenced operations in Cheshmeh Kosh and Band-e-Karkheh fields in 2001.

Iran's state broadcaster IRIB said the country's state cabinet had approved a draft bill for new and old oil and gas contracts, which laid out 150 changes to the previous model contract. OMV has also been awaiting Iran's repayment of a previous debt related to exploration and development activities in the countries.

"If you owe me money and you're not giving it back to me and then want to proceed with me in the future, would you think that's a good combination?" Seele said regarding the debt linked to OMV's activities before international sanctions on Iran went into effect in 2006. "We are in intensive talks (about this) that have not yet achieved their objective."

Saudi Arabia cuts oil price to Asia as Iran battle heats up

Bloomberg, *31.07.2016*

Saudi Aramco lowered the pricing terms for Arab Light crude sold to Asia by the most in 10 months, signaling Saudi Arabia has no plans to back down while OPEC rival Iran tries to regain market share amid a global oversupply.

State-owned Saudi Arabian Oil Co. said it will sell cargoes of Arab Light in September at $1.10 a barrel below Asia's regional benchmark. That is a pricing cut of $1.30 from August, the biggest drop since November, according to data. The company was expected to lower the pricing by $1 a barrel, according to the median estimate in a Bloomberg survey of eight refiners and traders.

Iran has boosted crude production 25 percent this year and aims to reach an eight-year high for daily output of 4 million barrels by the end of the year. Customers in Asia account for the largest share of Iran's new sales, according to shipping data. The nation dropped to fourth-biggest OPEC producer after international sanctions that restricted its supplies in 2012. It has since returned to third place after the sanctions were eased in January. Saudi Arabia has responded by boosting its crude and refined products exports.

"The market share battle between them and Iran is back on in a big way," John Kilduff, partner at Again Capital LLC in New York, said by phone on Sunday. "This is a throwdown challenge that I'm sure the Iranians will match."

Asian demand for crude is stalling as refineries from Singapore to China and South Korea are cutting operating rates amid a slump in margins and rising supply from state-owned giants, which can draw on large crude inventories that have built up over the past two years of low prices.

Brent crude has climbed 15 percent since the start of the year on supply disruptions from Nigeria to Canada. Prices are still 13 percent lower in the past year. Saudi Arabia led the November 2014 decision by the Organization of Petroleum Exporting Countries to maintain production levels to drive out higher-cost producers.

All other official selling prices for Asian clients were reduced. The biggest cut was by $1.60 for Extra Light crude. Pricing for Light and Extra Light grades for U.S. clients was cut, by 20 cents and 40 cents, respectively, while the Medium and Heavy grades were unchanged. Aramco raised the pricing of all grades except Extra Light to northwest Europe and the Mediterranean.

EIA: Declining oil revenues in Russia are adversely affecting its regional neighbours

Energy Global, *05.08.2016*

The Russian economy, already weakened by the imposition of Ukraine-related sanctions by the United States and the European Union, has been further damaged by low crude oil prices since the end of 2014.

In 2015, Russia was the world's second-largest producer of petroleum and natural gas, and the oil and natural gas sector accounted for approximately 8% of Russia's GDP, according to IHS Markit. However, in conjunction with both lower oil prices and international sanctions, Russia has recently experienced decline in GDP, representing that country's deepest economic downturn since 2008 - 09.

While consumers in many countries are benefiting from lower oil prices, declines in Russian economic activity are also having an adverse effect on economic growth in many neighbouring countries by reducing remittances from migrant populations working in Russia.

Approximately 8% of the Russia's total inhabitants are migrants (foreign-born populations) according to the United Nations Population Division,1 with the vast majority of migrants coming from Eastern Europe and Central Asia according to the most recent World Bank statistics.

These migrants often send a portion of their earnings back to their families or other residents in their country of origin, which are referred to as personal remittances. In some developing countries, remittances are a significant source of purchasing power. Under such circumstances, slower growth or outright declines in remittances can negatively affect the economies of countries dependent on them and, in turn, potentially slow their oil consumption growth.

As Russia's economy contracted, remittances from Russia to other countries declined by 40% from 2014 to 2015 to roughly US$19.7 billion, the lowest amount since 2006, according to the World Bank.2 In 2015, Armenia, Azerbaijan, Georgia, Kyrgyzstan, Tajikistan, Ukraine, and Uzbekistan all received at least 50% of their remittances from Russia.

Remittances as measured against GDP in each of these countries was also greater than 1%. Using GDP data from Oxford Economics, the share of remittances as measured against GDP ranged from 3% in Azerbaijan to 33% in Tajikistan in 2015.

However, each of these seven countries, which collectively accounted for 0.7% of global GDP in 2015, saw declines in remittance receipts from Russia from 2014 to 2015, based on statistics from the World Bank stated in U.S. dollars (USD). On average, remittances from Russia to each of these countries declined by 26%, or US$0.8 billion.

In addition to the effects that lower economic activity in Russia may have had on the job prospects of migrants and the amount of money they earned in 2015, the severe depreciation of the Russian ruble (RUB) reduced the value of remittances sent from Russia. Because crude oil is priced globally in USD, low crude oil prices can affect exchange rates between the USD and the free-floating currencies of some oil-producing nations, reducing the value of remittances in USD terms. From 2014 to 2015, the average annual USD-RUB exchange rate rose from RUB 38.6 to RUB 61.3, amounting to a 59% depreciation in the RUB, the largest since 1999.

With the exception of the Ukrainian hryvnia, the RUB also depreciated against the currencies of the selected remittance-receiving countries from 2014 to 2015, ranging from an annual depreciation of 18% against the Azerbaijani manat to 30% against the Uzbekistani som. However, because the RUB depreciated more against the USD over the same period, the amount of money sent home by migrants shows a larger decline when quoted in USD than if measured in the currencies of the migrants' home countries.

In addition to reducing economic activity, declines in remittances can affect a country's oil consumption, which is often sensitive to the level of income received from both domestic and international sources. Annual oil consumption across the seven countries that receive most of their remittances from Russia grew by an estimated 18% in 2014 and then declined by about 1% in 2015.

The International Monetary Fund's Regional Economic Outlook for the Caucasus and Central Asian region, which includes six of the seven countries, cites weakness in the Russian economy and the drop in remittance inflows among the reasons why the region's GDP growth in 2016 is projected to be the lowest in two decades. In addition, some countries in this region are also major oil producers, like Azerbaijan, which has more directly been economically affected by both low crude oil prices and declining crude production.

Russia's economy is still projected to contract in 2016, although at a lower rate of -1%, according to Oxford Economics. Brent monthly average spot crude oil prices have risen after reaching a 12-year low in January, which may help to limit Russia's expected budget deficit in 2016.

The depreciation of the RUB against the USD has moderated in 2016 compared with the depreciation that occurred from 2014 to 2015. As the Russian economy begins to stabilise and expand in the coming years, remittance inflows to Eastern European and Central Asian countries may increase and strengthen the region's economic growth, and potentially its oil consumption.

Russneft bids for Russian government stake in Bashneft - two sources

Reuters, *04.08.2016*

Privately-held Russneft has submitted a bid to buy the Russian government's stake in oil producer Bashneft, which is set for privatization later this year, two sources told.

The stake sale in Bashneft, a mid-sized oil company that has been rapidly growing its output in recent years, is the Russian government's second major sell-off after it reduced its stake in diamond firm Alrosa. Part of a privatization drive encompassing the shipping firm Sovcomflot, stakes in the state bank VTB and oil giant Rosneft, the aim is to raise funds to stop the budget deficit exceeding a projected 3 percent of gdp.

One of the sources, a financial market source, said a total of over 10 bids had been submitted for the 50.08 percent Bashneft stake. The same source said the sale was planned for October. A Russneft official denied the company had submitted a bid for the Bashneft stake. A spokeswoman for the Economy Ministry, which is overseeing the sale, was not immediately available for comment.

Igor Shuvalov, Russia's first deputy prime minister, was quoted on Wednesday as saying a preliminary valuation of the state's Bashneft stake had settled on a figure of around $3 billion. The Interfax news agency reported on Thursday that the stake had been valued by Ernst & Young at 306 billion rubles ($4.62 billion).

The internal Russian republic of Bashkortostan has a 25 percent stake in the firm, which is not being sold. Russneft, owned by tycoon Mikhail Gutseriyev, and Bashneft - then owned by oil-to-telecoms conglomerate Sistema (AFKS.MM) - considered a merger in 2010, planning an initial public offering of the united company later. The merger never happened.

Oil giants Rosneft and Lukoil may also consider playing a role in Bashneft's privatization, officials have previously said. The Russian authorities have said that state companies should not take part in privatization deals and that state banks should not fund such deals.

Separately, two sources told Reuters on Thursday that Russian state banks Sberbank (SBER.MM) and VTB, as well as the country's largest private lender FC Otkritie, were among those who would arrange the Russneft IPO. Russneft plans to hold an IPO on the Moscow Exchange in November, aiming to raise $500 million for 10 percent of its shares, a source close to the deal told Reuters earlier.

Shrinking EU market share forces Gazprom to action

Oilprice, *22.07.2016*

All the talk that Brexit would spell the end to the EU drive for market liberalization, the EC seems to have no intention to halt its ambition to complete the internal energy market.

And especially in West and Northwest Europe, success is already within reach. As a report by the IGU showed in early May, 92 percent of all natural gas prices are now determined on spot-based hubs, up from just 27 percent back in 2005. Overall at the end of 2015, gas-on-gas competition is now the name of the game in most parts of Europe where spot trading makes up 64 percent of all natural gas exchanges, a 49 percentage point increase from a decade ago.

Oil-indexed prices are becoming more and more outdated as a global gas glut has transformed Europe into a buyer's market, in which abundant liquidity and a diversity of suppliers have removed the incentive for long-term contracts.

Hub-based gas-on-gas competition contributes to more contractual transparency and market efficiency that, among other consequences, have contributed to the attractiveness of natural gas for utilities around Europe. Crude oil, still used anachronistically as a reference commodity that is no longer a replacement for gas, is too vulnerable to market swings to provide for long-term planning for consumers. With oil price in 2016 at 2002/3 levels, oil-indexation does not help producers much either.

Nonetheless, there is one big regional exception to the above-mentioned trend and this Southeast Europe. While the countries from the Viseegrad 4 Group used the 2009 Ukraine gas supply crisis to accelerate their diversification strategy based on getting access to the Western European gas market, the Balkans have been stuck back in time.

In Central Europe, not a single contract was spot-based in 2005, now more than half of all natural gas supply is imported from German hubs on reverse-flow links. Hence, Poland is able to now obtain up to 90 percent of its natural gas needs from Germany and the Vienna-based Baumgarten hub via the Czech Republic. Not surprisingly, the Polish government claims that it would no longer need to import gas directly from Russia after its long-term contract with Gazprom ends in 2022. The launch of the reverse flow capabilities on the Czech-German border is now allowing the Czech Republic to become a regional gas hub as it can now technically transit more than 60 bcm/yr of gas coming from Norway and Germany via Slovakia to Ukraine, Hungary and Austria. The integration of the CEE regional gas market has led to a price convergence with liquid hubs in Western Europe. The launch of an LNG terminal at the Polish port of would accelerate the process and further open the region to the global gas market soon to be flooded with new LNG supply from the U.S, Australia, Canada, Malaysia and Qatar.

All along this massive shift in gas market dynamics in CEE, the Southeast Europe region has remained an energy island or in fact an archipelago of islands, identified by the EU as the weakest gas security link in Europe. Bulgaria and most of the Western Balkans are still dependent on one gas pipeline and one supplier, namely Gazprom.

As the IGU contends in its 2015 report, less than 5 percent of all gas in the SEE market was traded on spot basis. Moreover, national gas systems in the region are still not interconnected, while LNG and storage capacity is insufficient to meet even short-term gas supply cuts.

Yet the European Commission seems committed to change the status-quo this time around. After two years of intense negotiations, at the end of June, the Bulgarian gas transmission operator, Bulgartransgaz, and its Greek counterpart, DESFA, signed an agreement to allow virtual reverse flow on the Transbalkan pipeline carrying Russian gas to the region.

The deal took seven years to come by as Gazprom was openly protesting the plans for virtual gas swaps citing contractual clauses in its ship-or-pay transit contract. It was not until the Commission launched an anti-trust probe case against Gazprom's bilateral dealings in Eastern Europe that the Russian gas company grudgingly and gradually agreed to let go of its virtual control of the cross-border interconnection points.

The change of mind coincided with a decision by Gazprom from March this year, that it is seeking a "mutually acceptable" solution to the Commission's monopoly case, which threatened to end with a USD7.6bn fine for the Russian company, already in a poor financial state because of the falling gas prices in the past two years.

History shows though that Gazprom will not give up easily its market share in the region. Past experience has shown that the company's strong "political" influence over the decision-making of national gas majors should not be underestimated, and could make the actual implementation of the cross-border trade unpredictable, thus, reducing the interest of gas traders to sell alternative gas from LNG terminals or from the Caspian basin into the region.

Gazprom is particularly worried that if it does not act to stop the SEE regional market integration, it faces future competition from potentially cheaper LNG, Azeri or Iranian gas in the more liquid Central European markets where it potentially stands to lose more than 25 bcm of gas demand per year or face steep price cuts to preserve it. Although it is no longer able to charge the same price premiums there, it still controls a commanding market share in most countries east of Germany.

Governments in SEE would therefore be well-advised to prepare for alternative scenarios in Gazprom's behavior in the coming years. There are several ways, in which Gazprom could potentially try to stop the liberalization of the market in SEE:

First Scenario: Due to its very low production costs, Gazprom can still undercut most alternative gas suppliers in Europe to defend its European market share, currently at around 30 percent. This has already been happening. Gazprom previously estimated that the gas price to its European clients will fall by 40 percent after 2014 to around USD 200 per 1,000 cubic meters in 2016. The reduction has been already steeper with most of Gazprom's gas being sold at around USD 150 today ($4.2/MMBtu).

The fall has been largely driven by the decline in the crude oil price but there have already been indications that Gazprom is cutting the price below the oil-indexation mark to preserve its market share.

Gazprom’s price is still higher than the quotes at the U.S. Henry Hub of around $2/MMBtu and could even go higher if the oil price starts rising again. The still high transportation costs, the limited LNG infrastructure and contractual congestion in the SEE region is unlikely to make U.S. LNG competitive in the short run.

However, Gazprom might need to decouple its gas pricing formula from crude oil in the future if it is to preserve market share and prevent large-scale alternative gas supply to reach its key clients in Europe. Many long-term gas contracts in the region are ending by the end of the decade, and Gazprom may need to provide steep discounts and better terms along the lines of the new supply contracts in Central Europe, where the take-or-pay condition has been largely removed.

Second Scenario: The success of the regional gas market integration and liberalization will largely depend on the political will of governments. The latter has been available in only limited volumes as many leaders have decided to place their bets on Gazprom-led projects such as South Stream and more recently the extension of the Turkish Stream project, TESLA.

Despite the projects’ lack of financial sustainability, regulatory obstacles and unclear geopolitical benefits, most governments have supported one or another version of a Russian pipeline via the Black Sea. One of the supporters has been the Bulgarian government, which has promoted the idea of a natural gas hub at the Black Sea port of Varna that would serve also as the landing point for a new version of the South Stream.

The European Commission has cautiously backed the idea but only under the condition that Bulgaria would first liberalise its cross-border trading along the Russian-used gas transit networks and that it constructs a new gas pipeline with Greece.

However, Gazprom has been very active in teasing the popular appeal of a large infrastructure project passing through the region, playing countries on one another as alternative routes to dissuade governments to be more pro-active in this gas diversification policy.

Third Scenario: Low administrative capacity and the ability of Gazprom to capture key energy decision-makers have significantly delayed the construction of new interconnectors with neighboring countries emulating the Central European model, LNG infrastructure on the Aegean and Adriatic coasts and the expansion of underground gas storages .

Seemingly cheap projects that on top have been earmarked by the European Commission for funding, have stalled for years. The most recent advancement of the Bulgaria-Romania and Greece-Bulgaria links has come only after strong pressure from the US government and Brussels. The financial planning of the projects, though, has placed them on shaky commercial grounds pushing away gas traders interested in entering the market. The new infrastructure could grant the region access to alternative gas supply but only if the authorities are ready to enforce the EU energy market law in a coordinated manner to open the possibility for large gas flows to reach the Central European gas hubs.

Gazprom could very easily try to use its political card to make sure that regional divisions take precedent over gas cooperation. It already tried to do so on New Year's eve when the Russian company halted gas supplies to the largest retail gas distributor in Bulgaria, Overgaz (also a Gazprom subsidiary), causing short but intense intervention from as high as the Bulgarian Prime-Minister.

The Commission's efforts to integrate the SEE region into the EU internal market and diversify its gas supply away from a single supplier along the Central European model have started to pay off. Yet risks lie ahead and it would be naive to think that Gazprom would not try to prevent liberalisation.

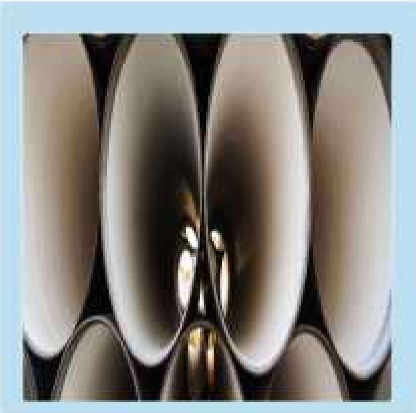
By making Russian gas more competitive, Gazprom could weaken the general argument among energy policy-makers that the alternative gas could be cheaper and that diversification investment pays off. Many energy policy-makers in the region share this opinion.

However, Gazprom's decision to cut prices in the face of potential competition shows nervousness about the prospect of new gas arriving on the regional market. Hence, instead of delaying further liberalization efforts, now is the time to actually step up the regional cooperation between regulators and national gas companies. This would further improve the region's bargaining position vis-à-vis Russia ahead of talks for a new long-term contracts in early 2020s.

In this context, the recent example of Lithuania cannot be stressed further. By completing its floating LNG terminal near Klaipeda, the Lithuanian government secured a nearly 25 percent cut in the price Gazprom charged its national gas supplier. With global gas supply competition rising, there has never been a better moment for SEE to try to tap into the world market and to connect the archipelago of energy islands to the mainland.

Engie's UK Cygnus a year overdue

Natural Gas Europe, *04.08.2016*



France's Engie, which reported earnings last week, has told NGE that its UK southern North Sea Cygnus gas field development will not produce until 4Q 2016. The field had originally been due to start production in 2015; installation work began in 2014.

"The Cygnus partners confirm that Cygnus first gas is now targeted for the fourth quarter of 2016. Further delays were encountered in hook-up and commissioning activities," Engie said in a statement emailed to NGE. The £1.4bn ($1.56bn) project, sanctioned in 2012, is expected to contribute about 2bn m³/yr, or 5% to UK gas production, at its peak.

Gas will be piped through a new 50-km pipe into the existing Esmond transportation system to Bacton in eastern England. Licensees in the 18bn m³ field are Engie E&P (38.75%, operator), the UK's Centrica (48.75%) and Germany-based Bayerngas Norge (12.5%). Engie also told NGE that first gas from its Touat field in the Algerian Sahara remains on schedule for 2017. T

hat's consistent with what its Spanish contractor Tecnidas Reunidas said in its 1H results last week. However, a recent Oxford Institute for Energy Studies report by Algeria expert Ali Aissaoui estimated the 4.6bn m3/yr field, initially planned to start up in 2016, would not now launch until 2018. Engie E&P's stake in Touat is 65%, with state producer Sonatrach 35%.

Engie reported 1H 2016 group profit up 11% year-on-year at €1.2bn. But pre-tax upstream earnings (Ebitda) fell by 16% to €618mn, despite a 3% rise in production to 165,750 boe/d. Global gas and LNG made a €39mn loss this year (from earnings of €233mn in 1H 2015) hit by the continuing shutdown at Yemen LNG since April 2015, one of its main contractual suppliers. Engie's LNG cargo sales increased to 56 (or 3.9bn m³) in January-June 2016 (from 52 in 1H 2015).

Separately, Engie has signed a memo of understanding with small UK-listed explorer Hague and London Oil (Halo) to help the latter boost gas production and reserves, the latter announced August 4. Engie expertise in energy management will "offer an innovatively structured gas off-take, designed to help Halo secure the funding of such assets whilst minimising the dilution to Halo's shareholders." While not an exclusive arrangement, both have agreed that Halo will provide Engie with a first look at all projects it pursues and that fit the description of assets sought within this MoU.

The MoU covers European assets only. However, Halo announced June 24 it had acquired five interests (from 50% to 100%) in five exploration blocks offshore Western Sahara from Premier Oil, in return for 5% of future royalties and divestment proceeds. Norway's oil fund in June 2016 divested its stakes in Kosmos and Cairn because of their interests in the contested Western Sahara territory. The territory's annexation by Morocco in 1979 is not internationally recognised, but explorers are interested because of world-class gas discoveries offshore Mauritania to the south.

Engie's upstream division, Engie E&P, is 30% owned by Chinese sovereign wealth fund China Investment Corporation (CIC). Production is focused on Europe (Norway, UK, Netherlands, Germany) but it also has interests, mainly exploration, in North Africa, Azerbaijan (20% in the Absheron field), Qatar (60% operator of block 4, with PetroChina 40%), and the Asia-Pacific (primarily a 33.33% stake in the Eni-operated Jangrik gasfield due to start up next year).

Powernext reaches into Central, Eastern Europe

Natural Gas Europe, *04.08.2016*

Austria's and Germany's competition authorities have approved the creation of a company to run a gas trading platform for central and eastern Europe. This is an area where competition has been slow to develop owing partly to the dominance of Gazprom and partly to a lack of political will.

Austrian CEGH (49%) and Paris-based Powernext (51%) are setting up a company based in Vienna to ensure a local service for the Austrian market. Powernext owner, EEX, said August 4 that customers will benefit from access to the pan-European Pegas offering. Pegas is the central gas trading platform of EEX Group operated by Powernext.

As of the end of November, CEGH Gas Exchange spot and futures contracts will be operated on the Pegas platform under the Powernext rulebook and exchange licence. The agreement foresees the joint development of the Austrian as well as the central and eastern European gas markets

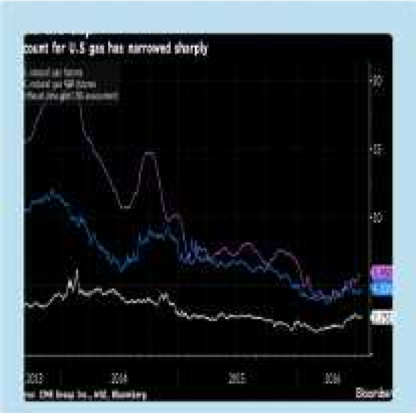
CEGH CEO Gottfried Steiner, who will run the new company, said traders would "substantially benefit from this cooperation, which will also enable spread trading to other European markets and further increase liquidity at the Austrian VTP."

Powernext CEO Egbert Laege described it as a "major step in the development of Pegas to become the one-stop-shop for European gas trading." He said Pegas' expansion into central and eastern Europe was a "key piece in our strategy to expand the geographical coverage of our offering."

Powernext last month said the Danish Gaspoint Nordic would join the Pegas platform by the end of the year. After the completion of the cooperation with CEGH, Pegas will cover the markets of Austria, Denmark, Germany, France, the Netherlands, UK, Belgium and Italy. This week Ascent Resources told NGE that its gas sales agreement with INA would be priced against CEGH. The gas is produced in Slovenia and transferred to INA at the Croatian border.

Oil indexation, more financials and gas-fired power

Natural Gas Europe, *05.08.2016*



News of another gas contract renegotiation surfaced this week, with the buyer, the Danish marketer Dong, having successfully claimed over $500mn in refunds from one or more of a range of suppliers, including the Danish Undergound Consortium, Russian Gazprom and Hess.

Local press however identified Gazprom as the counterparty in talks earlier in the spring. Most of the lump-sum amounts were paid out in first half 2016, said Dong, with the remainder due later this year. With hub trading in northwest Europe so extensive, there cannot be many contracts in the region linked to oil that might need to be indexed off gas instead.

Dong buys 2bn m³/yr from Gazprom in two contracts and at the time the contracts were signed, oil indexation was still the norm. Nord Stream was the means and the Denmark-Germany border the transfer point. Indications from Dong are that this has either been re-indexed to hub pricing, or soon will be, as it refers to unwinding oil hedges.

But as well as indexing gas contracts to hubs, Gazprom is in other cases solving the problem by lowering the base price so that the new price better reflects gas market conditions – at least in the early stages.

The last few reported arbitration results have gone the seller's way, with Dutch GasTerra and Gazprom announcing that they were justified in extracting the price charged to Italian Eni and Lithuania's Lietuvos Dujos respectively. So there are risks to mounting legal challenges to the contract price, even in today's oversupplied gas market, although Eni is not taking the defeat lying down.

Dong's victory emerged from its 2Q results, the tail-end of the reporting season that was dominated by red ink as companies struggled against the headwinds of weak demand and rising debts, with a few bright spots on the horizon.

Among them was news of Indonesian state-owned Pertamina deciding to take an African position with a bid for French independent explorer Maurel & Prom. There was also a big crop of bidders for gas-prone blocks offshore Cyprus in the island's third round with Exxon and Qatar Petroleum teaming up for a joint bid in one block, Eni bidding for all three blocks, and Statoil and Cairn also in the running.

The UK refused to be bounced into an early approval of the French-Chinese investment at Hinkley Point C, a decision that at least admits the possibility that it will not be approved as the government seeks to draw a line under the past.

There are a number of possible grounds for concern, including the very high price of the electricity that is sold – relative to where the wholesale price is today – and the prospect of a financially-crippled EDF either leaving an ugly building site or needing to be bailed out by its Chinese partners, effectively putting 7% of UK power output under the ownership of the Chinese communist party. UK prime minister Theresa May also raised security concerns about Chinese involvement at Hinkley Point in her previous job as interior minister.

China's dismissive attitude to the UN court ruling on its activities in island-building and land grabs in the South China Sea, and its human rights record at home, could be reasons for the UK to take a more arms-length relationship than that advocated by the last finance minister, George Osborne, whom May found 'gung-ho' where Chinese investment is concerned. Osborne is now in the political wilderness. The decision is now due early autumn, when the secretary of state for energy, Greg Clark, has combed through the reputed 90,000 pages.

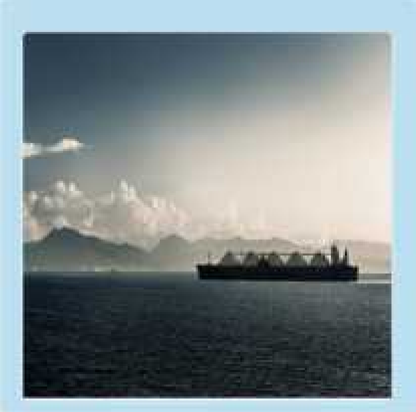
Building gas-fired plant instead would be a quicker, cheaper and less controversial way of filling the UK's supply gap, with a multitude of traders able to deliver gas to the network by pipeline or LNG tanker at a much lower price than that implied by Hinkley Point C's £92.50/MWh.

Carbon emissions would be higher with gas than the zero obtained at point of generation from nuclear – absent a sufficiently high carbon price to make carbon capture and storage work – but the decommissioning would be cheaper and safer. But the government may be watchful of gas's share of generation -- which in 1Q 2016 reached 38%, half as much again as a year ago, as coal plants were retired – rising too steeply.

Not all countries are anxious about capping gas in power generation. Malta is anxious to start LNG imports and a new floating storage facility will arrive there next month. The island is now commissioning a modern gas-fired plant to wean itself off dirtier diesel-burning power plants. Malta and Cyprus are the only two EU states without access to natural gas – but that won't continue for long.

Tokyo Gas in talks with European firms to swap LNG cargoes

Bloomberg, *26.07.2016*



Tokyo Gas Co., Japan's second-biggest buyer of liquefied natural gas, is in talks with European companies to swap cargoes it owns from the U.S. with those in Asia to reduce shipping times and costs.

The utility is offering cargoes from the Cove Point project on the U.S. East Coast, which is expected to start up late next year and from which its contracted to buy 1.4 million tons a year, Executive Officer Kentaro Kimoto said. Kimoto declined to identify European companies Tokyo Gas is in talks with and the volume it would be resell. "It takes a lot of days to bring LNG to our terminals in Japan from U.S," Kimoto said.

"We can send cargoes to Europe and in return get the fuel in swap deals with European players who have a position in Asia." Shipping U.S. LNG to Japan takes about 20 days while the travel time to Europe is roughly 10 days, according to Kimoto.

The utility is also seeking flexibility amid uncertainty over supply projects including one under development led by Japan's Inpex Corp. Japan's biggest oil and gas explorer said in September the startup of the 8.9 million ton a year Ichthys project was delayed until the third-quarter of next year. Tokyo Gas has a deal to buy 1.05 million tons annually from the project.

"The timing of the startup of Ichthys and Cove Point projects could make us oversupplied or undersupplied," Kimoto said. The company's demand outlook is also uncertain as competition for its customers in Japan will heat up after the country's planned gas market liberalization starts in April 2017, he said.

Japan is among countries forecast to have an LNG oversupply in coming years, transforming some of the world's biggest buyers of the fuel into sellers. Jera Co., a joint venture between Tokyo Electric Power Co. Holdings Inc. and Chubu Electric Power Co., plan to announce a second flexible deal by the end of this year that would allow it to resell the fuel to European customers as it seeks outlets to offset possible demand declines at home.

Osaka Gas Co. intends to resell 2.5 million tons a year of LNG after it starts receiving supplies from the U.S. Freeport project in 2018, according to spokesman Jun Fujii. The Nikkei newspaper said last week the company is working on an agreement to resell as much as 800,000 tons a year to a unit of German's E.ON SE from the Freeport project. Fujii declined to comment on the report. Houston-based Cheniere Energy Inc. has sent at least 19 tankers of LNG abroad since its Sabine Pass terminal in Louisiana started up earlier this year. By 2020, five terminals are expected to be operating on the U.S. Gulf Coast and in Maryland. Global export capacity will surge 45 percent and the U.S.'s share will jump to 14 percent from nothing, according to Energy Aspects Ltd.

The possible European cargo swap deal is the latest step Tokyo Gas has taken to diversify its operations and supply options. The company in 2014 started discussions with Korea Gas Corp. about LNG supply and in April agreed to cooperate with Kansai Electric Power Co. The company may add staff in Singapore as it expands, Kimoto said. “A seismic shift is taking place in LNG markets,” Kimoto said. “We expect a shift from a rigid trade practice to a flexible business form. We want to deal only with suppliers who are open to such discussions.”

Rising oil oversupply keeps downward pressure on prices

AA Energy Terminal, *27.07.2016*

The downward pressure on crude prices has sustained with strong oversupply in the global markets which has been on the rise in recent months, although Wednesday’s oil prices increased 4 percent.

“Oil prices have slumped by more than 15 percent since the start of July,” said Thomas Pugh, a commodities economist at London-based Capital Economics. For the recent decline in prices, the expert laid out three reasons -- end of supply disruptions around the world, rising rig numbers in the U.S., and high oil inventories. Canadian wildfires nearly took out 1 million barrels per day (bpd) of crude supply off the global market in the last few months.

However, since the disruption ended, that supply has been returning to the market. In addition, Libyan oil output has also been increasing. “The recent deal between the Libyan government and militias, which control some oil facilities, has led to the reopening of ports with the capacity to export about 900,000 bpd,” Pugh explained.

Meanwhile, the number of oil rigs in the U.S. has been rising since the beginning of June, which indicates that American oil producers are slowly adapting to the low price environment and finding a way to still pump crude. In the last two months, the rig count rose by 58 to reach 374, according to the oilfield services company Baker Hughes’ data.

“An increase in drilling rig numbers has raised concerns that non-OPEC supply may not fall by as much this year as previously assumed,” Pugh said. He also added the high inventory levels of crude oil and petroleum products “could force refineries to rein in production later this year which would reduce demand for crude.”

While the glut of supply keeps prices low, weak global demand for oil intensifies the downward pressure on prices. “The slowing growth pace in the global economy causes overall demand to fall,” said Gizmen Nalbantli, a chief analyst at Istanbul-based Isik FX.

“Growth figures have slowed in many countries around the world, pulling down their oil demand,” he said, and stressed that supply did not fall comparatively much, especially among OPEC countries. The cartel refused to cut its output since mid-2014, when prices last peaked at $115 a barrel. Instead, the organization’s main producers, led by Saudi Arabia, rose individual production levels to preserve their market shares.

Nalbantli said that neither the Kingdom, nor their rival Iran and other major Gulf members, are expected to trim their output levels. “Iran’s oil production increased after the removal of sanctions. Iraq needs to sell as much oil as it can to fight against Daesh. And Saudi Arabia does not trust anyone, especially Russia and Iran, in order to agree on a collective output reduction,” he explained.

“It is very hard to find a balance between Saudi-led Gulf countries that led prices to fall to $26 a barrel [in January], and those remaining countries within OPEC like Venezuela and Iran that want the cartel to cut production,” he added.

Despite the glut of supply and low global demand, Pugh advocated that the oil market is still set to rebalance by the end of this year. He emphasized that non-OPEC supply, mostly the U.S.’, has fallen by over 1 million bpd and global demand has risen by around the same amount last year.

“We do not expect prices to return to the lows seen at the start of 2016. In fact, we still expect the prices of both Brent and WTI to finish the year at $45 per barrel, before rising to $60 per barrel by the end of 2017 as the market moves into deficit next year,” he said. On the other hand, Nalbantli stated that oil prices are unlikely to increase that much.

“As long as oversupply remains in the market, the rise in prices should not be expected to last long,” he concluded. Crude prices have been volatile this summer and are trying to find a direction. They fell around 4 percent Tuesday with worries over a glut of supply, but jumped 4 percent Wednesday after the rise in weekly gasoline inventories in the U.S.

Announcements & Reports

► *Energy Relations between Russia and China: Playing Chess with the Dragon*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/energy-relations-russia-china-playing-chess-dragon/

► *Oil and Gas: LNG at the Crossroads*

Source : Deloitte
Weblink : https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy-resources/us-er-oil-and-gas-lng-at-the-crossroads.pdf

► *Hydrocarbon Developments in the Eastern Mediterranean*

Source : Atlantic Council
Weblink : http://www.atlanticcouncil.org/images/publications/Hydrocarbon_Developments_in_the_Eastern_Mediterranean_web_0801.pdf

► *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/

Upcoming Events

► *The Oil & Gas Conference*

Date : 14 – 18 August 2016
Place : Denver, USA
Website : www.theoilandgasconference.com/

► *Asia Pacific Drilling Technology Conference & Exhibition*

Date : 22 – 24 August 2016
Place : Singapore
Website : www.spe.org/events/apdt/2016

► *Ultra - Deepwater & Onshore Technology Conference*

Date : 22 – 24 August 2016
Place : Texas, USA
Website : www.rpsea.org/events/503

► *FSRU Asia Summit*

Date : 06 – 07 September 2016
Place : Amara Sanctuary Resort Sentosa, Singapore
Website : http://www.fsrusummit.com/

► *23rd Annual India Oil & Gas Review Summit & International Exhibition*

Date : 09 – 10 September 2016
Place : Mumbai, India
Website : www.oilgas-events.com/india-oil-gas/

► *Rio Oil & Gas Expo & Conference*

Date : 14 – 16 September 2016
Place : Rio de Janeiro, Brazil
Website : https://www.whereinfair.com/rio-oil-gas-expo/rio-de-janeiro/2016-Sep/

► *Operational Excellence in Oil and Gas Europe*

Date : 19 – 21 September 2016
Place : London, UK
Website : http://www.opexinoilandgasemea.com/

► *Iran International Petroleum Congress (IIPC)*

Date : 19 – 21 September 2016
Place : Tehran, Iran
Website : www.iranpetroleumcongress.com/

► *2016 Deloitte Oil & Gas Conference*

Date : 21 September 2016
Place : Houston, USA
Website : www2.deloitte.com/us/en/pages/energy-and-resources/events/oil-and-gas-conference.html

► *Global Oil & Gas - Black Sea and Mediterranean*

Date : 22 – 23 September 2016
Place : Athens, Greece
Website : www.iene.eu

► *Global Oil & Gas South East Europe & Mediterranean Conference*

Date : 28 – 29 September 2016
Place : Athens, Greece
Website : www.oilgas-events.com/Global-Oil-Gas-Black-Sea-Mediterranean-Conference/

► *Kazakhstan International Oil & Gas Conference (KIOGE) 2016*

Date : 05 October 2016
Place : Almaty, Kazakhstan
Website : www.kioge.kz/en/conference/about-conference+

► *23rd World Energy Congress*

Date : 09 - 13 October 2016
Place : Istanbul, Turkey
Website : http://wec2016istanbul.org.tr/

► *International Conference on Oil Reserves & Production*

Date : 17 - 18 October 2016
Place : London, UK
Website : www.waset.org/conference/2016/10/london/ICORP

► *15th ERRA Energy Investment & Regulation Conference*

Date : 17 - 18 October 2016
Place : Budapest, Hungary
Website : http://erranet.org/InvestmentConferences/2016

► *The 8th Saudi Arabia International Oil & Gas Exhibition (SAOGE)*

Date : 17 - 19 October 2016
Place : Dammam, Saudi Arabia
Website : www.saoge.org

► *21st IENE National Conference "Energy and Development 2016"*

Date : 24 - 25 October 2016
Place : Athens, Greece
Website : www.iene.eu

► *SPE Russian Petroleum Technology Conference & Exhibition*

Date : 24 - 26 October 2016
Place : Moscow, Russia
Website : www.spe.org/events/rpc/2016/

► *Asia Pacific Oil & Gas Conference & Exhibition (APOGCE)*

Date : 25 - 27 October 2016
Place : Perth, Australia
Website : www.spe.org/events/apogce/2016/

► *International Conference & Expo on Oil & Gas*

Date : 27 - 28 October 2016
Place : Rome, Italy
Website : www.oil-gas.conferenceseries.com/

► *4th Iran Europe Oil & Gas Summit*

Date : 01 – 03 November 2016
Place : Berlin, Germany
Website : www.iransummit.com/

► *2nd International Conference & Expo on Oil & Gas*

Date : 02 – 03 November 2016
Place : Istanbul, Turkey
Website : www.oil-gas.omicsgroup.com/

► *European Autumn Gas Conference 2016*

Date : 15 – 17 November 2016
Place : Hague, Netherlands
Website : http://www.theeagc.com/

► *21st Annual Oil & Gas of Turkmenistan (OGT) Conference 2016*

Date : 16 – 17 November 2016
Place : Ashgabat, Turkmenistan
Website : http://www.ogt.theenergyexchange.co.uk/

► *Project Financing in Oil & Gas*

Date : 21 – 22 November 2016
Place : London, UK
Website : www.smi-online.co.uk/energy/uk/conference/Project-Financing-in-Oil-and-Gas

► *5th Greek Cyprus Energy Symposium*

Date : 29 - 30 November 2016
Place : Nicosia, Greek Cyprus
Website : www.iene.eu