Oil & Gas Bulletin

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Turkey to increase stake in Azeri gas pipeline

Today's Zaman, *11.12.2013*

Turkey is expected to increase its 20 percent stake in the multi-billion dollar project TANAP, designed to reduce Europe's reliance on Russian gas SOCAR said.

Rovnag Abdullayev, head of SOCAR, said on Tuesday that Turkey's stake would be increased at the expense of stakes offered to Statoil and Total. "The issue of how much Turkey's stake will be increased is under discussion now with other members of the consortium," Abdullayev told journalists. BP has agreed to join SOCAR and Turkey in TANAP by buying a 12 percent stake from Socar, industry sources and energy officials told Reuters last week.

That stake is estimated to cost $8 billion to $10 billion. TANAP is planned to start carrying 16 billion cubic meters (bcm) of gas a year in 2018 or 2019 from Azerbaijan's Shah Deniz II field in the Caspian Sea, one of the world's largest gas fields. It will be built from the Turkish-Georgian border to Turkey's border with Europe, with its preliminary total cost estimated at $20 billion. SOCAR currently has an 80 percent interest and Turkey the remaining 20 percent. SOCAR in November 2012 proposed selling 29 percent of TANAP to Norway's Statoil, France's Total and BP, which are all members of the Shah Deniz II consortium.

BP and Statoil were each offered 12 percent, and Total was expected to buy 5 percent. But the sources say Statoil and Total could opt to buy smaller stakes or withdraw from being partners in TANAP. The sources said BP, meanwhile, is considering a further boost to its stake on top of the 12 percent agreed. Abdullayev also said on Tuesday a final investment decision on Shah Deniz II would be made on Dec. 17, when members of the consortium and its partners will sign 39 documents. Earlier this year, SOCAR and its partners in Shah Deniz selected the Trans Adriatic Pipeline (TAP), which will connect with TANAP at Turkey's border Europe to carry the Azeri gas to Europe.

KRG: Kurdish oil to be transported to Turkey at beginning of 2014

Today's Zaman, *13.12.2013*

The Kurdish Regional Government's (KRG) spokesman, Safeen Dizayee, announced on Friday that Turkey and the KRG agreed on an oil deal 20 days ago and Kurdish oil will be transported to Turkey from the beginning of the New Year.

According to a report released on the website of the Anadolu news agency, Dizayee said the Kurdish Regional Government has been preparing to transport oil to Turkey for one-and-a-half years, but oil exports to Turkey were delayed because of technical problems. He said the pipeline to transfer the oil from the Kurdish Regional Government to Turkey is almost finalized.

"The agreement on transferring oil to Turkey was signed between Turkey and KRG is binding for both sides. The problem is not that the agreement is inked or not. It is all about the time and technical issues, which are still being discussed," the news agency reported Dizayee as saying. He refuted allegations that the oil transfer will be conducted after KRG Prime Minister Nechirvan Barzani's visit to Baghdad, where he is expected to convince Iraq's central government officials, who are concerned about the deal. "The visit of the prime minister aims to show the transparency [of the deal] and the benefit of it to all Iraqis," he said.

Reuters alleged this month that Turkey and KRG signed a package of landmark contracts on the semi-autonomous region's exporting oil to Turkey during Barzani's visit to Ankara on Nov. 27. Ankara said in a statement that during Barzani's visit to Ankara the two agreed on several commercial energy deals; however, the deals have not yet been finalized. Following the reports of the oil deal, Energy Minister Taner Yildiz, who refrained from confirming whether a deal was signed or not, said: "Signing [deals] isn't that important. What is important is for the process [for energy deals] to continue."

Davutoglu: Arbil-Baghdad row temporary but energy deals permanent

Hürriyet Daily News, *07.12.2013*

Ankara expects tension in Iraq to drop and energy cooperation with the central government and the autonomous Kurdish region to expand, Ahmet Davutoglu has said.

"Today, Arbil and Baghdad are two leaders who don't get along, but they might get along tomorrow. On the other hand, once it is determined from where the energy will be transferred, it won't be easy to change afterwards. Therefore, we must focus on what's permanent," Davutoğlu said during a live interview late Dec. 6 on private broadcaster Habertürk. "One wishes for Bagdhad and Arbil to overcome their problems.

But Turkey will continue to increase its cooperation on energy and other areas with Northern Iraq," he added. Two weeks ago, Turkey signed five trade contracts and one protocol - for the exploration of the multi-billion-dollar hydrocarbon resources of northern Iraq - with Iraqi Kurdish Regional Government (KRG) Prime Minister Nechirvan Barzani, stirring Baghdad's ire. The Iraqi government reacted by barring Turkish private planes from entering its airspace. Following Baghdad's move, Energy Minister Taner Yildiz, who was due to participate in a key energy conference in Arbil, traveled first to the Iraqi capital to brief about Ankara's deals with the KRG and to reassure the central government .

The discord comes amid suggestions that a new pipeline, linked to the existing Kirkuk-Ceyhan line, could begin pumping oil exports from KRG as early as next month. "Some want Turkey to just sit and watch as the energy flows. But our eyes are now open; energy will flow but Turkey won't just sit and watch. That energy will flow crossing Turkey," Davutoglu said. "They will make provocations and acts of terror. They will want the fraternal people in this geography to fight each other, to parcel out the energy resources, or for the prices of energy to increase to benefit some countries. But our goal is this: The more peace there is, the more energy there will be. That's why we want tension to drop in Iraq and Syria," he added. Davutoglu also touched on the issue of the border between Turkey and Iraq, saying it should "loosen its meaning" in the same way as the borders separating members of the European Union.

"There will be no Turkish-Kurdish conflict in this region. Hopefully, one day you will be able to go to Arbil with your one ID card, in the same way as you can go to Georgia. It will be the same one day for Aleppo and other places, as long as we don't waste our energy and continue with our vision," Davutoglu said. Azeri oil is planned to be carried to Turkish border via TANAP and then to Greece, Albania and Italy through the Trans Adriatic Pipeline (TAP). The Greek company DEPA is already continuing work to expand its connection with Bulgaria, with plans to build further smaller pipelines that will connect with pipeline networks in Romania, Hungary and Serbia, according to Harry Sachinis the CEO of DEPA.

Regional game-changers in energy, investment and geopolitics

Hürriyet Daily News, *12.12.2013*

The game has changed in energy. Its' rules and players, too. The real game-changer in this new age is the rising gas production in North America from shale basins, which is transforming the global gas market.

Russia's energy influence has also declined recently as a result of global game-changers, Moscow's inability to effectively and swiftly respond to them, and the domestic re-positioning of its energy actors. There is a growing understanding among Russian elites of the need for strategic change in the national energy policy to exploit the benefits better.

We will soon witness several major changes from the Kremlin, which will drastically change Russia's energy landscape. China is on an oil and gas shopping spree. Deep-pocketed Chinese energy firms have started to flex their muscles. They are snapping up foreign oil and gas companies at an increasing clip. Of the 10 biggest foreign mergers or acquisitions from Chinese companies this year, seven have been in the energy sector. With only one supplier, depressed European demand and other alternatives available, it is difficult to speak yet of a genuine Southern "Corridor". Its fore-runners, TANAP and TAP, are about to be started with final investment decisions to be made in December 2013. This Corridor is expected to cultivate partners in the Caucasus and Central Asia and bolster their sovereign independence, and perhaps most importantly.

Beyond Shah Deniz II gas, securing additional supplies for the Southern Corridor is crucial. Turkmenistan's conventional natural gas supply, the world's fourth largest, could join the Southern Corridor by constructing a Trans-Caspian Pipeline. However, a combination of inscrutable leadership, geopolitical pressure from Russia, and an investment climate unfriendly to energy majors has hampered progress. To fulfill the potential of the Southern Corridor, gas from new sources should be mobilized. Once the connection is completed, further sources of supply may start to follow, but that is dependent on the domestic political developments in these potential supplying states (such as Turkmenistan), developments in the region (KRG, Greeek Cyprus and Israel) and geopolitical changes (Iran), and these all currently remain for the time being distant possibilities.

Iran is an enigma – a country always expected to become a major exporter that became a net importer. Iran's quick comeback in world trade may have significant consequences in the region and on oil and gas prices with additional supply to the markets. A more stable region will offer good prospects for everybody, but again the normalization may take time too. As we see at the moment, the lifting of sanctions will be very gradual. If all goes well, the preliminary agreement between Iran and the five permanent members of the U.N. Security Council plus Germany would ensure the peaceful nature of Iran's nuclear program and ultimately reintegrate it into the international community.

In doing so, it would not only remove the threat of a debilitating war with Iran and prevent a nuclear arms race in the Middle East and North Africa, but also return the Islamic republic to the center stage of the region's energy and geo-politics. Nonetheless, Iran's return to the international community is likely to provide the incentive for it to constructively contribute to ending the bitter civil war in Syria, breaking the stalemate in fragile Lebanon where the Shiite militia Hezbollah plays a dominant role, and furthering efforts to achieve peace between Israelis and Palestinians. That would also take some of the sting out of the region's dangerous slide into the sectarian Sunni-Shiite conflict.

Iran's incentive to become more cooperative is the fact that the resolution of the nuclear issue would involve acknowledgement of the Islamic republic as a legitimate regional power, one of the seven regional players - alongside Turkey, Egypt, Iraq, Saudi Arabia, Israel and Pakistan - that have the ability or economic, military and technological strength to project power. It would also allow Iran to capitalize on the geostrategic gains it has made despite its international isolation. Iran is likely to be further motivated by an easing and ultimate lifting of the sanctions that will allow it to address boiling domestic social and economic discontent.

The Middle East will remain a fundamental energy player, and global energy markets and geopolitics will continue to be dominated by conventional hydrocarbons and traditional energy players. It is true that the U.S. preferences for providing energy security abroad may tend to be diminishing, but this is unlikely to result in a strategic retreat in key regions like the Middle East. European policy-makers should not be comforted by the hope that the unconventional revolution will reduce their suppliers' market power. In any case, conventional supplies will endure at the core of the EU's energy geopolitics.

In these still unsettled power shifts, Turkey has the potential to be one of the main beneficiaries of the game-changing developments across the globe in general and in the region, in particularly in terms of avoiding supply disruptions, easing the burden of high energy prices on its international competitiveness, curbing the current account deficit and enhancing people's purchasing power. What Turkey possesses to compensate for its energy supply deficiency is the best geographic position between the world's second-largest natural gas market, continental Europe, and the substantial gas reserves of Russia, the Caspian and Black Sea basins, the Middle East/Gulf and the Eastern Mediterranean. Turks are not content only to be a simple "bridge" over which energy flows; they aspire to become a regional "hub."

The country's inherent geography - its classic position as a crossroad between East and West, between North and South - makes it the natural choice to become such a regional center for trading oil, gas and petrochemicals. Yet, being a regional energy hub is not just having pipelines crisscrossing your territory. For Turkey to function as a regional, trusted hub, it must be able to import enough gas to satisfy both domestic demand and any re-export commitments. It should also liberalize the markets following good international practices, develop an integrated multi-disciplinary energy management system, pursue "soft-power diplomacy," avoiding sharp confrontations, invest in human capital and technology innovation, build "energy champions," operating like their successful international peers, and put the right governance structures and sound infrastructure in place.

Iran plans to build a pipeline to carry gas

Hürriyet Daily News, *13.12.2013*

“We know Iran plans to build a big pipeline to carry gas to Europe and five European countries have already planned to buy Iranian gas,” Turkish Energy Minister Taner Yildiz said.

“We know Iran plans to build a big pipeline to carry gas to Europe and five European countries have already planned to buy Iranian gas,” Taner Yildiz said. Iran plans to build a pipeline to carry Iranian gas to European countries that want to import its gas. We know Iran plans to build a big pipeline to carry gas to Europe and five European countries have already planned to buy Iranian gas,” Yildiz said, without giving any details about the route of the planned pipeline

“As long as Iran develops more ties with the world, its relations with Turkey will also improve,” he added. Turkey neighbors a region that is responsible for some 65 percent of energy production and consumption, Yildiz stressed. Iran made a historic deal with the U.S. and five other world powers on Nov. 24, accepting strict constraints on its nuclear program for the first time in a decade in exchange for partial relief from sanctions.

In the same meeting, Yildiz also said some progress could be made in the complex energy issues with Iraq. Turkey has expressed its intention to move the process forward through a three-way mechanism including Ankara, Arbil and Baghdad, to be able to import energy sources from northern Iraq’s Kurdish Regional Government (KRG) via a new planned pipeline. “We all made a pre-agreement to move along through a tripartite mechanism, then [Iraq’s deputy PM for energy] Hussain al-Shahristani and KRG Prime Minister Nechirvan Barzani said they could proceed without such a mechanism. The ball is now in the court of northern Iraq and the Iraqi central government,” Yildiz said.

Eastern Mediterranean Gas: Economics first, then politics

Natural Gas Europe, *12.12.2013*

The keynote opening speech of the 2nd Annual Frankfurt Gas Forum in Germany was made by Matthew Bryza, former US Deputy Assistant Secretary of State. Mr. Bryza gave a speech Europe's energy security scene and offered his perspectives on energy projects involved in the Southern Corridor.

But this year's Gas Forum focused on natural gas developments in the Eastern Mediterranean. Natural gas developments in that region could exert positive effects upon tense political situations among countries in the region, like between Turkey and Greece over Cyprus, or possibly even renew relations between Israel and Turkey.

Of Eastern Mediterranean gas, he said that while policies in the region needed to be more aligned for investments to happen, if the economics were lined up they could "feed back into the politics" and create breakthroughs that would have positive impacts upon investments in the region. He explained, "Eastern Mediterranean is a terrific example of how politics first need to line up – in this case Turkish relations with Israel, and Turkish relations with Cyprus – to enable the investments to happen.

But if and when the investments happen, I think we'll see some dramatic, even historic, breakthroughs on the Cyprus question and the restoration of the special relationship between Turkey and Israel that, in the late 1990s, was a strategic partnership that involved not only military cooperation, but extensive intelligence sharing as well." Among the high notes, Mr. Bryza noted, were the Israeli government's recent decision to allow 40% of its natural gas production to be exported, especially from its Leviathan field. Israel, he said, had also signalled that it sought two export options for its natural gas: one pipeline and one LNG option.

For Israel, selling its gas to markets like Egypt would be difficult, according to Mr. Bryza, while the permitting for onshore LNG could prove impossible given the environmental and security concerns. If not LNG onshore, he said there were two other options: Cyprus or a floating liquid natural gas terminal, which could address some of the political issues surrounding Turkey-Israel and the Cyprus question (but that would not create significant political breakthroughs). "Prime Minister Netanyahu would like, not only to use the natural gas to revolutionize the Israeli economy in many ways, develop new industries that are energy intensive, first and foremost ensure that Israel is self-sufficient in natural gas for years to come, but I think he also wants to use natural gas exports as a way to improve Israel's relations with key neighbors," he said, explaining that he thought some Israeli natural gas would be exported to Jordan, and some to the Palestinian territories.

He continued, “But if you're thinking about how to get the most geopolitical payoff for a natural gas export scheme to one of Israel's neighbors, I would argue that Turkey is the place you want to look – a country with great aspirations in the region, problematic at times, especially towards Israel. But if the natural gas exports could be used to restore a strategic partnership between Israel and Turkey, that would be a tremendous benefit for Israel.” Perhaps the most compelling way to get the gas to market was to build a pipeline to Turkey, which was easy he said, but this needed the permission of the government of Cyprus. Territorial delineations and allowing pipelines to pass through them, said Mr. Bryza, could be ambiguous, but states could also impose conditions on those pipelines passing through their territorial waters. Such situations created risks.

“How do you obtain Cypriot permission for a pipeline to cross its territory before you come up with a comprehensive settlement to the Cyprus problem – which I don't think is possible. What I do believe, is that energy investments could catalyze that breakthrough.” This meant, according to Mr. Bryza, that one helped Cyprus obtain an LNG terminal, which it had identified as a national priority. The problem was there clearly weren't enough proven reserves right now on Cyprus – it needed two LNG trains, he said. He said, “Everyone has their fingers crossed that Cyprus in coming years is going to discover much more gas, two trains will be viable. Cyprus will be happy if we generate income to help it with its financial difficulties, but those revenues are not going to flow for at least 10 years.”

If everything worked out perfectly, he explained, one wouldn't see revenues flowing to the Cypriot treasury until 10 or 11 years from now. He offered a solution. “Perhaps there's a way to take advantage of the fact that the same companies – Noble, Delek and Avner Oil – are developing Israel's Leviathan field, as are developing Cyprus' Aphrodite field. So is there a way, perhaps, to channel some of the early revenues from a pipeline from Israel to Turkey back into financing and risk reduction for an LNG facility on Cyprus?” he asked. “And could there be even some some excess gas, after a pipeline was developed from Israel to Turkey that could also be used to help develop the LNG facility? Or could there be compressed natural gas, which provides a way to ramp up production in the early years, in smaller volumes, without much commercial risk really and allow for there to be a pipeline from Israel to Turkey?”

Intergovernmental agreements, he said, were needed, among Cyprus, Turkey and Israel. He admitted, “It’s a tall order of course. It probably will require outside political leadership akin to what the US did regarding the BTC pipeline. “Right now, I don’t think the US nor the EU is willing to jump in, but I also know that there is a genuine desire in Washington to create a breakthrough on both the Cyprus question and on Turkey-Israel relations before the municipal elections that take place in Turkey this March.” This, of course, depended on the Turkish Prime Minister, who would have to decide whether he would play to the “less positive forces in Turkish politics, who like to take swipes at Israel and like to take swipes at Cyprus. Ultimately, only one man is going to decide whether or not Turkey is going to push for this breakthrough,” explained Matthew Bryza at the 2nd Annual Frankfurt Gas Forum.

Iran quits nuclear talks protesting US blacklist move

Hürriyet Daily News, *13.12.2013*

Iran has quit nuclear talks with the major powers, accusing Washington on Friday of going against the spirit of a landmark agreement reached last month by expanding its sanctions blacklist.

A spokesman for Catherine Ashton, who represents the powers in the talks, said both sides had headed home for consultations and that she expected the talks to resume soon. Abbas Araqchi said the US move went against the spirit of the deal struck in Geneva under which the powers undertook to impose no further sanctions for six months and Tehran was weighing the "appropriate response".

"America's move is against the spirit of the Geneva deal," Araqchi told the Fars news agency as his team headed back to Tehran from Vienna. "We are evaluating the situation and will make the appropriate response," he said. Under the deal, Iran agreed to freeze parts of its suspect nuclear programme for six months in return for some $7 billion in relief from Western sanctions as it negotiates a final, comprehensive accord to allay suspicions it seeks a weapons capability. Iranian negotiators quit the implementation talks late on their fourth day Thursday after Washington blacklisted a dozen companies and individuals for evading US sanctions.

Mehr news agency quoted informed sources as saying the "new American sanctions" were the reason for the interruption. "The negotiations were halted by Iranian delegation because of new American sanctions. The Iranian negotiating team has halted the talks at this stage and are headed back to the capital due to America's lack of commitment to the agreement," Mehr reported. But a spokesman for the EU foreign policy chief said both sides needed to return home for consultations and that Iran's move was not unilateral. "After four days of lengthy and detailed talks, reflecting the complexity of the technical issues discussed, it became clear that further work is needed," Ashton's spokesman Michael Mann said.

"There will now be consultations in capitals, in the expectation that technical talks will continue soon," he added. Under the Geneva deal, Washington agreed to refrain from imposing new sanctions on Iran. But senior administration officials argued that Thursday's blacklistings were carried out within the framework of the existing sanctions regime which had forced Tehran to the negotiating table and did not constitute new measures. The blacklisting of a dozen additional foreign firms and individuals for evading US sanctions was widely seen as a move to head off moves in Congress to impose additional sanctions that would be in clear breach of the Geneva agreement. Administration officials insisted the timing was entirely coincidental.

But just hours afterwards, Senate banking committee chairman Tim Johnson and the committee's top Republican Michael Crapo agreed with the White House that Washington should not introduce new sanctions, warning they could "rupture" international unity against Tehran's nuclear programme. The comments virtually assured that no new sanctions legislation would pass Congress before the year-end break, although lawmakers could controversially introduce a new sanctions bill within the next week. "A new round of US sanctions now could rupture the unity of the international coalition against Iran's nuclear programme," Johnson said.

Those blacklisted on Thursday included the Singapore-based Mid Oil Asia and Singa Tankers, both companies accused of helping Iran transfer badly needed funds to a foreign bank on behalf of the National Iranian Tanker Company. Ukrainian national Vitaly Sokolenko and his Odessa-based firm Ferland Company Limited were cited for helping to broker the sales of Iranian oil and transfer the crude from ship to ship. "Today's actions should be a stark reminder to businesses, banks and brokers everywhere that we will continue relentlessly to enforce our sanctions, even as we explore the possibility of a long-term, comprehensive resolution of our concerns with Iran's nuclear programme," said David Cohen, Treasury undersecretary for terrorism and financial intelligence..

Iranian oil in the global market

Today's Zaman, *09.12.2013*

Western investments in the Iranian energy sector are affecting the energy markets of Iran, the Middle East and the rest of the world. If the agreement made in Geneva is fully put into effect, it will mean important results for many countries.

This is why the eyes of the whole world are locked on the future of the agreement. It is not just politicians who are closing following the situation; oil companies also want to see if Iran will adhere to the agreement. Iran is the world's third-largest oil producer; however, it has been having difficulty exporting its oil due to sanctions imposed by the West.

Iran's ICOFC gas output surpasses 300 million cubic meters per day

Trend.Az, *07.12.2013*

The daily gas production of Iranian Central Oil Fields Company (ICOFC) on Dec. 5 surpassed 301 million cubic meters, the managing director of company said on Dec. 6. "ICOFC is currently able to produce more than its nominal capacity," the ISNA News Agency quoted Mehdi Fakour as saying.

The produced amount on Dec. 5 is around 2 million cubic meters more than the company's nominal capacity. Fakour said on Nov. 10 that the daily gas production of Iranian Central Oil Fields Company will surpass 351 million cubic meters in two years.

"The company's production capacity currently stands at 300 million cubic meters per day for cold months and 240 million cubic meters for warm months," the IRNA News Agency quoted Mehdi Fakour as saying.Iran's Oil Minister Bijan Namdar Zanganeh said in October that Iran will become self-sufficient from gas imports after the Iranian 1394 solar year which will start on March 20, 2015. According to Shana News Agency, Zanganeh said on Oct. 30 that gas shares 70 per cent of Iran's energy consumption basket. Iran has 33.6 trillion cubic meters of gas reserves. According to the U.S. Energy Information Administration report, Iran's natural dried gas output was about 153 billion cubic meters (bcm) which is as much as the domestic consumption figures.

According to this report released in March 2013, overall, Iran's natural gas consumption is expected to grow around seven per cent annually for the next decade. Natural gas accounted for about 59 per cent of Iran's total domestic energy consumption in 2010 with oil consumption at 39 per cent of total energy use, according to EIA. Iran eyes boosting gas production by commencing 12 new phases of the joint South Pars gas field, but Zanganeh said there are only two, Phases 15 and16, until March 2015. Iran needs a $25 billion investment to commence remaining phases of South Pars (phases 11 to 24) to boost gas output by 300 mcbpd in 2.5 years.

Iran, India meet to discuss oil payments

Today's Zaman, *10.12.2013*

Indian and Iranian officials are meeting this week to discuss how to unlock the first oil payments to Iran since the US and other world powers eased sanctions last month in exchange for curbs to Tehran's nuclear program.

Last month six world powers and Tehran reached an interim deal that provided limited relief to Iran from economic sanctions, opening the way for some oil payments to resume. The deal is a chance for Iran's new leadership to revive the country's economy, plagued with high inflation and a weakened currency since being cut off from the global financial system after sanctions were imposed in 2012.

The West believes Iran is trying to make a bomb, while the Middle Eastern nation says it program is for power generation. India and Iran are to discuss how to restart oil payments in foreign currencies, including a plan to process partial payments for oil in euros through a Turkish bank, two government sources said. A delegation of Iranian officials led by Gholamali Kamyab, deputy governor at Iranian Central Bank, is in India until December 13, and is meeting with officials of the finance ministry and Reserve Bank of India on Tuesday, the sources said. Iran had asked Indian refiners in mid-October, before the deal was reached with world powers, to resume paying for oil imports in euros through Turkey's Halkbank but the refiners are still seeking directions from the government.

India started settling 55 percent of its payments for Iranian crude in euros through Halkbank in mid-2012. The rest was settled in rupees through India's UCO Bank. But the Halkbank route was halted in February this year when fresh sanctions prevented Iran from repatriating cash earned from oil it has been able to sell, crippling its economy by choking off its biggest revenue stream. Since then Indian refiners have been withholding payment for 55 percent of their Iranian oil imports, while Iran scouted for an alternative way to receive that money in hard currencies like dollar and euros.

Iran ready to supply gas to India through underwater pipeline

Natural Gas Asia, *13.12.2013*

Iran is ready to supply natural gas to India through a deepwater pipeline crossing the Sea of Oman, an Iranian official said. "Negotiations were held with three Indian companies for [their] purchase of gas from Iran, and general agreements have been reached," Ali Amirani, director of marketing at National Iranian Gas Exports Company (NIGEC), said, reports Press TV.

According to Press TV, the director added that Iran and India are expected to start talks about gas sales and pricing after the finalization of the agreements in a months' time hoping to receive concrete results.

India's South Asia Gas Enterprise Pvt. Ltd. (SAGE) has conducted feasibility studies for the planned 1,400-kilometer pipeline, which is estimated to cost $4-5 billion and would carry 31 million cubic meters (mcm) per day of gas to India.The gas would come from Iran's gigantic South Pars gas field.

EU obstacles for SOCAR in its pursuit of DESFA

Natural Gas Europe, *12.12.2013*

Azeri state-owned oil and natural gas company SOCAR was successful last summer in its €400 million bid to acquire management and 66% of Greek gas transmission company DESFA and was set to enter the Greek market by the end of 2013. A sudden obstacle however was put forward by the European Commission that may well delay the process for up to a year.

At a recent meeting in Brussels between SOCAR and Greek officials along with the Greek energy regulatory authority and heads of the DG Energy, the following procedure was put forward by Brussels to the Greek-Azeri delegation.

An EU-Azeri intergovernmental agreement needs to be signed that will need to be ratified by the European Parliament thereafter, as well as by the Parliament of Azerbaijan. The agreement will specifically stipulate Baku's adherence to the EU's Third Energy Package that separates in full the gas production corporate structure from transmission and trading. This is the first time such a request for a privatization is put forth by Brussels, which replied to both interested parties that it is also the first time that a state producer and trading company - such as SOCAR - acquires a controlling stake in an EU gas transmission corporation, such as DESFA.

Despite arguments put forward by Athens and Baku, Brussels is adamant that all legal procedures must be followed, which primarily means that the privatization is still ongoing and SOCAR is not formally the owner of DESFA and may well lose the case in the coming months. Government and media sources in Athens roughly estimate that it will take around a year to complete all steps and there is growing fear that SOCAR may feel disappointed and abandon its venture into the Greek market, thus derailing the privatization project of the government. Greek Premier Antonis Samaras will visit Baku mid-December to inaugurate the Southern Corridor and the Trans-Adriatic Pipeline (TAP) as Greece is a basic component of the pipeline.

He will also discuss the issue of DESFA with local stakeholders so as to speed up the privatization process. It should be noted that SOCAR's main interest in the Greek market is due to the selection of TAP as the preferred Southern Gas Corridor route. One main assumption derived from the above is that the EU bureaucracy places great interest on promoting the Third Energy Package even against the will of the majority of EU states that want, in the case of Greece, to raise its budget revenues by selling off state assets, whilst at the same time diversifying its energy imports from Russia. In that sense, DG Energy is indirectly eyeing Gazprom by relaying the message that the energy rules will be enforced in any case and in all member states, thus the issues that were brought up recently regarding South Stream's intergovernmental agreements and Brussels' negative stance will certainly be looked upon by the angle of the strict enforcement of the Third Energy Package.

Nevertheless, due to the fact that a set of political and diplomatic initiatives by different by influential state and non-state actors influenced the speedy establishment of the Southern Corridor and the entrance of SOCAR into the Southeastern European market, the pressure exercised by DG Energy may well backlash and legal complications directed against Brussels are not out of the question. Natural Gas Europe was been privy to information from a credible source that companies such as SOCAR and Gazprom - each one for its own agenda and interest - are accumulating top-tier legal advice against the DG instructions in a matter of issues, including the DESFA privatization, South Stream, intergovernmental agreements and other similar fields.

Concurrently, the Greek government is seriously thinking of protesting at a political level during its EU Presidency in the first half of 2014, should it realize that Azeri interests will wane due to the legal complications originating in Brussels. A recent meeting between Samaras and Oettinger in Athens touched upon the subject but no breakthroughs have been made as of yet. In a similar nature and as far as the South Stream pipeline project is concerned, the governments of Bulgaria, Serbia, Slovenia and Hungary have defended their intergovernmental agreements with Russia and with the South Stream consortium in a form of defiance against Brussels.

On the other hand, it is a well-known ‘secret’ that even if the Third Energy Package were to be enforced in full and under the purest legal terms, then companies such as Gazprom could exchange parts of their controlling stake with other state-owned companies or influenced companies in Russia such as Rosneft or Novatek and in reality overcome any EU rules, without changing the “norms of the energy game” at any significant level. The same can be said for Azerbaijan.

SOFAZ to start financing Azerbaijan’s share in TANAP project

Natural Gas Europe, *09.12.2013*

Azerbaijan’s state oil fund SOFAZ will soon start financing Azerbaijan’s share in the TANAP project. The news was announced by Executive Director of the fund Shahmar Movsumov at the third Caspian Forum in Istanbul.

“The Oil Fund has financed a part of the state’s share in the Baku-Tbilisi-Ceyhan pipeline project, and also began to invest in the construction of Star oil refinery in Turkey this year. We will continue to invest in major infrastructure projects in Turkey in the future,” Movsumov said. SOFAZ has directed 800 million manats (about $1.02 billion) to the implementation of the TANAP construction project.

SOCAR for operation of Baku-Novorossiysk pipeline in reverse mode

Today.Az, *09.12.2013*

Operation of the Baku-Novorossiysk pipeline in reverse mode is beneficial for both Azerbaijani and Russian side, a senior official of SOCAR told Trend, commenting on the issue of suspending Azerbaijani oil supplies on this route next year.

“Its advantage for Russia is that Russian oil will be delivered to the Mediterranean Sea to Ceyhan [through the Baku-Tbilisi-Ceyhan] for the first time either in purely physical terms or in the form of SWAP,” SOCAR official said. SOCAR official went on to note that SOCAR may increase the volumes of Azerbaijani oil pumping via the Baku-Novorossiysk pipeline to five million tons in case of preservation of its quality.

Currently Azerbaijani oil is being shipped from the Novorossiysk port under the name of the Russian export blend, URALS. “Despite the relative unprofitability compared to the Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines, the Baku-Novorossiysk was one of the three pipelines, which exported our oil, and a country that has no outlet to the open seas, is in need of more pipelines,” SOCAR senior official stressed. To date the Azerbaijani and Russian sides have not yet found a mutually acceptable solution on the work of the pipeline, but the negotiations are continuing. If the parties do not agree, in accordance with the intergovernmental agreement, pumping of Azerbaijani oil through the pipeline will be suspended in February 2014, SOCAR representative said. In May, the Prime Minister of Russia Dmitry Medvedev signed a decree to terminate the agreement with Azerbaijan on the transit of Azerbaijani oil via the Baku-Novorossiysk pipeline.

EU Energy commissioner heads to Baku

Today.Az, *13.12.2013*

The European Union energy commissioner Gunther Oettinger is expected to visit the Azerbaijan capital city, Baku in December, a source in the Energy Department of the European Commission , who asked not to be identified.

The aim of Oettinger's visit is to attend a ceremony finalizing an investment decision on the second phase of development of the offshore Shah Deniz field on Dec. 17.The exact dates of his visit are under consideration, the source said. During the ceremony 39 documents are expected to be signed. The contract on development of the Shah Deniz gas and condensate field was signed on June 4, 1996.

Stakeholders are: BP (operator) and Statoil with 25.5 percent each, NICO with 10 percent, Total with 10 per- cent, Lukoil with 10 percent, TPAO with 9 percent and SOCAR with 10 percent.
Reserves at the Shah Deniz field are estimated at 1.2 trillion cubic meters of gas. The cost of the second phase of Shah Deniz field's development is estimated at $25 billion, according to BP's third - quarter report. They plan to obtain the first volumes of gas in 2018.The second development phase plans to produce some 16 billion cubic meters of gas (9 billion - during the first phase), six billion cubic meters of which will be transported to Turkey and six billion cubic meters will be delivered to Europe.

The consortium of Azerbaijani Shah Deniz gas and condensate field development announced its choice of the TAP project in late June, as a route for transportation of gas to the European markets. The gas produced in the second phase of the Shah Deniz field is considered to be the primary source of the project. The initial capacity of the TAP pipeline will stand at 10 billion cubic meters per year, with a chance of increasing these figures to 20 billion cubic meters per year. Trans-Anatolian gas pipeline (TANAP) will be built to transport gas through Turkey; this pipeline will ensure gas deliveries to the European border.

Libya loses $7 billion to oil strikes, must find new buyers

Hürriyet Daily News, *08.12.2013*

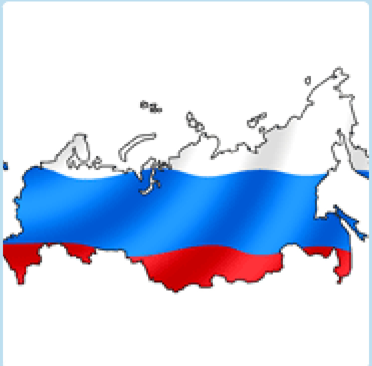
Libya has lost more than $7 billion and faces new competition from Algeria and Nigeria in oil markets due to strikes at oilfields and ports drying up exports, Oil Minister Abdelbari al-Arusi said on Dec. 7.

A mix of militias, tribesmen and civil servants have seized most oil ports and fields to demand more political power or higher pay, throttling Libya's oil export lifeline. The OPEC producer is facing turmoil as Prime Minister Ali Zeidan's government struggles to control dozens of former militias which helped oust Muammar Gaddafi two years ago but which have refused to give up their arms.

Arusi said Libya had lost 9 billion Libyan dinars ($7.29 billion) in oil revenues after output had fallen to 250,000 barrels a day from 1.4 million bpd in July. He did not say how much Libya is exporting, but his deputy told Reuters last week that up to 50 percent of output was being used to keep the 120,000 bpd Zawiya refinery running. "We are facing a big problem because oil from Algeria and oil from Nigeria has entered the Mediterranean (market),"Arusi told al-Naba television station. "We have started looking for new markets in east Asia to offset the loss." Arusi said the government was having trouble drafting a 2014 budget due to the drop in production from 1.4 million bpd in July to 250,000 bpd now. "We have a problem now. How are we supposed to prepare the budget?" he asked, adding that initial planning had assumed output of around 1.3 million bpd.

Russia is restricting Gazprom's monopoly on Exports

Natural Gas Europe, *09.12.2013*



An act restricting Gazprom's monopoly in Russian gas exports came into effect on 1 December 2013. Previously Gazprom had had a legal guarantee to its monopoly position. The changes are an effect of consultations between various ministries that had been conducted for many months and were affected by lobbying from Novatek and Rosneft; they need not, though, be seen as system changes.

The 'liberalisation' they appear to bring in is feigned. Proof of this are found for example in both the limited material scope of the new law and the small number of the beneficiaries of the new regulations.

Contrary to initial announcements, the right to export LNG has not been restricted to South-Eastern Asian markets, which means that Russian liquefied natural gas is also likely to be sold to Europe in the coming years. Although these changes have been motivated above all by the individual interests of Gazprom's competitors, they are also to a certain extent a response to the processes taking place on regional gas markets. They may, therefore, turn out to be beneficial for the state (increasing Russia's share on the global LNG market and attracting foreign investors to gas extraction projects being implemented in Russia). The new regulations are probably the first step down the long road to breaking Gazprom's monopoly in gas exports via the pipeline system.

Gazprom was formally recognised as an export monopoly in the Federal Law on Gas Export of 18 July 2006. The company was thus vested with the exclusive right to export both gas transported via pipelines and LNG. This regulation did not extend to projects which were implemented by energy companies under production sharing agreements (PSA), which concerned, for example, Rosneft's project in the Far East. Other companies interested in gas exports could enter into 'agency agreements' with Gazprom Export, a company which was acting as an agent in relations with foreign partners.

The need to put limits on Gazprom's privileged position has been mentioned on numerous occasions in discussions within government circles. Formally, the change process was initiated in 2012 by Novatek, the key 'independent' gas producer in Russia. As Novatek's position progressively strengthened on the domestic gas market, it started demanding to be given the right to export liquefied natural gas by itself as it was planning to produce LNG as part of the Yamal-LNG project. Its management argued that this would not only facilitate the conclusion of export contracts, but would also contribute to attracting more foreign investments in the gas extraction sector. In November 2012, Novatek submitted a formal motion to this effect to the Ministry for Energy. Along with other ministries[3] one month later the Ministry for Energy granted this motion and sent a special report to the presidential administration.

Prime Minister Dmitry Medvedev also expressed his support for the gas export rules to be liberalised at the World Economic Forum in Davos in January 2013. However, the key event which triggered the change process was the meeting of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security on 13 February 2013, when Novatek's proposal, backed during the discussion by the CEOs of Rosneft and Zarubezhneft, Igor Sechin and Sergey Kudryashov, was approved by Vladimir Putin.

The changes were introduced via the amendment of two laws: the Federal Law on Gas Export (Articles 1 and 3) and the Federal Law on the Grounds for Governmental Adjustment of the Foreign Trade (Articles 13 and 24). Pursuant to initial demands, the liberalisation of gas exports should be gradual, as regards both the depth of the planned changes (limiting the scope of the regulations in terms of the subject matter and the entities covered by them) and the procedures set for introducing the changes (export licences to be issued upon conclusion of contracts with LNG importers).

As regards the entities covered by the regulations, the new acts set general criteria which need to be met by companies applying for the right to export LNG. Export licences can be granted to: 1) companies which operate on fields under a licence which as of 1 January 2013 provides for a liquefying plant to be built or the liquefaction of the extracted gas; and 2) state-owned companies (and their subsidiaries) controlled by the state to more than 50% which operate on fields located within the internal waters, territorial sea and the continental shelf, including the Black Sea and the Sea of Azov, that make LNG from the natural gas extracted from these fields, not excluding the natural gas extracted as part of production sharing agreements.

In theory, the criteria for granting LNG export licences are general. However, in practice, considering the situation in the Russian gas sector, the group of companies that will benefit from the new solution will be very small, and will include Novatek, Rosneft and Zarubezhneft (though this has not yet been confirmed since the licence granted to this company does not provide for the construction of a liquefying plant). As regards the subject matter of the new regulations, Gazprom's export monopoly will be restricted only in the case of liquefied natural gas. Nevertheless, the act does not provide for a geographical restriction which was originally planned (this was the standpoint taken by President Putin, Prime Minister Medvedev and Rosneft). Initially, it was announced that gas export liberalisation will only concern projects under which LNG would be supplied to Asian markets.

However, LNG exports will be subject to rationing, since prospective exporters will have to obtain export licences. In order to obtain these licences, they must meet the general statutory criteria and sign contracts with gas importers (contracts or general terms and conditions of contracts). One of the most disputed issues during legislative work was how to identify the authority in charge of issuing export licences and the possible coordination of LNG exports. The Ministry for Energy insisted that these competences should be assigned to it or possibly to a newly created authority reporting to the government. Another vision, which Igor Sechin was lobbying for, provided that these competences should be granted to the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security. Finally, following special presidential instructions, the competences were given to the Ministry for Energy.

The ministry will also be in charge of enforcing the statutory obligation which gas exporters will have to provide information on export volumes and directions. The main reason behind the introduction of the changes were the economic interests of the political-business groups who are close to Vladimir Putin. The key figures among them are Gennady Timchenko, co-owner of Novatek, and Igor Sechin, the CEO of Rosneft, both of whom are interested in their firms launching a gas expansion both on the Russian market and abroad (however, considering the limited domestic demand, only gas exports to foreign markets can guarantee profits). The recent moves are also a response to changes taking place on gas markets worldwide, in particular the rapid development of the global LNG market.

Proof of this can be found in President Putin’s statement; when pointing to the need to gradually liberalise LNG trade he argued that budget incomes from gas sales had been regularly falling partly due to a significant reduction in supplies to Europe in 2012. He also expressed his concern that if Russia fails to act quickly, it may lose its chance of entering the rapidly developing LNG market in South-Eastern Asia. This has also been confirmed by declarations from energy companies indicating that LNG output from Russian fields (primarily those located on the Yamal Peninsula) is to be sold mainly to the promising Asian markets, especially to China, Japan, India, South Korea and Taiwan. The forecasts available so far indicate that gas demand in this region will grow significantly until 2025 (up to 600–800 billion m3 annually), almost 50% of which will be demand for LNG.

Although the Asian direction for Russian LNG exports was initially seen as the main reason for the liberalisation, the final form the regulation has taken proves that another major reason was the need to protect the Russian position on the strategic European gas market. The geographic restriction initially planned (excluding Europe as an LNG export direction for entities other than Gazprom) was primarily aimed at avoiding competition between Russian gas companies (in particular, protecting the position of Gazprom, which supplies gas to Europe via pipelines). The final stance taken by the Russian government is proof not only of Novatek’s lobbying success (this company was openly opposing the imposition of geographical restrictions and also declared its interest in exporting LNG to Europe but also of an evolution in the approach to LNG market development in Europe.

As recently as January 2013, Yuri Sentyurin, the deputy minister for energy, emphasised that Russia does not see Europe as a promising direction for LNG exports. In turn, in October 2013, when stating the rationale behind the bill restricting Gazprom’s export monopoly, the government envisioned a rapid development of the European LNG market and thus made it one of the key arguments for the introduction of changes. The president’s decision was also influenced by the fact that Gazprom’s efficiency is constantly falling (in particular since it underrated the consequences of the shale gas revolution in the USA for the implementation of the Russian gas strategy, the slow rate of implementing LNG projects resulting in Gazprom’s low share in global LNG trade, and its weakening position on the European gas market).

The introduction of this regulation should not be treated as a systemic change.This is because the initiators of the changes and also the sole beneficiaries of them are Gazprom’s competitors, so-called “independent gas producers”: Novatek and Rosneft (the latter, being the largest state-owned oil company, is more and more engaged in energy projects on the Russian sea shelf, and a great part of the licences it holds cover gas field operation). Their new right to apply for export licences will strengthen their position in the Russian gas sector, while Gazprom’s position is continually weakening.

The changes, however limited their nature may be, may nevertheless have positive consequences for the Russian gas sector. The promises that gas export rules will be liberalised have alone contributed to an intensification of efforts taken by Russian energy companies in the LNG sector, including above all speeding up negotiations regarding new contracts and, as has been the case with Gazprom, the announcement of new LNG projects (the complete list of LNG projects in Russia is provided in Appendix). By creating makeshift internal competition, they can gain more opportunities for attracting foreign partners, and thus the investments and technologies necessary to implement expensive extraction projects in Russia. The first example is the purchase of a 20% stake in the Yamal-LNG project by China's CNPC.

It is very likely that the curb on Gazprom's export monopoly marks the first step on the way towards a demonopolisation of pipeline gas exports. This has been incidentally hinted at by representatives of government circles (the Ministry for Energy is considering a scenario under which Nord Stream and South Stream will form a separate company, which could have a positive effect on excluding both pipelines from being covered by the third energy package regime). On the one hand, voices rejecting such proposals can be heard (for example, Igor Sechin in his statement in October this year pointed only to the need for ongoing solutions to problems concerning tariffs for gas transport using Gazprom-controlled pipelines). Nevertheless, this option has not been ruled out by the Russian Minister for Energy, Aleksandr Novak. Furthermore, Rosneft's deputy CEO, Vlada Rusakova said that this scenario was very likely.

Although the new regulations do not provide for any special mechanism for the coordination of Russian LNG exports de iure, the arbitrary manner of granting export licences by the Ministry for Energy de facto will mean that ultimately it is the state who will decide on export directions and volumes. Another instrument for export control is export duty imposed on liquefied gas. The fact that a 0% rate has been imposed means that the financial effect will be the same as if the duty had not been imposed. However, the imposition of this duty means major procedural restrictions during the customs clearance of goods and can be seen as a form of registration of LNG export volumes. The changes may turn out to be beneficial for Russia as its position on foreign gas markets could become stronger.

This primarily concerns the South-East Asia region, one proof of which are the contracts already concluded with potential importers of Russian gas. At the World Economic Forum in Saint Petersburg in June 2013, Rosneft signed LNG supply contracts with Japan's Marubeni and SODECO, and with the trading company Vitol. In turn, Novatek signed initial agreements with China's CNPC. Another consequence of the liberalisation is the intensification of actions by Gazprom itself; by announcing the decision to expand its LNG plant operating as part of the only active LNG project (Sakhalin-2) and by building another one as part of the new project, Vladivostok LNG, it hopes to increase its share in the Asian liquefied natural gas market.

The new regulations may also result in Russia's position on the European gas marketbeing reinforced. This will mean both an increase in its share in LNG trade and the emergence of new Russian gas exporters in Europe. This has been illustrated byNovatek's plans: the company announced on 1 November 2013, one day after the bill was accepted by the government, that it has signed a 25-year contract with Spain's largest importer of liquefied natural gas, Gas Natural Fenosa. In May 2013, (unconfirmed) information was leaked that Yamal-LNG and Britain's BP had signed a framework agreement on supplies of liquefied natural gas to the United Kingdom.

Seeing Novatek’s activity, Gazprom has also intensified actions in the LNG sector aimed at supplies to Europe. Gazprom’s board of directors updated the company’s strategy of 2008 regarding the production and supplies of liquefied natural gas already in October 2012. The company also announced in May 2013 that it would embark on new LNG projects by the Baltic Sea: the construction of a new LNG plant in Leningrad Oblast (the exact location is not certain yet, probably the Ust-Luga port) and a regasification terminal in Kaliningrad. The fact that Gazprom’s competitors have been granted the right to export LNG to Europe poses no essential threat to the interests of this state-controlled company.

This is because Russian gas exported to Europe in liquefied form would be supplied primarily to those countries which do not import gas via pipelines (Spain, Portugal and the United Kingdom). A certain degree of rivalry could only be expected should Gazprom become more active on the European LNG market. However, it seems quite unrealistic that Gazprom will achieve its ambitious plans, considering its financial troubles and the fact that infrastructural pipeline projects (South Stream) are being pushed through. The adopted solution thusde facto means that the European market might in a way be divided between Russian exporters. It cannot be ruled out that the emergence of many new Russian suppliers on the European market will trigger a broader process of demonopolisation of Russia’s gas presence in Europe; this would facilitate Moscow’s functioning under the conditions of the third energy package which is being implemented by the EU member states.

Both the change process itself (it took longer than expected) and the final form the changes took prove that rivalry between Russian energy companies is intensifying. The position of energy lobbyists in the Russian economy and their personal links with Vladimir Putin are making it difficult for him to play the role of arbiter and key decision-maker in this strategic sector of the economy. This is illustrated by the form of the regulations adopted, which are an expression of a kind of compromise. It was the president’s intention on the one hand to take into account the interests of Novatek and Rosneft, and on the other hand to protect Gazprom which, despite its weakening position resulting from rivalry in the Russian energy sector at home and also the difficult situation on foreign markets, is still an important source of funds needed for the implementation of Russia’s flagship projects (including financial support for Sochi 2014) and probably a major source of income for members of the Russian political elite.

The new regulations will not bring about any major changes in the system. Instead, they will rather serve to legally sanction a reconfiguration of influences in the Russian gas sector (the weakening position of Gazprom, and the increasing significance of Novatek and Rosneft). However, it cannot be ruled out that the scope of liberalisation will be extended to gas exported via pipelines as the ambitions of the ‘independent’ gas players grow and the needs to recapitalise the Russian energy sector become greater, and also considering the challenges resulting from the evolution of foreign gas markets. However, a complete system change would require not only ownership transformation but also a revision of the principles upon which the functioning of the energy sector is based. This is rather unlikely in the immediate future.

Strangling shale gas in Europe

Natural Gas Europe, *07.12.2013*

Extending environmental regulations to all drilling—including exploratory wells—will cut the EU out of the global oil and gas boom. In October the European Parliament narrowly voted to extend the EU's Environmental Impact Assessment (EIA) directive to the drilling of a single shale-gas well. National ministers are due to vote on the move in the EU Council this month.

If they uphold the measure, all shale exploration underway in Europe - from the Bowland Basin in Lancashire, England, to Lublin Province in Poland - will face significant new delays for extraction.

The larger danger for Europe is that energy investors may take such a decision as a signal to give up on the EU as a place to develop shale oil and gas. There are now so many more opportunities world-wide for shale-gas development that the industry may conclude its best strategy in Europe is to stay out of it. The EIA directive has been in force since 1985 as a key plank of EU environmental regulation. It mandates the standards and procedures for environmental assessments and provides a list of projects that must be subject to them. The list, known as "Annex 1," has so far been limited to major energy and infrastructure development, chemical and steel installations, and work with a well-established risk of hazard—asbestos extraction and processing, radioactive waste disposal and so forth. Currently the rules only require an EIA for gas drilling if the commercial extraction exceeds 500,000 cubic meters per day.

That excludes the overwhelming majority of commercial shale wells that Europe might see in the future, and certainly the test wells it will take to get there. Most operating shale wells in the U.S. and China produce less than 100,000 cubic meters apiece per day. The EIA rule-change would require that all "exploration and exploitation of non-conventional hydrocarbons" - i.e., every hydraulically fractured shale well—be subject to a complex and costly assessment, regardless of how much gas the well produces. The assessment would add approximately a year-long delay to development, and would be mandatory even for test wells that might never turn a profit. That would include, for instance, the exploratory well in Poland that's been producing about 8,000 cubic meters of gas per day since the summer.

It's not as if the industry isn't already facing national and local regulation. There is not yet a single shale-gas well anywhere in Europe producing commercial flows. Cuadrilla Resources started looking into British shale in 2008 and is still waiting on the permits and approvals to commercialize the gas. So why are EU regulators in such a rush? Surely it would be wiser to wait for Poland, the U.K. and others to proceed with exploration and commercial development. Then, after more national regulatory experimentation, EU institutions would be better able to work out where European regulation could add real value. Then again, from an environmental perspective it may be that EU-wide regulation is of little value at all, given the nature of environmental impact.

The EU's 28 nations cover 4.4 million square kilometers and come with vastly different geologies and natural resources, not to mention different property rights and legal systems. What's good for the Baltic Basin might not work at all for the Fylde Coast. The controversy also raises a major constitutional question: Under the EU principle of subsidiarity, how could European officials even propose a rule that would regulate down to the level of a single test well? Article 194 of the Treaty on the Functioning of the EU states that European environmental policy "shall not affect a Member State's right to determine the conditions for exploiting its energy resources." That appears to be exactly what Brussels is trying to do.

Before the shale revolution, capital chased fossil-fuel resources. That meant that governments had considerable leverage to decide how to regulate development; capital holders had little say in the matter if they wanted to develop. Now, however, with the immense shale-gas resources available around the globe, the situation has reversed: Resources are chasing capital. Governments or organizations like the EU that seek to impose burdensome, unjustified or premature regulatory structures, will find the capital quickly heading elsewhere. Oil and gas will still be plentifully produced, just not in Europe, which will be relegated to importer status.

Gazprom signs deal with Hungary for South Stream

Natural Gas Europe, *13.12.2013*

Alexey Miller, Chairman of the Gazprom Management Committee and Viktor Orban, Prime Minister of Hungary, signed a contract for design and survey activities as well as spatial planning and environmental impact assessment for the Hungarian section of the South Stream pipeline.

The parts agreed on the progress of the project, while European Commission is said to be ready to lead South Stream talks with Russia. EU Energy Commissioner Gunther Oettinger said on Thursday that he would visit Moscow in the next months to renegotiate deals with European Union member states.

"We have been given a mandate by the member states to negotiate in their name with the Russian partners," Oettinger said in Brussels. The European Commission has suggested that Russia should proceed with making an application for an exemption to EU rules for the South Stream gas pipeline. It previously said that the bilateral agreements signed by Gazprom with Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria are in breach of EU law.

Natural gas to overtake coal, says ExxonMobil

Hürriyet Daily News, *13.12.2013*

Natural gas will overtake coal as a global energy source in the middle of the next decade, mainly due to the environmental benefits it offers, according to the latest energy outlook of ExxonMobil.

2014 Outlook for Energy: A View to 2040, the company says around 2025 gas will become the world's second most-used fuel on an energy-equivalent basis, behind oil, upon the rising demand for gas in power generation. Exxon's main products, will grow steadily because shippers and truckers will need more diesels to move more goods and utilities will need additional natural gas to make electricity for more people.

Use of coal, now the chief fuel for electricity and the second most important fuel in the world after oil, will flatten in the next decades and slip to third place as countries shift to cleaner natural gas. Nuclear power and renewable electricity sources such as wind, solar and biofuels will grow fastest of all, but remain a small part of the energy mix by 2040 because they will remain expensive. Exxon expects governments to impose costs on fossil fuel consumption and subsidize renewable energy in an effort to reduce emissions of gases that scientists say are causing climate change. Exxon expects those costs to be roughly $80 per ton of carbon dioxide - a price that may be explicit in the form of a carbon tax or baked in to the cost of new technology and equipment needed to meet stricter emissions limits.

Traditional fossil fuels will remain abundant, thanks to improvements in drilling technology. Drillers have learned to extract oil and gas from formations deep offshore and in shale and other rocks that were once impossible to tap. The amount of oil that can be extracted with today's technology is growing, even though the world burns 90 million barrels of it every day. By 2040, Exxon says, 65 percent of the world's recoverable crude oil will still be in the ground. A problem for drillers, though, is that the new oil that is being unlocked is more and more expensive to produce. That puts enormous strain on the global energy industry as it works to develop new fields to meet rising demand as current fields decline. Despite the boom in oil production in North America, the Middle East will remain the center of world oil production.

Exxon predicts the nations of OPEC will produce 45 percent of the world's oil by 2040 up from about one-third now. "In one way or another governments will put in place policy that will increase the cost of hydrocarbons, whether it's on supply or consumption," said Ken Cohen, Exxon's vice president of public and government affairs. The world energy demand will grow 35 percent by 2040 as electricity and modern fuels are brought to some of the billions of people in the developing world who currently live without power or burn wood or other biomass for cooking and heating, the company said. Those growing needs will be somewhat offset by a slow decline in consumption in the far more energy-hungry economies of the developed world.

Kyrgyzstan’s parliament approves sale of Kyrgyzgaz to Gazprom

Natural Gas Europe, *11.12.2013*

Kyrgyzstan’s Parliament gave the final green light to the acquisition of Kyrgyzgaz by Gazprom, despite the difficulties met in the last weeks. The decision, backed by 65% of the deputies, hands Moscow control of the infrastructures owned by the country’s natural gas monopolist.

With the $1 agreement, Gazprom will control pipelines, gas distribution stations and underground storage facilities. The deal signed in July this year required the approval of the Kyrgyz Parliament. The vote of the parliament had encountered difficulties in the last weeks, with some members of the ruling coalition backing away

But at the end, the cash-strapped Kyrgyz government saw it fit to sell off the heavily indebted Kyrgyzgaz rather than continue to throw money at a company that was effectively bankrupt. Gazprom will pay off the company’s $40 million debt. It also committed to invest $610 the infrastructures in the next five years. The Kyrgyz government will have the opportunity to support other investors later on. It also has an option to buy back the Kyrgyzgaz assets in 25 years. Kyrgyzstan is completely dependent on its neighbours - particularly Uzbekistan, Kazakhstan and Russia - for oil and natural gas supplies.

TAP to send invitations for tender in early 2014

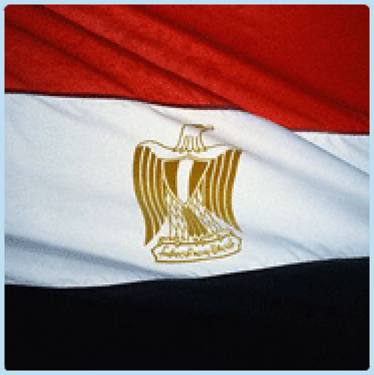
Natural Gas Europe, *11.12.2013*

The Trans-Adriatic pipeline (TAP) project plans to send invitations to tender for engineering and pipeline contract packages in the first six months of 2014, said communications head Lisa Givert.

“One big part of the project is also gaining access to land and rights of way to be able to meet the timetable for first gas to flow in 2019, but we’re on track,” Givert said as reported by Reuters. On December 17 the Azeri Shah Deniz gas field consortium is due to publish its final investment decision on the second phase of the development, which will give further details on the production of 16 billion cubic meters of gas

Egypt still in talks with foreign firms about gas price hike

Natural Gas Asia, *11.12.2013*



Talks between Egypt and foreign firms are still on to alter the price the government pays for the gas these companies produce, new agency Reuters reports. The news agency adds that there is no timeline for when negotiations will finish. Discussions are being conducted by state run entities, Egyptian Natural Gas Holding Company (EGAS) and Egyptian General Petroleum Corporation (EGPC), reports Reuters.

Officials have said they hope revised prices will encourage investment and future production in Egypt, notably offshore where costs are high, to avoid shortages on the domestic market.

Egypt pays offshore gas producers on average around $2-$3 per million British thermal units, according to industry estimates. Comparable payments for gas in Britain are currently above $10 and for Asian supply above $17.

Shell plans to boost investment to $25 billion in Indonesian oil, gas sector

Natural Gas Asia, *10.12.2013*

Royal Dutch Shell plans to boost investment in Indonesia to $25 billion in the next 10 years to develop oil and gas fields, according to Energy and Mineral Resources Minister Jero Wacik.

The investment by the Anglo-Dutch energy company will be allocated for the development of oil and gas blocks in Masela, in Maluku province as well in as other regions, Jakarta Globe quotes the minister as saying. Masela Block is estimated to have 18.47 trillion cubic feet of proved and probable gas reserves according to estimates based on the data received studies so far.

Peter Voser, outgoing chief executive of Shell and Shell's newly appointed chief executive, Ben van Beurden, presented Shell's major investment plan to President Susilo Bambang Yudhoyono in Surabaya on Saturday, reports Jakarta Globe.

Announcements & Reports

► *Medium Term Coal Market Report 2013*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=461

► *Electric Power Annual - 2012*

Source : Energy Information Administration
Weblink : http://www.eia.gov/electricity/annual/pdf/epa.pdf

► *Annual Coal Market Report - 2012*

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► *Natural Gas Annual - 2012*

Source : Energy Information Administration
Weblink : http://www.eia.gov/naturalgas/annual/pdf/nga12.pdf

► *Natural Gas Monthly (Nov. 2013)*

Source : Energy Information Administration
Weblink : http://www.eia.gov/naturalgas/monthly/pdf/ngm_all.pdf

► *Short Term Energy Outlook (Dec. 2013)*

Source : Energy Information Administration
Weblink : http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf

► *OPEC Monthly Oil Market Report (Dec. 2013)*

Source : Organization of the Petroleum Exporting Countries
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_December_2013.pdf

Upcoming Events

► *International Petroleum Technology Conference*

Date : 19 – 22 January 2014
Place : Doha – Qatar
Website : http://www.iptcnet.org/2014/doha/index.php

► *European Unconventional Gas Summit 2014*

Date : 28 – 30 January 2014
Place : Vienna – Austria
Website : http://www.theenergyexchange.co.uk/event/european-unconventional-gas-summit-2014#tab-country1

► *CIPPE 2014*

Date : 19 – 21 March 2014
Place : Beijing – China
Website : http://www.cippe.com.cn/2014/en/

► *Unconventional Gas Aberdeen 2014*

Date : 25 – 26 March 2014
Place : Aberdeen – UK
Website : http://www.unconventionalgasaberdeen.com/

► *8th Atyrau Regional Petroleum Technology Conference*

Date : 1 – 2 April 2014
Place : Atyrau – Kazakhstan
Website : http://www.oiltech-atyrau.com/

► *TUROGE 2014*

Date : 9 – 10 April 2014
Place : Ankara – Turkey
Website : http://www.turoge.com/

► *13th Uzbekistan International Oil & Gas Exhibition*

Date : 13 – 15 May 2014
Place : Tashkent – Uzbekistan
Website : http://www.oguzbekistan.com/

► 5th Turkmenistan Gas Conference

Date : 21 – 22 May 2014
Place : Ashgabat – Turkmenistan
Website : http://www.turkmenistangascongress.com/

► 21st Caspian International Oil & Gas Exhibition

Date : 3 – 6 June 2014
Place : Baku – Azerbaijan
Website : http://www.caspianoil-gas.com/

► 4th Erbil Oil & Gas International Exhibition

Date : 1 – 4 September 2014
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/

► South Russia Oil & Gas Exhibition

Date : 2 – 4 September 2014
Place : Krasnodar – Russia
Website : http://oilgas-expo.su/

► 2nd East Mediterranean Oil & Gas Conference

Date : 9 – 10 September 2014
Place : Paphos – Greek Cyprus
Website : http://www.eastmed-og.com/Home.aspx