Oil & Gas Bulletin

▸ *18.07.2014*

Turkey needs better regulations for shale gas

Hürriyet Daily New, *14.07.2014*

Energy in Turkey's needs to be enhanced through new sources, including shale gas. The country is in need of energy supplies to fuel its rapidly growing economy – despite some difficulties Turkey's GDP still grew 4 % to $826 billion last year.

However, The current account deficit increased from $49 billion in 2012 to $65 billion in 2013. This "financial gap" is mostly driven by the country's "energy bill" – the country's oil & gas imports alone reached $56 billion in 2013. Turkey buys from abroad up to 98 % of its demand in natural gas and up to 93 % of its oil consumption.

Ankara knows how to cope with this challenge. Drastic reduction of hydrocarbon imports is one of the three major energy goals for the decade to come. While Turkey is unlikely to become energy self-sufficient in the near future, the new sources of imported and domestically produced energy supplies are vital for sustaining the Turkish economy's growth and competitiveness. Domestic production – both conventional and unconventional – is, therefore, crucial for Turkey's energy security. Unconventional hydrocarbon total reserve bases could potentially reach 5.8 trillion cubic meters in three provinces. There is already a significant presence of foreign companies, knowledgeable on unconventional production: TransAtlantic Petroleum Ltd. has already drilled 31 horizontal and deviated wells, while Shell and TPAO are jointly drilling into the Dadas shale formation in eastern Turkey.

At this point, it is difficult to forecast Turkey's shale gas "break-even price" – each of unconventional wells has de facto its own "geology" and "economics." While shale gas might not be cheaper than Russian or Azeri imports, it might be less expensive than Iranian gas and LNG cargos and will be produced at home. However, environmental and regulatory challenges seem to be, at present, the biggest barrier on the way to Turkey's potential "unconventional revolution." The issue of water usage and water/aquifer pollution is particularly important for the unconventional gas industry. Hydraulic fracturing is a water intensive process. Certain wells require the usage of more than 10 million liters of water during their lifetime, which rarely extends longer than 5 years.

The amount of water used (and wasted water produced) explains public concerns, especially in water-scarce areas. Countries are considered water-rich if their annual per capita water consumption exceeds 10,000 cubic meters, while in Turkey this number barely reaches 1,500 cubic meters and the country just cannot afford to deal with polluted aquifers. Turkey is already facing serious problems caused by the water deficit and high soil salinity. Turkey's lakes' surface continues to diminish in the face of unregulated irrigation, lack of long-term water management policy and climate change. Turkey's alimentary sector is also heavily dependent on constant freshwater supplies and national agricultural productivity is primarily dependent upon sustainable irrigation.

Current debates in the U.S. show the water usage issue might be a particularly sensitive topic – both from a political and environmental point of view. It can affect political campaigns and change the fate of politicians. This issue, therefore, should not be neglected. What tools are necessary to deal with the water issue? – Technology and regulations, with regulations possibly being more important than the purely technological component. The regulation of shale gas is an evolving landscape, as the industry has developed so rapidly that it has often outpaced the availability of information for regulators to develop specific guidance. In principle, Turkey has all of the necessary legislation to proceed with the unconventional hydrocarbon production. A new version of the Petroleum Law, adopted in June 2013, has raised hopes for the country's energy sector.

Indeed, a combination of the relatively low Royalty Tax (12.5 %) and Corporate Tax (20 %) create an investor-friendly fiscal regime. However, existing legislation is missing some important points – flexible fiscal regime – similar to the fiscal incentives offered in the U.K. or the U.S. – and specific fracking disclosure laws, securing safe development of unconventional hydrocarbons. Land-owners in Turkey – unlike in the U.S. – do not own subsurface mineral resources and are only compensated for their land. This certainly reduces the interest level of local population in shale oil and gas production. Turkey also misses a special shale gas fiscal regime, with special incentives for the companies and local communities, similar to one recently proposed by the U.K. So far, debates on fracking in Turkey have paid little attention to the development of a separate legal framework for shale gas.

More precise regulation might be necessary to establish universally acceptable and mutually beneficial "rules of the game" for the unconventional oil and gas industry. Commercially-based unconventional oil and gas production is in principle compatible with Turkey's two key energy priorities – security of supply and access to affordable energy supplies, but is it compatible with the country's environmental sustainability? All will depend on a proper application of comprehensive and environmentally-sound project management mechanisms. This process will be also impacted by the population's willingness to pay an "environmental premium," future development of Turkey's national energy mix, security of supply perceptions and availability of affordable energy imports.

Turkish Kurdish energy cooperation in the Iraqi Conundrum

CSIS, *19.06.2014*

Amidst calls for unity in the face of major sectarian violence following the sudden occupation of several major cities in Iraq by the extreme radical Sunni group, the Islamic State of Iraq and Syria (ISIS), the Kurdish Regional Government (KRG) in Erbil continues its efforts to transport and sell oil through Turkey independent of the central government in Baghdad led by Shia Prime Minister Nouri Maliki.

On May 22 the tanker United Leadership disembarked from the Turkish Mediterranean port of Ceyhan carrying the first one million barrels of crude oil pumped to Ceyhan through the connection established by the Kurds.

On May 28 Maliki harshly criticized the KRG authorities for exporting oil without the blessing of the central government, describing the process as “closer to a theft than a process of buying and selling.” In a speech to the Kurdistan Parliament on May 29, KRG Prime Minister Nechirvan Barzani responded by blaming the Iraqi Government for failing to provide the KRG with its much needed budget share of state energy revenues which had forced it to “pursue alternatives.” On June 1 Iraqi Deputy Prime Minister Hussein Shahristani condemned Turkey’s role in facilitating what he termed the “smuggling” of oil. However, on June 9 a second tanker, United Emblem, disembarked from Ceyhan loaded with an additional one million barrels of Kurdish crude.

The KRG, the independent export gambit is part of its effort to demonstrate to major oil companies that have invested in the long term energy potential of Iraqi Kurdistan its ability to provide a viable export route out of the semi-autonomous region. At the same time, a direct revenue stream would also decrease Erbil’s reliance on Baghdad, which has frequently withheld the Kurds’ 17 percent revenue share as leverage in their disputes. Not least, it would also potentially open the way to greater autonomy and perhaps even to the realization of the age-old dream of independence. Massoud Barzani, the President of the KRG and Nechirvan Barzani have placed their trust at this crucial moment in Iraqi politics in Turkey and in particular Prime Minister Recep Tayyip Erdogan.

The growing links between Erbil and Ankara appear to be equally important to Erdogan who envisions KRG dependence on Turkey that could not only help solve the Kurdish problem within Turkey, but also curb the ability of the Kurdistan Workers’ Party (PKK) fighters based in northern Iraq to attack Turkey as in the past while limiting the ambitions of the PKK-affiliated Democratic Union Party (PYD) in northern Syria. A close and sustained energy relationship with the KRG would also yield economic benefits for Turkey, particularly if the KRG’s gas potential is realized. At a broader level, the growing alliance with Erbil also fits into Ankara’s stated desire to expand its influence beyond its borders. The immediate problem for the KRG is that international buyers seem to be wary of the legal issues raised by Baghdad relating to the purchase of Kurdish oil transported through the Iraqi-Turkish Pipeline without its permission.

Baghdad has made it clear that it is prepared to take legal action against any purchaser of this oil and has referred BOTAS, the Turkish Pipeline Company which is facilitating the transportation of Kurdish oil, to the International Chamber of Commerce's International Court of Arbitration. It appears that United Emblem transferred its cargo to another vessel, SCF Altai, off the coast of Malta and as of June 19 was heading back to Ceyhan. United Leadership has been sitting idly for weeks off the Atlantic coast of Morocco without clear indication as to the final destination of its cargo. Nevertheless, on June 16 Turkish Energy Minister Taner Yildiz confirmed that Kurdish oil was continuing to flow to Ceyhan despite the turmoil in Iraq and that a third tanker would be leaving soon.

The medium to longer term problem for the KRG is its need for a steady and uninterrupted flow of oil to buyers to generate enough revenue to run the government and pay its debts. In a speech to the Kurdistan Parliament's Oil and Gas Legal Committees on June 5, Nechirvan Barzani stated that the KRG needed 700 million dollars a month just to pay the salaries of government employees and Peshmerga forces. The rapid deterioration of the situation in Iraq has added a new layer of questions over relating to Kurdish oil. On June 12 Kurdish Peshmerga forces moved to occupy Kirkuk with its additional energy resources and KRG Spokesman Safeen Dizayee suggested on June 16 that the Kurds should now receive 25 percent instead of 17 percent as their share of oil revenues.

While the KRG surely welcomes the retreat by Maliki's troops, it now faces the new problem of having ISIS on its borders. It also has to cope with the additional burden on its strained finances posed by the huge new influx of refugees on top of the Syrian Kurdish refugees it was already sheltering. The Turkish leadership is also grappling with the problem of how best to position Ankara in the new configuration in Iraq as it tries to balance relationships with Erbil, Baghdad and Washington. Adding to the earlier complications, the Sunni radicals with whom indirect relationships were allegedly maintained in the past, are holding hostage more than 80 Turks, including the Turkish Consul in Mosul, his personnel and their families and truck drivers. It remains to be seen how the joint Kurdish-Turkish strategy on the export of oil will be affected by the worsening situation in Iraq. The Kurds seem convinced that the current crisis has strengthened their bargaining position in their dispute with Baghdad.

Yet, while there are growing suggestions, particularly from Erbil, that it is time for Washington to review its policy on keeping Iraq united, the U.S position on this issue has so far remained unchanged. Having worked since its overthrow of Saddam Hussein in 2003 to maintain Iraq as a single state, despite the very real differences dividing Shias, Sunnis and Kurds, the U.S. has been opposing independent Kurdish oil exports as undermining the unity of Iraq. The threat posed by ISIS could solidify U.S. support in the short run for the beleaguered central government in Iraq. However, in the medium to longer run, the continuing problems in Iraq seem likely to increase the pressure on Washington to change its current positions, not just on the independent export of Kurdish oil but also on maintaining Iraq as a single unitary state.

Iraq’s oil in chaos

Bloomberg, *12.07.2014*

Chaos in the world’s fourth-biggest oil-exporting nation should push global oil prices sharply higher, right? That’s just common sense. Common sense can be wrong. Crude prices were at almost the same level in July as they had been when a radical Islamist militia gained control of west-central Iraq in June.

The oil market’s calm in the face of Iraqi bedlam says a lot about how much the oil trade has changed in recent years. It also raises questions about whether bountiful global energy supplies have made the market alarmingly numb to geopolitical risk.

Oil fell back to about $110 a barrel in early July after climbing almost 6 percent in the two weeks after extremist Sunni militants seized Mosul, Iraq’s second-biggest city. The price of benchmark Brent crude has remained in the same $100-to-$120 range for the past two years. While the violence spurred companies including BP and Exxon Mobil to evacuate workers, oil exports appeared little affected. In fact, Iraqi government data show that shipments will surge to close to a record in July. One big reason: About 90 percent of Iraq’s oil production is in the south, far from the fighting north and west of Baghdad and in areas controlled by the country’s majority Shiite sect, which dominates the central government.

The price of oil suggests that there’s a significant cushion of global supply even if things get worse in Iraq. Saudi Arabia, the largest crude exporter, has promised to provide another 2.5 million barrels of oil per day if needed to keep prices stable. The U.S. boom in extracting energy from shale has also helped. It will make the U.S. the world’s biggest oil producer this year or next, and comes as Iran’s exports are curbed by sanctions, Libya’s output is crippled by internal feuding, and civil war in Syria breeds sectarian conflicts around the Middle East. Were it not for the additional U.S. output from fracking, oil prices might have spiked $20 or $30 higher on the violence in Iraq, according to one estimate. Iraq first started pumping crude almost a century ago and now provides 3.6 percent of global production. The country holds the fifth-largest reserves and its oil is among the cheapest in the world to develop and produce.

The International Energy Agency predicts that by 2035, Iraq will more than double output to 7.9 million barrels a day, allowing it to increase production more than any other country. Its addition of new capacity — which could be the biggest of any country in history over a similar time period – comes as oil explorers venture worldwide into hard-to-reach areas under the sea and in the Arctic. Royal Dutch Shell, China National Petroleum and other companies piled in to Iraq since the fall of Saddam Hussein to help develop its abundant oilfields and rebuild the industry after decades of war and neglect. While it’s unclear how the political chaos will affect that investment, billions of dollars are earmarked for Iraq’s wells, oil terminals, pipelines and refineries. Separately, the country’s minority Kurds, who have seized the oil hub of Kirkuk in the north, plan to independently develop their region’s reserves.

The oil market's indifference to the Iraqi conflict is not necessarily permanent; analysts at Citigroup and Bank of America say that oil traders have grown complacent about the dangers. The IEA said in June that the fighting highlights the risk to its forecasts for Iraq's rising oil output. Other forecasters disagree, and say prices and options for future sales overestimate the chances of the sectarian violence disrupting supplies. Promises from Saudi Arabia to keep oil flowing have brought record-low volatility to oil markets, and a slowdown in China's economic growth is cooling global demand. Conflicting views leave oil-market watchers monitoring maps of the war zones and debating whether Iraq could still deliver an oil shock.

Kurds hope oil boom will fuel prosperous independent future

The Guardian, *14.07.2014*

The Barzanis have been fighting for Kurdish independence since the 1880s. They battled the Ottomans, the British and Baghdad. In a colourful life, including exile in Iran and the Soviet Union, Barzani tried to establish a Kurdish state.

Barzani died in 1979, in the US. Now, it seems that his moment has finally arrived. On one floor, technocrats are discussing how to manage Kurdistan's enormous oil wealth. On another, the referendum announced last week by Barzani's son, Massoud, the current president of Iraqi Kurdistan, who asked the parliament to set up a new election commission.

The vote – to be held later this year or early next – will determine whether disputed regions taken last month by Kurdish troops should join Kurdistan, and sets the stage for Kurdistan's exit from a crumbling federal Iraq. "A greater Kurdistan is the dream of every Kurd. But for now we want to set up a state in this country," said Dr Farsat Sofi, an MP from Barzani's dynastic Kurdish Democratic Party (KDP). He added: "We never wanted to be in Iraq in the first place. It's been forced upon us." Sofi said the door was closing on agreement with Nouri al-Maliki, the prime minister in Baghdad, and his Shia-dominated government. "If he continues like this we will use this right to self-determination," he said.

Since 2003, Kurdistan's regional government in Irbil, the KRG, has been locked in a bitter dispute with Iraq's federal leaders in Baghdad. The row encompasses revenue sharing, the implementation of the 2005 constitution – which is supposed to determine what happens to contested territories outside the autonomous Kurdish region – and al-Maliki's alleged dictatorial tendencies. "He would do anything to stay in power. He wants to rule Iraq in a centralised way," Sofi said.This row has dramatically worsened with the rise of Isis, the Sunni insurgent group that now calls itself the Islamic state, and controls a swath of northern Iraq after a lightning offensive last month. The Iraqi army vanished in the face of the jihadi advance, but Kurdish fighters moved into the predominantly Kurdish city of Kirkuk, and other disputed areas, saying they were defending them from Isis.

The KRG says it had repeatedly warned al-Maliki of the Isis menace to Mosul, Iraq's second city – only to be ignored. But the dispute is as much about money as Kurdish demands for statehood – specifically who gets Iraq's oil. "For the past eighty years the Iraqi state has been stealing Kurdish oil," Hemin Hawrami, head of the KDP's foreign relations committee, said bluntly. "They [Baghdad] used it to buy weapons to bomb the Kurds." According to Hawrami, Kurdistan has the ninth largest oil reserves in the world – an estimated 45-50bn barrels. It is currently exporting 125,000-130,000 barrels a day via a new spur that links to an existing pipeline in Turkey. Under the constitution, Kurdistan is meant to get a 17.5% share of Iraq's oil revenues. The KRG accuses central government of underpaying. Baghdad's oil ministry, meanwhile, says the Kurds are illegally stealing the nation's oil. In February al-Maliki refused to hand over any money for Kurdistan's budget. The Kurds say they are legally entitled to sell oil, and need it to pay public salaries. They have exported it, on and off, since 2009, cutting deals with oil giants such as Exxon Mobil, Chevron and Gazprom.

On Friday the KRG took another significant step in its feud with Baghdad, seizing two major oilfields near Kirkuk: Bai Hassan and Makhmour. The regional government says it was forced to act after Baghdad instructed staff at the oil fields to sabotage production. Iraq's main oil pipeline to Turkey, which crosses territory held by Isis, has not worked since early March, when an armed group in Nineveh province bombed it. Baghdad has also lost control of its Baiji refinery. The central government is furious with Irbil. But with the Iraqi army in disarray it is powerless to act. The Kurds say they have tried repeatedly – but unsuccessfully – to reach a deal over oil revenues with al-Maliki. "It's Iraq that is disintegrating. Our independence is the result of Iraq's collapse," said Sardar Aziz, a senior adviser to the cross-party energy committee of Kurdistan's parliament. Aziz said he wanted a sovereign Kurdistan to use its oil wealth wisely – like Norway – rather than become a rentier state – like Venezuela or Saudi Arabia. "Overall Iraq's economy is wasting resources. The corruption and patronage in Baghdad is sky high. We have it here [in Kurdistan] too but not to the same extent," he said.

Sitting in the KDP's politburo, in a mountain resort outside Irbil, Hawrami said the Kurds were pursing a "two-track" political process. For the moment, he said, they were trying hard "to help our Sunni and Shia brothers put an end to the fighting in Iraq". But for this to have any chance of success there had to be a new government in Baghdad, he said, adding: "Maliki must go. He is part of the problem, not the solution." At the same time, "preparations" were underway for an independent Kurdistan. The west – "our friends", as Hawrami put it – should get used to the idea that Iraq as a federal entity is finished. The new Kurdistan would be bigger than the old one – having gained 40,000 square kilometres. It would include Kirkuk, with its oil wells, and the disputed territories occupied by Kurdish troops, he said. "This area is de facto ours. Geographically and historically it's ours. It's going to be de jure as well," he said confidently.

For the moment, though, the international community opposes Iraq's break-up. On a visit to Irbil late last month, US secretary of state John Kerry met with Barzani, and urged Kurdish leaders to support a new national government in Baghdad. Since then, though, al-Maliki has accused the Kurds of hiding Isis fighters in Irbil – an unlikely claim that left the Kurds furious. On Friday the Kurdish political bloc pulled out of his government, though it is still in the federal parliament. Twitter buzzed with photos from the 1990s of al-Maliki standing with Kurdish leaders, when the Kurds offered him sanctuary. Hawrami said tactfully that Washington now has a "better understanding" of Kurdish positions. "If they don't support it [independence], privately they don't reject it," he claimed. Influential regional players are also opposed – most notably Iran.

Last week Iran's deputy foreign minister, Hossein Amir-Abdollahian, described Iraq's apparent break-up as a "Zionist plot". This is not true, but Israel has come out in support of Kurdish independence, seeing a moderate, democratic Kurdish state, as a bulwark against Arab terrorism. In the past Turkey – with its own large, restive Kurdish minority – has been vehemently against to an Iraqi Kurdish nation. But over the past five years Anakara has undergone a major strategic shift. It no longer regards Irbil as a threat, rather as a commercial and diplomatic partner. In 2011 the Turkish prime minister, Recep Tayyip Erdogan, even opened Irbil's gleaming new international airport; and Turkish companies have helped build the pipeline pumping Kurdish/Iraqi oil to the Turkish port of Ceyhan. Back at the parliament building, with its decorative fountain, the Iraqi and Kurdistan flags were both still flying – at least for now. There was optimism that statehood was very close. "We can change the future of this country," Sofi said.

Dana Gas in arbitration wins against KRG

Financial Times, *13.07.2014*

Dana Gas, which is one of the largest investors in the semi-autonomous region of the northern region of Iraq, said on Sunday it had won an interim arbitration award to force some outstanding payments from the Kurdish Regional Government.

United Arab Emirates-based Dana Gas, which leads a consortium of investors, launched London arbitration proceedings in October, demanding payment of receivables for products delivered and a confirmation of its rights under the 25-year contract to develop the Khor Mor and Chemchemal gasfields.

Dana Gas said the tribunal had ordered on July 10 for the KRG "to restore the previous regular payment . . . as of March 21 2014, the date of the application, and until the case is concluded". The Dana Gas-led Pearl consortium's claims for unpaid receivables have risen to more than $1.46bn. Before KRG payments ceased in July 2013, the group was receiving about $30m a month. KRG officials were not immediately available for comment. When the London case was lodged, the KRG said it did not owe any receivables, claiming that it was Dana Gas that owed "significant sums". The tribunal is another complication in the KRG's efforts to foster its domestic oil and gas industry as the autonomous region of northern Iraq ponders independence amid the Sunni insurgency's challenge to Iraq's territorial integrity.

Kurdish forces have seized oilfields in and around the northern Iraqi city of Kirkuk, contributing to a rise in tensions between the KRG and the Shia-led government in Baghdad. Iraq's largest oil reserves are located in Shia-dominated southern Iraq, which remains relatively shielded from the unrest. Before the current chaos in northern Iraq, investors had been flocking to the Kurdish region as a haven of security in the war-ravaged country. Oil majors such as ExxonMobil have taken advantage of the KRG's more lucrative production-sharing deals, despite threats from Baghdad, which regards these contracts as illegal.

Iraqi Kurds' account of selling Kirkuk oil

World Bulletin, *17.07.2014*

Kurdish Regional Government (KRG) in Iraq's north claims it will increase oil exports to Turkey from 120,000 barrels per day to 400,000 by the year's end. Experts believe this hints at their bid to export Kirkuk oil in violation of Iraq's constitution.

Northern Iraqi oil began shipment from Turkey's southern Ceyhan Port to international markets on May 22, without the agreement of the Iraqi government. Since then, Kurdish Regional Government have been sending 120,000 barrels per day to Ceyhan. On Tuesday, KRG spokesperson said they told Turkey to get prepared for a 280,000 barrels per day increase of Kurdish oil.

Northern Iraq extracts oil from two fields; Tawqe and Taq Taq, which produce 120,000 and 113,000 barrels of oil per day respectively. Part of this total daily production of 233,000 barrels of oil is already used for domestic purposes within the Kurdish region. It appears difficult for KRG to increase production to 400,000 barrels of oil for exports in such a short period of time. Experts told Anadolu Agency that the KRG's new calculation of exports might include oil from Kirkuk - the disputed territory between Erbil and Baghdad. KRG's July 11 announcement of seizing two oil fields in Kirkuk - Bai Hassan and Makhmour further strengthened doubts. KRG President Barzani rushed to hold a referendum in Kirkuk, claming Article 140 of the Iraqi constitution is already implemented on the grounds that peshmerga forces seized most of the disputed territories, including the Kirkuk oil fields, when they were deployed to fight Sunni insurgents, Islamic State of Iraq and Levant (ISIL) at the beginning of June.

Article 140 is related to the normalization of the situation in Kirkuk and other disputed areas through the repatriation of its inhabitants prior to the arabization which took place during the Saddam era. The article also calls for holding a census to be followed by a referendum to allow the inhabitants to decide whether to be part of the KRG or the Baghdad government. On the other hand, the Patriotic Union of Kurdistan (PUK) led by former Iraqi President Jalal Talabani, who governs the major part of Kirkuk, and Kirkuk Governor Najmaddin Kareem, a possible candidate for Iraqi presidency, opposes de facto implementation of Article 140 claiming the move would be unconstitutional.

Head of Carduchi Consulting and Energy Expert, Shwan Zulal said the dispute is a power struggle between the Kurdish government and the main opposition party PUK, and he believes differences will be ironed out in time as the dissenting voices in PUK are few. Zulal said, the goal of 400,000 barrels of oil may now become a real possibility depending on who will be the next Iraqi prime minister and how the political process will progress in Iraq. Ali Semin, an expert from Istanbul-based think tank BILGESAM said this new plan absolutely includes Kirkuk oil. He added, "If Kurds sell Kirkuk's oil, they will completely violate the constitution. Arabs and Turkmen of the city will not stay calm after that, and Turkey will be dragged into a difficult position." There is no oil flow from central Iraq to Turkey since March due to ISIL threats en route to the Kirkuk-Ceyhan pipeline.

Last month, KRG announced that they linked Kirkuk oil distribution infrastructure to their own pipeline which sends Kurdish oil from Tawqe and Taq Taq oil to Ceyhan. The new link binds Kirkuk's oil formation, Avana dome to the Khurmala oil field, where the Kurdish pipeline begins. On July 11 KRG announced Kurdish forces moved to secure the oil fields of Bai Hassan and the Makhmour area, after allegedly learning of orders from Baghdad officials in the federal Ministry of Oil to sabotage the recent mutually-agreed pipeline infrastructure linking the Avana dome with the Khurmala field. The announcement says the Avana and Makhmour fields were producing about 110,000 barrels of oil per day.

Iran, Russia to set up Joint Gas Committee

Natural Gas Asia, *14.07.2014*

Two of world's biggest holders of natural gas, Iran and Russia have decided to enhance cooperation in the sector. As per the report, Managing-Director of National Iranian Gas Company (NIOC), Hamid-Reza Araqi said Monday that NIOC and Russian gas giant Gazprom are scheduled to set up a joint committee to explore ways to give a boost to bilateral and international cooperation.

"Establishment of a joint committee comprising National Iranian Gas Company (NIGC) and Russia's Gazprom has been put on the agenda with the aim of expanding ties and cooperation," Hamid-Reza Araqi said.

Provision of equipment, transfer of technology, participation in oil and gas projects in the form of finance and preparation of working plans for foreign investment are among the new NIGC-Gazprom cooperation strategies, Araqi commented, reports Press TV. According to a report by BP, Iran holds 33.8 trillion cubic meters (tcm) of natural gas reserves, world's largest.

Blood for gas: Why Bibi is punishing Gaza

Oil & Gas Eurasia, *07.07.2014*

So Bibi's got his brand new war. Operation Protective Edge, the current slow motion ethnic cleansing super production conducted in Gaza by the Israeli Attack, sorry, Defense Forces (IDF), is Israeli Prime Minister Bibi Netanyahu's wet dream.

A quick recap is essential. US Secretary of State John "Bullhorn" Kerry was conducting a sham exercise known as "peace talks" between Israel and Palestine. As expected, it failed miserably. Hamas and the PLO in Palestine then formed a technocratic unity government. Bibi was, predictably, furious.

Then two Palestinians – not Hamas – kidnapped three Israeli teenager settlers hitchhiking at night near Hebron. One of the hitchhikers somehow managed to call an Israeli police emergency number on his mobile. The kidnappers freaked out and shot the hitchhikers on the spot, dumping their bodies. Then all of Israel freaked out. For three weeks, tens of thousands of soldiers were involved in search parties. The media went berserk – immolating Palestinians in a racist funeral pyre. There's wild speculation all across the Arab street this has been an Israeli false flag. Evidence, though, seems to point to the 10,000-strong Qawasmeh tribe in the Hebron region – which is known historically to openly antagonize Hamas and attack Israeli settlers.

There's also the possibility the kidnappers wanted to use the hitchhikers for an exchange with Palestinian prisoners. Bibi and Shin Bet military intelligence knew from the start the three settlers were dead – and who was responsible. But Bibi simply could not pass up the opportunity to use the incident – during the frenzied three-week search – as a build-up to go after Hamas in both West Bank and Gaza, an operation planned way in advance. This past Tuesday, the Israeli military spelled it all out: "We have been instructed by the political echelon to hit Hamas hard." And in perfect Newspeak, the operation was branded a "just war."

What does the U.S. see in Cypriot natural gas?

Forbes, *16.07.2014*

After years of political and economic upheaval, Cyprus has found itself the subject of official U.S. interest. Besides the visits from James Townsend, assistant undersecretary of Defence for Europe and NATO issues and Amanda Sloat, the assistant US Undersecretary of State for European Affairs, the capital welcomed Vice President Joe Biden, the highest ranking U.S. official to arrive in five decades.

"I wanted to come to primarily underscore the value the United States attaches to our growing cooperation with the republic of Cyprus," Biden said. "This relationship is now a genuine strategic partnership which holds great promise."

Although the visits have focused on everything from security cooperation to reunification with the island's Turkish held northeast, the diplomatic push appears rooted in the issue of energy security and regional unity – two issues that are increasingly aligned. Since a 2011 discovery, Cyprus has sought to establish itself as an energy hub in the region, joining new industry actors like Israel in promoting the potential of the Eastern Mediterranean's new-found offshore reserves. However, progress has been slow, as the country's weakened economic standing has made it difficult to nail down the financing needed to pursue exploration, production and export options. Although Cyprus currently lays claim to an estimated 50 to 60 trillion cubic feet of gas and 1.7 billion barrels of crude in waters off its southeastern coast, the country faces substantial financial challenges associated with export options, such as pipeline projects or possible Liquified Natural Gas plants.

For Washington, helping Cyprus overcome those financial challenges, as well as political disputes with Turkey could not only help put the small country on its way towards energy independence and growth, but also provide a viable alternative to Russian natural gas. Easing dependence on Russian gas reserves has long been a goal of Washington and Brussels, but has become especially pressing since the suspension of gas exports through Ukraine in 2009, resulting in winter shortages across Eastern Europe. Russia's recent expansion into Crimea again cast a spotlight on the need for Europe to seek out viable alternatives.

While Washington's focus on Cyprus is a welcome vote of confidence for Nicosia and the country's current leadership, it is likely driven more by regional, not local potential. Rather than just offering an energy option for both Cyprus and possibly a broader European market, the country's offshore claims could provide a catalyst for change for a number of long-standing regional challenges. "The U.S. saw an opportunity to solve a number of issues," said George Pamporides, a Nicosia-based attorney and author of the book, The Hydrocarbons of the Republic of Cyprus. "By encouraging Cyprus to pursue (exploration and production), they push Turkey to view new gas sources from Cyprus and Israel instead of more expensive imports from Russia."

In addition to providing a domestic source of energy and revenue, a successful Cypriot gas operation could also be seen by Washington as a viable component of a broader Eastern Mediterranean energy alternative for European consumers and force for regional cohesion. Specifically, natural gas potential has been mentioned in discussions related to reunification talks between Nicosia and the Turkish-held northeast part of Cyprus, which has remained separate since 1974.

"Hydrocarbon reservoirs are not bounded by political boundaries, therefore it is important that the countries in the region need to work together to use these transboundary resources in a cooperative manner instead of fueling confrontations," Amos J. Hochstein, deputy undersecretary for energy diplomacy at the U.S. State Department, told the Greek newspaper Ethnos earlier this month. Despite bullish rhetoric from Washington and Nicosia, Cyprus gas remains a long-term goal. Earlier this year, Eurasia Group Senior Analyst on Global Energy and Natural Resources Leslie Palti-Guzman laid out a lengthy path for Cypriot gas, beginning with an assurance that offshore reserves actually meet early predictions, followed by a regulatory improvements and then finally nailing down buyers, which could prove difficult with new suppliers like Cyprus. Palti-Guzman suggested that the country's contribution could be something to consider after 2020.

OMV finds new Black Sea oil off Romania

Rigzone, *16.07.2014*

Austrian energy group OMV said it had found a new oil reservoir in the Black Sea off Romania with production potential of 1,500 to 2,000 barrels of oil equivalent per day (boe/d). The reservoir in the shallow-water Istria XVIII offshore perimeter was identified by OMV's Marina 1 exploration well at a cost of around 19 million euros ($26 million), OMV said in a declaration.

"In the following months, OMV Petrom will evaluate the results of the Marina 1 well and assess its commercial viability in order to develop and start production from the new reservoir," it said in a statement on Wednesday.

If the discovery is judged to be commercially viable, OMV said, it could start production over the next three to four years, and would require investment of over 100 million euros. Production from shallow waters accounts for 18 percent of OMV's hydrocarbons production in Romania, which along with Austria accounts for 70 percent of OMV's total production. The company's production target this year is 310-330 boe/d. ($1 = 0.7374 Euros).

Gazprom gas prices for Europe may fall 17% by 2017

ITAR-TASS, *11.07.2014*

Gas prices under Gazprom's long-term contracts with European countries may fall 17% to $320 per 1,000 cubic meters by 2017 due to gas supply diversification, including shale gas production, business daily Vedomosti reported Friday, citing a representative of Russia's Economic Development Ministry.

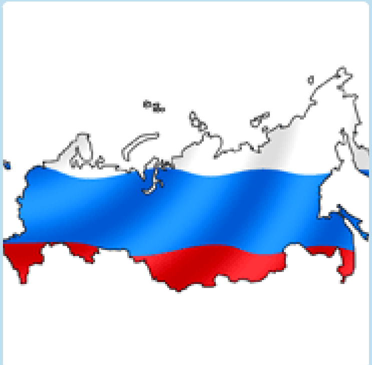
According to the report, the diversification of gas supplies to Europe will contribute to the gas market saturation in the mid-term and lead to a gradual decrease of gas prices relative to oil prices, the representative of Russia's Economic Development Ministry said.

Gazprom usually binds gas contract prices for Europe to oil quotations and uses the economic ministry's forecast as the basis, a source close to the company said. The ministry expects oil prices to be quite flat: $104 per barrel of Urals in 2014, and $100 per barrel in 2015-2016. "Probably the calculations are made on the basis of forward prices on the European spot gas markets," another source close to Gazprom said. The ministry could also take into account discounts, which Gazprom may provide in the future, as some European companies are insisting on revision of contract prices, East European Gas Analysis Director Mikhail Korchemkin said.

By binding gas prices to spot ones Gazprom will reduce risks of a fall in oil prices in the mid-term, Korchemkin said, attributing the fall to higher oil supply from the US, Iran, and Iraq, and completion of mind monetary policy cycles in some key countries. However, the ministry's gas price forecast may look too pessimistic, Deputy Director of the National Energy Security Fund Alexei Grivach said, the daily reported. Gazprom is already selling gas under long-term contracts with large discounts relative to oil prices, and moreover, Europe cannot receive gas from alternative sources at lower prices, he said. The company's gas prices will remain within a $350-$400 range, Grivach estimated.

Russia licenses four energy companies to export LNG

ICIS, *15.07.2014*



The Russia has taken another step towards liberalising its LNG market, granting four major energy companies the right to export the commodity. Prime minister Dmitry Medvedev approved a list comprising Yamal LNG (a joint venture between Russia's independent producer Novatek and French major Total), the two government-owned producers Rosneft and Gazprom, and the latter's subsidiary Gazprom Export.

The four companies fall under a new Russian law passed in November 2013 liberalising the export of LNG – a right previously maintained by incumbent Gazprom. Gazprom still retains an exclusive right to export Russian gas.

The law came into effect on 1 December last year. It was primarily lobbied for by Novatek, which holds a majority stake in the 16.5mtpa Yamal LNG project, and by Rosneft, which plans to develop a 5mtpa project in Sakhalin together with US-based oil major ExxonMobil. Under the terms of the new legislation, the export of LNG is reserved for companies that as of 1 January 2013 have been granted a licence to build an LNG plant and to companies that have more than a 50% government stake. In addition, such companies must be engaged in the production of gas in internal waters, territorial waters and the continental shelf.

Rosneft sanctions boost reliance on China loans for oil

Bloomberg, *17.07.2014*

OAO Rosneft (ROSN), the world's biggest publicly traded oil producer by volume, will rely on deals with China to withstand the latest U.S. sanctions against Russia.

The state-run company is scheduled to receive $63 billion of advance payments under long-term crude-supply contracts from 2014 to 2018, mostly from Chinese clients, Andrey Polischuk, an energy analyst at ZAO Raiffeisenbank in Moscow, said by phone today. That covers almost all of Rosneft's $65 billion in debt, he said, after sanctions announced yesterday limited the producer's access to U.S. debt markets.

“Rosneft would never have received such generous funding without China,” Polischuk said. “It’s an obvious dependence. There are few other alternatives.” The most aggressive sanctions yet will prevent Rosneft from accessing U.S. equity or debt markets for new financing with a maturity beyond 90 days. They don’t otherwise prohibit U.S. companies or individuals from doing business with sanctioned Russian firms, which also include gas producer OAO Novatek (NVTK) and OAO Gazprombank. Shares of Rosneft closed 4.3 percent lower in Moscow, the biggest decline since May last year. Its Eurobonds maturing in 2022 plunged the most on record. Rosneft and China National Petroleum Corp. signed a $270 billion, 25-year supply agreement last year to diversify exports to the world’s second-biggest crude-consuming nation as European demand fell. The deal includes prepayments estimated by President Vladimir Putin at about $70 billion. In October, Rosneft also agreed to an $85 billion, 10-year oil-supply deal with China Petrochemical Corp.

The major threat is that Europe “may follow suit and impose the same limitations on borrowing from European banks,” Alexander Kornilov, an Alfa Bank analyst in Moscow, said today in an e-mailed note. Rosneft has the highest debt burden among Russian oil companies, he said. The sanctions are illegal because Rosneft has no role in the Ukraine crisis, Rosneft’s Chief Executive Officer Igor Sechin told reporters in Brasilia. They will damage U.S. banks cooperating with Rosneft without having an impact on the Russian producer, he said. Rosneft can afford “not to attract emergency loans” to finance projects, according to Sechin. Rosneft should get about $143 billion of operating cash flow in the next five years excluding prepayments, Polischuk said. Its five-year investment program and about $21 billion in dividend payments “could both be easily covered,” he said.

The sanctions could make it more difficult for commodity traders to strike prepay financing deals with Rosneft, threatening a key source of guaranteed crude flows for Swiss trading firms. Vitol Group, Glencore Plc (GLEN) and Trafigura Beheer BV agreed last year to give Rosneft a total of $11.5 billion in financing in exchange for guaranteed oil supplies. Vitol and Glencore, which have major trading operations in Switzerland, secured syndicated loans with lenders that included U.S. banks to pay for the Rosneft deals. Rosneft won’t be able to win new financing from European traders in exchange for oil if future deals have the same structure as previous agreements, said Matthew Parish, a lawyer with Holman Fenwick Willan LLP in Geneva. “In theory, they couldn’t be done in exactly the same way,” Parish said in an e-mailed response to questions. Future prepayment deals involving Rosneft and commodity trading firms may, however, be able to sidestep sanctions depending on how they are structured.

“It would not be difficult for a clever lawyer to restructure the financing facilities so that they have much the same effect yet avoid the sanctions by working around the definition of long-term loans,” Parish said. As competition for crude has increased among trading houses the biggest players have used their financial muscle to win prepayment deals and secure streams of oil and products. Previous agreements between Rosneft and trading firms won’t be affected by the new sanctions. Rosneft signed a $1.5 billion prepaid deal with BP Plc (BP/) last month guaranteeing to supply as much as 12 million tons of oil or oil products to the U.K. company. BP, which trades oil and oil products in addition to producing and exploring, owns a 19.75 percent stake in Rosneft. “BP will study these recently introduced sanctions carefully and will continue to comply fully with all applicable sanctions,” said David Nicholas, a London-based spokesman. BP shares fell 1.9 percent to 496.8 pence at the close in London trading, the biggest decline since March 3. Vitol, the world’s largest oil trader, was in advanced discussions to lend Rosneft an additional $2 billion in exchange for guaranteed oil product supplies, the Financial Times reported in March.

As Ukraine heats Up, Exxon to Airbus eye growing risks

Bloomberg, *17.07.2014*

As the U.S. and Europe escalate sanctions against Russia over its role in the Ukraine crisis, companies such as Exxon Mobil Corp. (XOM), Airbus Group NV (AIR) and Daimler AG (DAI) are facing a threat to their multi-billion-dollar businesses in the country.

“We have enjoyed good relationships with Russian partners,” Airbus Chief Executive Officer Tom Enders said on the sidelines of the Farnborough Air Show near London. “I would only express my hope that these relationships and partnerships will survive the current political tensions.” Told to Bloomberg

“In contrast to sanction targets Iran and North Korea, Russia’s $2 trillion economy -- about the size of Italy’s -- is closely linked to global business as multinationals have piled into a promising consumer market and resource producer. That highlights the difficulty the U.S. and Europe face in trying to punish Russian President Vladimir Putin. The U.S. has accused Russia of funnelling weapons to Ukrainian rebels, who continue to control key cities. President Barack Obama’s administration yesterday imposed new sanctions on large Russian banks, energy companies and defense firms. Among the companies hit were OAO Rosneft (ROSN), Russia’s largest oil company, natural gas producer OAO Novatek and OAO Gazprombank, the country’s third-largest lender, according to an announcement by the U.S. Treasury Department. The penalties will prohibit any new financing of debt with a maturity of more than 90 days from U.S. sources. The action also blocks the assets of eight state-owned defense firms, including weapons-maker Kalashnikov Concern, which manufactures the namesake assault rifle.

European Union leaders have imposed measures that would cut off some public financing of infrastructure projects in Russia, and are preparing a blacklist of companies. Their sanctions had so far focused on asset freezes and visa bans for small numbers of political and military figures close to Putin. “The negative impact of the deepening crisis on Russia’s business ties with the West is almost unavoidable,” said Lilit Gevorgyan, a senior economist at research group IHS. The highest-profile relationships are in Russia’s state-dominated energy sector, whose revenues have underpinned Putin’s revitalization of the military and welfare spending that’s boosted his popularity.

Exxon has bet heavily on its relationship with Rosneft, a state energy producer that’s led by Putin confidant -- and U.S. sanctions target -- Igor Sechin. Next month Exxon expects to begin drilling an Arctic well with Rosneft that will cost as much as $700 million, the most expensive such project ever in Russia. It’s also working on a $300 million shale well project in Siberia. In a sign of the importance of its Rosneft ties, Exxon CEO Rex Tillerson rebuffed U.S. government appeals to skip an energy forum in Putin’s hometown of St. Petersburg in May, and appeared with Sechin in Moscow last month. An Exxon spokesman said the company’s Russia plans remain unchanged.

Providers of oilfield services have found a juicy potential market in Russia, which needs the latest technology to maintain production from declining Cold War-era fields. U.S. energy service providers Halliburton Co. (HAL), Schlumberger Ltd. (SLB) and National Oilwell Varco Inc. (NOV) all have significant operations in Russia. Halliburton has worked closely with energy group OAO Gazprom, which has threatened to cut off gas supplies to Ukraine over late payment. The Houston-based company, which signed a technology-sharing accord with Gazprom's oil arm last year, "is certainly trying to make a bigger play" in Russia, said Alexander Robart, a principal at energy-strategy firm PacWest Consulting Partners. Halliburton and Varco declined to comment. Schlumberger didn't return e-mails seeking comment. Threats to business in Russia go beyond the direct impact of sanctions as the economy sputters. At Canadian airplane manufacturer Bombardier Inc. (BBD/B), "there's been a little bit more apprehension from our Russian customers to get into big transactions, not just with us," said Guy Hachey, president of the company's aerospace business. Along with Airbus, Bombardier has sought to build manufacturing capacity in Russia to meet demand from local airlines.

Yet fewer Russians may be flying soon, as the country's finance ministry predicts economic growth will drop to about 0.5 percent this year, the slowest since 2009, and will be even lower if sanctions are toughened. Those measures would pile onto existing concerns about corruption, shoddy infrastructure, and stagnant population growth. Before the current instability, automaker Daimler had backed away from increasing its stake in OAO KamAZ, Russia's largest producer of heavy trucks, after making earlier plans to boost its shareholding to more than 25 percent. Daimler views its current 15 percent as "more than sufficient," and the decision was made for "operational reasons," spokesman Bernd Weber said. Automakers that are strengthening their ties to Russia are hardly boasting about it. Renault SA (RNO) and Nissan Motor Co. (7201) last month completed a 2012 plan to tighten control of OAO AvtoVAZ, Russia's biggest carmaker. The companies, which gained majority control of AvtoVAZ, once described the deal as a critical bridgehead into a key emerging market. Yet when the transaction was sealed June 18, they didn't even put out a press release. Renault and Nissan declined to comment.

Manufacturers and energy firms have an unlikely companion in their efforts to deal with the fallout of the Ukraine crisis: the Pentagon. The U.S. Department of Defense is looking to end its use of Russian-made rocket engines for launching satellites. The U.S. has 16 of the engines in stock, a two-year supply, but developing a homegrown alternative could take six years and cost $1.5 billion, a U.S. government study said in May. "Because of the Russian actions in the Ukraine, the risk equation has fundamentally changed," Frank Kendall, the U.S. undersecretary for acquisition, technology and logistics, said in an interview at Farnborough. Strong sanctions on Russia may be easier for Western governments to contemplate in theory than to impose in practice.

Despite pleas from the U.S. to halt the sale, President Francois Hollande's government is proceeding with the delivery of two Mistral-class assault ships to Russia's navy, and last month France welcomed a contingent of Russian marines for training. French politicians have defended the deal, saying that cancelling the sale would mean hundreds of jobs lost in the country's defense industry. Even so, continued violence in Ukraine is likely to wear down resistance to stronger measures, even in European countries with much to lose, said Cliff Kupchan, the head of the Russia team at political-risk firm Eurasia Group. "At a certain point, you clearly have a situation of Russian complicity in creating a dysfunctional Ukraine," he said. "The argument will be very hard to make that it's just 'OK, business as usual.'"

EU summit calls for continuation of gas consultations with Russia, Ukraine

ITAR-TASS, *17.07.2014*

The EU summit has supported the continuation of trilateral consultations with Russia and Ukraine on natural gas and on the implementation of Ukraine's Association Agreement with the EU.

"The European Council stresses the EU's commitment to pursue trilateral talks on the conditions of gas supply from the Russian Federation to Ukraine and commends the efforts of the Commission. Finding a swift agreement is important for safeguarding the security of supply and transit of natural gas through Ukraine to EU Member States and for the stabilisation of Ukraine's economy," the document says.

"The European Council stresses the importance of Ukraine ratifying the Association Agreement with a view to its early provisional application. It welcomes t he holding of trilateral consultations at ministerial level between Ukraine, the Russian Federation and the European Union on 11 July on the implementation of the Association Agreement. In this context, it also welcomes the setting up of a consultation mechanism to address potential difficulties resulting from the effects of the implementation of the Deep and Comprehensive Free Trade Area on the implementation of the Free Trade Agreement of the Commonwealth of Independent States," the summit's statement said.

The effects of the Ukrainian crisis on Europe’s energy security

Natural Gas Europe, *17.07.2014*

With the elections of May 2014, part of its lands annexed, economic problems and security issues, Ukraine has elected Petro Poroshenko as its president. Heavy industry in Ukraine is located in its eastern provinces, so security and economic issues are interlaced. In this regard, the armed struggle taking place around the towns in the east of the country is occurring on delicate ground in terms of territorial integrity and economic considerations.

Since the New Year, there has been a serious problem arising from disagreement over prices in the Russian-dominated energy sector.

Subsequent to the political crisis, Russia has increased the price per thousand cubic meters of gas from $268.5 to $485. The change of government in Ukraine and its failure to pay Russia for gas influenced this hike in prices. Russia applied the new prices and billed the Ukrainian government $4.5 billion for gas. The Kiev administration, faced with the sudden increase in cost, has found this price unacceptable and has refused to pay. This circumstance risks a new crisis evocative of the 2006 and 2009 crises. While Gazprom ceased gas transport to Ukraine starting on 16 June, the company also declared that gas transport would continue thereafter dependent on payment in advance. The main concern of experts in the last few months has been the possibility of the situation deteriorating. The Ukrainian government and Gazprom worked for an extensive amount of time on an agreed price for gas, along with help from the EU. Ukraine indicated that a price of $326 per thousand cubic meters was acceptable; Gazprom reduced its original price to $385. During these negotiations, Ukraine made a payment of $786 million to Gazprom.

Nonetheless, the Ukrainian government did not accept a temporary agreement because the discount of $100 per thousand cubic meters was contingent on Ukraine changing its customs rates. Therefore, the current arrangement is not permanent and the discount must be institutionalized by an official agreement. This process did not result in a solution and the subject was brought before the International Court of Arbitration in Stockholm. Gazprom is prosecuting Ukraine for the amount of $4.5 billion while Ukraine claims that due to Gazprom’s monopoly it overpaid $6 billion resultant of price increases and is further demanding that Gazprom provide compensation therefore. But the issue goes beyond the disagreement concerning payment. Russia reduced its gas prices for Ukraine in December 2013, only to raise the price again shortly afterward. Russia claims that this increase was only according to economic principles, but actors in Europe refute this claim. These European actors consider Russia to be using energy as a political instrument. The EU is considering these emerging risks from a security perspective, and expediently published a new energy strategy in May. Another concern of Europe is that the current disagreement over gas prices will continue into the winter.

In the strategy paper prepared by the EU Commission for the European Council, while possible gas interruptions in the winters of 2014 and 2015 were also discussed, some suggestions were made for managing interruptions in gas supply such as revision of storage capacities, reductions in the demand for gas, and use of reverse technology in gas pipelines. At the same time, the question of how consumption patterns should be changed in the medium-term was also discussed in the paper. In this regard, renewable energy technologies become prominent, and the necessity of different energy sources for the healthy management of demand for gas is emphasized. At the same time, gas imports in the form of liquefied natural gas (LNG) are also being granted importance, and new explorations in North America, Qatar, Australia, and East Africa are expected to be prioritized in the European market. In addition, an LNG plant with a capacity of 24 billion m3 being built in the eastern US, and to become operational between 2015 and 2017, has led to an expectation of gas trade between the US and EU. Moreover, the dialogue between the US and the EU about energy security in the context of the G7 seems stronger.

In this context, in the declaration dated May 6 that was published subsequent to the meeting of the G7 countries' energy ministers in Rome, it is indicated that energy shall not be used as a kind of political pressure or instrument to threaten security, and that the diversification of natural gas sources and that the diversification of natural gas sources should be pursued in two main ways. The first corresponds to taking the necessary steps to improve the LNG market in the upcoming period, and the second refers to developing new routes of gas delivery to Europe via the Southern Gas Corridor. Correspondingly, in the declaration published subsequent to the summit of leaders in Brussels, the central location of energy security on the collective agenda was emphasized, and the diversification of energy resources and necessity of modernizing current infrastructure was mentioned. The points stressed in the declaration can be considered a sign that these subjects are becoming more important in the political sphere.

Russia is disturbed by the developments toward liberalization in the European market. In particular, strengthening dynamics of competition in the market, and eliminated barriers to gas trade among the European countries weaken the advantages of Gazprom's monopoly position. Correspondingly, the average price paid for Russian gas in the European market has declined from $400-410 to $350-360 in 2012. This adversely affects Gazprom's profits. Intending to operate in Europe despite all these changes, Russia faced another problem after the Ukrainian crisis, namely, the EU's changing attitude toward the South Stream gas pipeline project. The EU decided to suspend the project while Russia tried to continue its activities through Bulgaria and Serbia. It then faced a new issue when Bulgaria decided to cooperate with the EU on the matter.

Gazprom, determined to pursue its activities in Serbia, announced in June that it will finish construction in the country by 2015, adhering to the old timetable. After this, it once again demonstrated its determination to continue its project, despite the EU, via the agreement signed with the Austrian company OMV on July 24. On a different note, Russia states that it has an alternative market in Asia. In May, Russia responded to the EU's policy of discourse without action with the critical and concrete move of inking a $400 billion energy agreement with China. Amid doubt about the future success of the EU's complex strategic goals, Russia solidified its long-term relationship with China. Considering all these developments, it can be said that both Russia and the EU are searching for important openings for 2015.

Russia mulls new investments in LNG, Finland confirms Moscow's centrality

Natural Gas Europe, *15.07.2014*

While Russia mulls new investments in LNG facilities, Scandinavian countries are taking the lead to settle the controversies with Moscow and the problems in the Middle East. "It's the Government's responsibility to approve a list of companies with the exclusive right to export LNG.

Under the current criteria for specifying these companies, this exclusive right has been granted to four companies: OJSC Gazprom, its subsidiary Gazprom Export, OJSC Rosneft and OJSC Yamal LNG," Dmitry Medvedev said in a note released on Tuesday, confirming Russian commitment to keep an eye on the LNG sector.

Meanwhile, European strategy is slowly unfolding: the block maintains a very strong stance against Russian role in Ukraine, but many European countries are equally trying to secure their business ties with the Kremlin. "The situation in Ukraine has posed new challenges for cooperation between Finland and Russia. As an EU Member State, our position on the Ukraine crisis is very clear. At the same time, we consider it very important to conduct high-level dialogue with Russia now and in the future," Finland's Prime Minister Alexander Stubb said in the afternoon. While Norway is voicing its concerns for the situation in the Middle East, Finland is indeed called to solve first its problem with its mighty neighbour. A stabilisation of the relations with Russia is clearly a priority for Helsinki, as well as for the other Baltic States.

U.S. hits oil giant Rosneft, other firms with toughest Russia sanctions

Reuters, *17.07.2014*

President Barack Obama imposed the biggest package of U.S. economic sanctions yet on Russia, hitting Russia's largest oil producer Rosneft and other energy, financial and defense firms, with what he called significant but targeted penalties.

Obama's latest round of sanctions came after close consultations with European leaders. The ultimate impact of the U.S. sanctions likely depends on whether the European Union follows suit. The extent of the sanctions was intended to serve notice to Moscow that its refusal to curb violence in eastern Ukraine has consequences.

The targeted companies also include Russia's second-largest gas producer, Novatek, Vnesheconombank, or VEB, a state-owned bank that acts as payment agent for the Russian government, and eight arms firms. The U.S. Treasury Department said the measures effectively closed medium- and long-term dollar funding to the two banks and energy companies. But the sanctions did not freeze those four companies' assets, or otherwise prohibit U.S. firms or companies from doing business with them. It is the first time the United States has imposed such narrowly targeted measures as it seeks the maximum impact on Russia, a huge energy producer, while avoiding any immediate shock to global oil markets or U.S. and EU companies.

Russian President Vladimir Putin, speaking in Brasilia, said the sanctions would damage U.S. energy companies, and bring relations with Russia to a "dead end." One analyst said the sanctions remained limited in their scope and were likely to prompt a "war of words" more than anything else.
"I think that the impact on oil sales will be negligible," said sanctions expert Douglas Jacobson, attorney at Jacobson Burton in Washington. "It is another classic shot across the bow and a message from the United States that sanctions can be ramped up." Obama said Putin had so far failed to take steps needed to resolve the crisis peacefully. "We have emphasized our preference to resolve this issue diplomatically, but that we have to see concrete actions and not just words that Russia, in fact, is committed to trying to end this conflict along the Russia- Ukraine border," he said.

Washington said on Wednesday that up to 12,000 Russian combat forces were back on the border with Ukraine and that weaponry was crossing over to pro-Russian separatists. The increase in the Russian presence occurred several weeks after Moscow had drawn down its forces in the area to about 1,000 troops. Obama said the United States could impose further sanctions if Russia did not take concrete steps to ease the conflict. The United States has already imposed several rounds of sanctions on Russian and Ukrainian senior officials since the start of the violence, including Rosneft's chief executive, Igor Sechin. But the sanctions have had only a limited impact on the Russian energy industry, a cornerstone of the country's $2 trillion economy.

It is not yet clear how large an impact the new measures will have on Rosneft, which had sales of $40 billion in the first quarter, about 8.6 percent of Russia’s gross domestic product, or the companies it does business with. Sechin, who like Putin was speaking in Brasilia, said the sanctions would not affect Rosneft’s current project with ExxonMobil, but would damage the shareholders of U.S. companies cooperating with Rosneft. The new sanctions would not appear to prevent Rosneft from selling its oil, but may raise questions about the company’s more than $15 billion worth of oil-related finance arrangements with companies including BP, which now owns almost a fifth of Rosneft, and Glencore.

Morgan Stanley, which is selling the majority of its global physical oil trading operations to Rosneft, declined to comment. The sanctions stopped short of targeting Russia’s Gazprom, the world’s largest natural gas producer and provider of much of Europe’s energy supplies. Gazprombank is 36 percent-owned by Gazprom. “These sanctions are significant, but they are also targeted, designed to have the maximum impact on Russia while limiting any spillover effects on American companies or those of our allies,” Obama told reporters. The new measures were announced on the same day that EU leaders met in Brussels and agreed to expand their own sanctions on Russia.

The new U.S. sanctions also include Feodosiya Enterprises, a shipping facility in Crimea, and senior Russian officials, several of whom had already been targeted by the European Union. The affected senior officials included the deputy head of the State Duma, or parliament, the minister of the Crimea, a commander of the Russian intelligence agency FSB, and a Ukrainian separatist leader. Obama in recent weeks has repeatedly threatened new sanctions, and appears to have run out of patience as fighting continued to rage in eastern Ukraine.

The new sanctions were unlikely to please Republican lawmakers, many of whom have been calling for the imposition of sanctions on entire Russian industries, rather than specific companies, as the best way to control Putin. Republican lawmakers said they welcomed the additional sanctions but that Obama should go further. Several lawmakers, Republicans in particular, have called for broader sectoral sanctions targeting important Russian industries like energy and banking. “Until now, the administration’s response to Putin’s aggression has given him little reason to change his behavior. Continuing to go after the Russian economy is the way to send the most effective message,” Dan Coats, an Indiana Republican, said.

UK government to review North Sea oil and natural gas tax regime

ICIS, *14.07.2014*

In view of declining tax revenue from the oil and natural gas industry, the UK Treasury is exploring how the country's tax regime could be changed to encourage new investment in the North Sea. The ministry on Monday invited oil and gas companies operating in the UK's part of the North Sea to share their views on the future of the oil and gas tax regime as part of a government-led 12-week consultation.

The UK Treasury added that it aims to help maximise the value of the country's oil and gas resources, and at the same time ensuring that "the nation continues to receive a fair share of profits".

It launched the consultation against the backdrop of around 21 billion barrels of oil equivalent (boe) still being believed untapped in the UK part of the North Sea. Oil and gas companies operating in the North Sea are taxed at higher rates than other companies. Marginal tax rates stand at 62% or 81% – significantly higher than the standard corporation tax rate which is currently 21%. Between 2013 and 2014, £4.7bn was paid in upstream taxation in the UK. At the same time, the government has introduced a number of tax relief measures to encourage investment, particularly in North Sea fields that are smaller or harder to access. These "field allowances" unlocked £7bn of new investment last year, according to the industry. There are currently some 300 offshore oil and gas fields in production which still provide nearly 40% of the UK's primary energy needs. However, exploration and production is becoming more difficult and expensive, with the UK facing competition for capital.

Despite current record investment rates, there are signs that investment will halve over the next four years, according to the trade association Oil & Gas UK, which has come out in support of the government's consultation. "The current fiscal regime has become increasingly complicated and unpredictable with high tax rates combined with a multiplicity of allowances," Michael Tholen, Oil & Gas UK's economics director, said. "While targeted allowances have successfully encouraged a wave of activity in recent years, temporarily halting the production decline, their impact is diminishing in an ever more expensive business climate. Investors are increasingly looking to invest elsewhere rather than in the UK," he added.

Curtain raiser: reporting energy trades under REMIT

ICIS, *16.07.2014*

Important details on how companies will report trades under regulations to tackle insider trading and market abuse in energy markets will likely emerge at a workshop on Wednesday.

All power and natural gas trades and orders will have to be reported under the Regulation of Wholesale Energy Markets Integrity and Transparency or REMIT. The date for reporting trades was recently pushed back to the first or second quarter in 2015. Reporting was expected to begin by the end of this year, but the European Commission failed to meet its deadline to publish the implementing acts for REMIT.

Companies will have to report trades and orders to trade to the Agency for Cooperation of Energy Regulators (ACER) through registered reporting mechanisms. The mechanisms are likely to be third parties such as the trade repositories that exist already for reporting trades under the European Market Infrastructure Regulation. But it is probable energy companies could elect to register as a mechanism themselves to report their own activity and that of smaller, client companies. It is also possible venues such as exchanges could be a reporting mechanism. Much will depend on the implementing acts.

EU delays decision on Russian access to Opal gas pipeline

Reuters, *16.07.2014*

The European Commission said it had delayed indefinitely a decision on whether to allow Russia greater access to the Opal gas pipeline in northeastern Germany, even though its approval would improve the security of gas supply to Central Europe.

Russian gas giant Gazprom has limited access to the pipeline because of an EU law that seeks to prevent energy suppliers from dominating infrastructure. Western analysts as well as Russian officials say giving Russia more access could play a major role in improving EU energy security because it connects to Russia’s Nord Stream pipeline.

Citing technical reasons, Commission spokeswoman Sabine Berger said on Wednesday the Commission had agreed with German regulator (BNetzA) to prolong the deadline for a decision on Opal. "It is difficult to specify the exact timing of the decision," she added in an emailed statement. The Russian Energy Ministry said in a separate statement, however, that the decision on Opal had been extended till mid-September. Introduced in 2011, Nord Stream pumps gas from Russia via the Baltic Sea into Germany, bypassing traditional transit state Ukraine. Nord Stream's capacity is 55 billion cubic metres a year, but Gazprom, which heads the consortium of shareholders, has been pumping only half that.

Opal provides a link from Nord Stream where it makes landfall in northeastern Germany to the Czech Republic. It has a capacity of 36 bcm but has also been operating at half that for the past three years. Russian President Vladimir Putin said in January the Commission had agreed to allow Russia 100 percent access to Opal, but the Commission subsequently said a decision had been delayed, again citing the need for technical clarifications. Gazprom, which has been pressuring the European Commission to lift the restrictions, is also locked in conflict with the EU authorities over its even bigger pipeline project, South Stream. South Stream would carry gas from Russia across the Black Sea to Bulgaria and other EU states. Like Nord Stream, it bypasses Ukraine.

The Commission says South Stream breaks various pieces of EU law, including rules on third-party access and intergovernmental agreements. Following Russia's annexation of Ukraine's Crimea region, the Commission suspended talks aimed at bringing South Stream into line with EU legislation. Dominique Ristori, head of the Commission's energy department, said this week the suspension remained firmly in place. "In the present context our position is very clear. South Stream has no place when we are still in such difficulties with Russia," he told a Brussels meeting on Tuesday. Talks could resume only on the basis of "clear principles and in particular one principle is crystal clear: the full implementation of EU legislation", he said.

Russia is locked in conflict with the European Union and Ukraine over Ukraine's decision to sign a partnership agreement with the European Union and over Moscow's annexation of Crimea. The dispute has been aggravated by a row between Ukraine and Russia over how much Ukraine pays for its gas, which has led Russia to cut off gas supplies. Because Ukraine is a transit state for around half of the gas the EU receives from Russia, there is a risk of knock-on effects for EU nations if the cut-off is prolonged. The European Commission has brokered talks between Kiev and Moscow, but the last round collapsed without a deal. EU diplomats said this week they did not expect new tripartite talks before the end of August.

CNPC finds oil, gas shows in disputed waters in South China Sea

Rigzone, *16.07.2014*

China National Petroleum Corporation (CNPC) announced that the petroleum drilling and exploration operation of Zhongjiannan Project in the South China Sea was smoothly completed on schedule July 15 with oil and gas shows found.

In accordance with the work procedures of deepsea petroleum exploration and development, a comprehensive assessment of hydrocarbon horizons is to be implemented based on the geological and analytical data collected through the drilling and exploration operation. Next phase arrangements are subject to the aforesaid comprehensive assessment.

Since 2004, CNPC has been conducting geophysical prospecting activities mainly for seismic data acquisition in this sea area based on intensive and comprehensive geological study. As a result, the exploration targets were locked, and the well locations were identified. In 2013, well site survey was conducted. CNPC started the drilling of two exploratory wells of Zhongjiannan Project May 2, and finished the drilling of No.1 exploratory well May 27. We started drilling No.2 well May 28, and the drilling of this well completed today. The operation is undertaken by the drilling platform Hai Yang Shi You 981 (UDW semisub) run by China Oilfield Services Limited (COSL).

Brent rebounds on Chinese data

Upstream Online, *16.07.2014*

Brent was trading below $106 prior to the release of China's economic data but quickly jumped higher. The North Sea benchmark was up 37 cents at $106.39 by 1000 GMT, after hitting an intraday low of $104.39 on Tuesday, the weakest price in more than three months.

The August contract expires on Wednesday. US crude gained 78 cents to $100.74 a barrel. The contract fell as low as $99.01 in the previous session to break the 200-day moving average of $99.92. China's economy grew by 7.5% between April and June from a year ago, slightly above expectations and up from 7.4% in the first quarter.

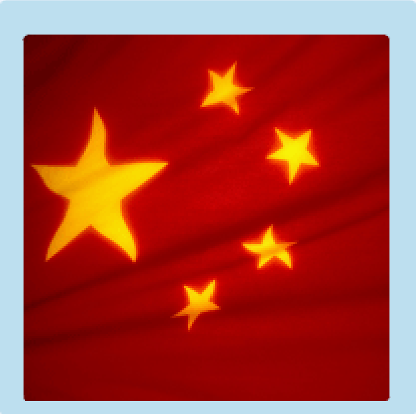
China's implied oil demand rose 2.6% compared with a year ago to 10.2 million barrels per day in June, the highest since January 2013, according to Reuters calculations based on preliminary government data. Other data released on Wednesday from Beijing showed factory output rose 9.2% last month compared with a year ago, beating expectations of a 9% increase. Fixed asset investment rose 17.3% in the first six months, above forecasts for a 17.2% rise; retail sales rose 12.4% in June from a year ago, in line with analysts' predictions. In the US, prices rose on the expectation of strong industrial production and the publication of official oil inventory figures, to be released later on Wednesday.

Crude oil inventories fell 4.8 million barrels in the week ended 11 July, data from industry group the American Petroleum Institute showed on Tuesday. US commercial crude oil inventories were forecast to have fallen 2.1 million barrels last week, as refiners increased output, according to a Reuters poll of analysts. The more closely watched weekly oil data from the US government's Energy Information Administration (EIA) is due later in the day. Investors were also eyeing Libya, where oil output had risen to 588,000 bpd, even as militia groups continued to fight among themselves for control of Tripoli's international airport in the country's worst violence in months.

In Europe, the United States and the European Union could impose new sanctions against Russia after Ukraine suggested Moscow was involved in an air strike that killed 11 people. Wednesday's slight price rises ended oil's longest losing streak since 2010 as easing geopolitical tensions in Iraq and Libya soothed worries over oil supplies. Despite Wednesday's gains, front-month crude prices have shed almost 10% since mid-June, while prices for next year have remained relatively firm, meaning the oil curve has flattened. The price spread between August 2014 and August 2015 Brent collapsed by over 88% during the past month to under $0.8 per barrel, its lowest level since 2011. "You can effectively take a long spreads position here at the most advantageous levels in three years," brokerage Marex Spectron said on Wednesday in a research note.

China oil demand hits highest in 17 months, still doubts on strength

Reuters, *16.07.2014*



China's implied oil demand rose in June to its highest level since January 2013, although there were still doubts that the numbers reflected a healthy economy. Analysts remain cautious about the broad economic outlook in the world's second largest oil consumer, noting that faster-than-expected growth in the second quarter was driven more by government support than by genuine momentum.

China consumed roughly 10.2 million barrels per day (bpd) of oil last month, according to Reuters calculations based on preliminary government data, the highest level in 17 months and up 8.4 percent from May.

"The record-high refinery throughput in June did not convince analysts a robust recovery was under way. "I don't think that should be a cause to celebrate from an economic activity perspective," said Simon Powell, head of Asian oil and gas research for CLSA in Hong Kong. The strong demand for gasoline compares with weak demand for diesel, which is used in everything from power generators and factories to trains and usually has a stronger correlation to economic growth. Even with the driving boom, implied oil demand in the first half of the year inched up only 0.5 percent to 9.87 million bpd from a year ago, according to Reuters calculations.

June oil consumption was up 2.6 percent from a year earlier, the calculations showed.China's economic growth in the second quarter quickened to 7.5 percent as a burst of government stimulus paid dividends, but analysts said Beijing will likely need to offer further support to meet its growth target for 2014. The International Energy Agency (IEA) revised down this month its forecast for China's oil demand for 2014 on lower estimates of industrial fuel use, predicting implied oil demand would rise just 3.3 percent for the year. The IEA also lowered its estimate for consumption growth in diesel and heavy gas oils by 55,000 bpd. "I think the implications are that the Chinese economy isn't growing as fast as people say it is," said Powell of CLSA, adding that he expects China's oil growth to fall short of the IEA forecast.

Reuters calculates implied oil demand using official refinery throughput data plus net imports of the main refined products, excluding changes in fuel stocks, which China rarely reports. China's daily crude throughput in June rose 7 percent from the previous month to a record-high 41.83 million tonnes, or 10.18 million bpd, as refineries emerged from the peak maintenance season in April and May, data from the National Bureau of Statistics (NBS) showed. Crude throughput was up 5.8 percent from a year ago, the statistics bureau data also showed. Analysts cite an increase in refining capacity as one reason for the growing crude runs. China has begun exporting more refined fuels, but became a net fuel importer again in June. Net fuel imports in June were 110,000 tonnes, or 25,667 bpd, compared to net exports of 410,000 tonnes in May and 1.29 million tonnes a year earlier, customs data showed earlier.

Global investments in oil exploration heading to a record $1 trillion

Arab News, *15.07.2014*

Two years ago Total's chief Christophe de Margerie launched a "high risk, high reward" oil exploration strategy, betting he could hit a bonanza, even though his rivals had failed to make big discoveries.

But Total risks joining the industry trend of making only smaller and fewer finds, despite global investments in oil exploration heading to a record $1 trillion by 2017.This week, Christophe Margerie told Reuters that he gives himself until the year-end to find a major deposit or cut the exploration budget next year following several disappointing drilling campaigns.

Top players are struggling to find enough conventional oil. Majors are caught between growing pressure from investors to cut spending and boost profits and the increasingly costly need to replace declining onshore and offshore reserves. "Over the last 10 years the rate of return from exploration has diminished with time," said Andrew Lodge, exploration director at London-listed explorer Premier Oil. "In the heyday of 2001-2002 the average rate of return for the industry was 20 percent ... that dropped last year to around 10 percent," he said. Disappointing exploration campaigns no longer make such big headlines as they were 10 years ago amid the "peak oil" debate. That theory of oil as a diminishing resource has been transformed by the US shale oil revolution.

Speedy growth from North American unconventional oil reserves has helped stabilize oil prices, despite major supply outages. As a long-standing US ban on crude oil exports remains in place, however, the industry still hugely relies on conventional mega-projects, such as those off the coast of Angola or Brazil, which progress along generally predictable time frames and produce stable volumes for years. The shale oil industry is more complicated and is still in its infancy, which makes it incredibly difficult to anticipate new oil coming onto the market. New conventional discoveries in recent years have disappointed in size and only a handful, such as Statoil's Johan Sverdrop oilfield in the North Sea, have emulated the mega fields discovered more than 50 years." Today we consume 33 billion barrels of oil per year and are discovering 10-20 billion barrels at most.

It appears that the biggest single oil discovery in 2013 was less than 1 billion barrels in size," asset management firm Investec said in a report. Despite a tight capital diet, oil companies are set to spend a record $1 trillion to explore for new reserves by 2017, according to Barclays. Exploration and production spending has risen four-fold since 2000 to around $700 billion because of a rise in material and services prices, which in turn were driven to a large extent by a steep increase in global oil prices and inflation rates. In 2014, ExxonMobil will spend the most on E&P among the oil majors at $35.3 billion, followed by Chevron at $34.6 billion. PetroChina has the largest E&P budget for 2014 at $39.6 billion, according to Barclays data.

“Majors have increased exploration budget by 3 to 5 times in recent years but they have been very ineffective,” said Investec’s Charles Whall. “The oil companies are a little complacent”. Oil discoveries peaked in the 1960s when around 400,000 billion barrels were discovered. In a measure of the success of drilling project, the number of new oilfield developments is set to drop below 50 per year in 2014 and 2015, compared with an average of 75 per year over the past decade, according to Nicholas Green, analyst at London-based Bernstein Research. “This represents the lowest level of activity since 1999, lower even than the oil price crash of 2008-09,” he said. The declining rate of finds is now discouraging investment in certain areas, with drilling in the North Sea set to decline the most over the next two years.

Southeast Asia is likely to be the only region to see increased activity, according to Green. The complexity of “frontier exploration” such as the Arctic and the pre-salt deep waters of Brazil and West Africa has cut returns on investments. Some hope the answer to poor exploration results can be found in increased recovery rates from mature conventional fields. Oil recovery averaged around 35 percent for decades but technological advances such as computer geological modeling and the use of new chemicals have increased the recovery to over 50 percent, according to Matthias Bichsel, Shell director of projects and technology. “I believe in further breakthroughs in enhanced oil recovery. That’s what we will see - injecting chemicals to simply get more oil out of the ground,” Bichsel told Reuters. “The best way is to make the most out of what you have.”

Marcellus natural gas in Northeast drives record U.S. production

Bloomberg, *15.07.2014*

Record natural gas production from the Marcellus shale deposit in the Northeast is helping send U.S. output to an all-time high, as hydraulic fracturing and horizontal drilling unlocked underground supplies.

Gross output from the region in the Northeast will average 15.235 billion cubic feet a day this month, up 28 percent from a year earlier, and 15.482 billion in August, the U.S. Energy Information Administration said yesterday in a monthly report. The gas which is present in Marcellus accounts for about 16 percent of gross U.S. production, up from 2 percent in 2008.

Marcellus supplies are contributing to record U.S. output, a change from six years ago, when federal regulators were evaluating plans for gas import terminals to make up for a domestic shortfall and cut prices. Exports from the Gulf Coast are now scheduled to start next year as prices that have dropped 70 percent since July 2008 make the fuel attractive to overseas consumers. “This is the latest round of big numbers from the Marcellus,” Martin King, an analyst with FirstEnergy Capital Corp. in Calgary, said in a phone interview yesterday. “There is more focus on supply and how that is weighing on prices.”

The supply glut near the biggest cities in the East is keeping spot prices at a discount to the benchmark Henry Hub in Louisiana during periods of lower demand, a switch from the normal configuration. Spot gas on the Transco Zone 6 pipeline for New York City dropped 4.1 percent to $2.24 per million British thermal units July 11 on the Intercontinental Exchange, $1.85 below the Henry Hub price and the lowest since April 25, 2012. The New York price has averaged 31 cents above Henry Hub over the past five years. Prices at Algonquin City Gates, which includes Boston, fell to $2.5885 per million Btu on July 11, the lowest since June 13, 2012.

“This supply growth, coupled with known transportation constraints, is responsible for increasing price weakness in the Appalachian region this summer,” Teri Viswanath, director of commodities strategy at BNP Paribas SA in New York, said in a note to clients yesterday. “We see the potential that rising Marcellus production is poised to permanently disrupt the traditional Gulf-based pricing paradigm.” Gas production from the six largest U.S. shale fields climbed 1.1 percent to 40.145 billion cubic feet a day in August, today’s Drilling Productivity Report showed. Output gains have contributed to a surge in U.S. stockpiles, which dropped to an 11-year low in March.

Total U.S. marketed gas production will rise to a record 73.08 billion cubic feet a day this year, the EIA said July 8. Supplies of the heating and power-plant fuel climbed 1.2 trillion cubic feet from the end of March to 2.022 trillion in the week ended July 4, an EIA report last week showed. It was the fastest pace of storage injections for the first 14 weeks of the stockpiling season since 2001. A deficit to five-year average levels has narrowed to 28 percent from a record 55 percent in March as supply gains topped 100 billion cubic feet for eight straight weeks, the longest streak of triple-digit gains in government data going back 20 years. Gas futures on the New York Mercantile Exchange dropped 5.1 percent since March to $4.147 per million Btu yesterday as rising stockpiles eased concern that supplies wouldn’t be high enough before demand peaks next winter. “There’s too much supply in the region and there’s not enough takeaway capacity,” King said. “That regional sentiment is probably weighing on Nymex prices to some degree.”

Shell makes third major discovery in Norphlet play in GOM

Rigzone, *15.07.2014*

Shell announced its third major discovery in the in the Gulf of Mexico with the successful Rydberg exploration well. After more than 10 years of exploration activities in the region, Shell continues to lead industry.

“The Rydberg discovery builds upon our leadership position in the Eastern Gulf of Mexico and its proximity to our other discoveries in the area make Rydberg particularly exciting,” said Marvin Odum, Shell Upstream Americas director. “These successes represent the emergence of another hub for Shell’s deep-water activities that should generate shareholder value.”

The Rydberg well is located 75 miles (120 kilometers) offshore in the Mississippi Canyon Block 525 in 7,479 feet (2,280 meters) of water. It was drilled to a total depth of 26,371 feet (8,038 meters) and encountered more than 400 feet (122 meters) of net oil pay. Shell is completing the full evaluation of the well results but expects the resource base to be approximately 100 million barrels of oil equivalent. Together with the Appomattox and Vicksburg discoveries, this brings the total potential Norphlet discoveries to over 700 million barrels of oil equivalent.

This is the first discovery for the partnership of Shell (operator, interest 57.2 percent), Ecopetrol America Inc. (28.5 percent) and Nexen (14.3 percent), a wholly-owned affiliate of CNOOC Limited. The discovery is within 10 miles (16 kilometers) of the planned Appomattox development and the 2013 Vicksburg discovery (Shell, operator, 75 percent and Nexen, 25 percent). Shell and Nexen are following up the Rydberg discovery with an exploratory well at Gettysburg, located in Desoto Canyon Block 398 which is also within 10 miles (16 kilometers) of the planned Appomattox Development.

Announcements & Reports

► OPEC Annual Statistical Bulletin 2014

Source : Organization of the Petroleum Exporting Countries
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2014.pdf

► Competing in the Global LNG Market

Source : Ernst & Young
Weblink : http://www.ey.com/CA/en/Industries/Oil---Gas/Competing-global-LNG-market-Canada#.U8Y1rixrOM9

► Oil and Gas Reality Check 2014

Source : Deloitte
Weblink : http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/gx-er-oilandgas-reality-check2014.pdf

► Petroleum Supply Monthly

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/petroleum/supply/monthly/?src=Petroleum-f5

►Drilling Productivity Report

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/petroleum/drilling/?src=Petroleum-f1

► Moscow Energy Charter Forum

Source : Energy Charter
Weblink : http://www.encharter.org/index.php?id=653&L=0

► Gas Regional Investment Plan - Southern Corridor Strategy

Source : Entso - G
Weblink : http://publ.com/rZr59My#2

Upcoming Events

►International Conference on Energy (ICOE) 2014

Date : 12 – 13 August 2014
Place : Colombo – Sri Lanka
Website : http://www.energyconference.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

► Oil & Gas Producer Hedging and Marketing Forum

Date : 11 September 2014
Place : Dallas - USA
Website : http://www.mercatusenergy.com/oil-gas-hedging-marketing-conference/

► 4th Annual LNG Global Changes

Date : 16 - 19 September 2014
Place : London – United Kingdom
Website : http://www.lnggc.com/?xtssot=0

Supported by PETFORM

► All Energy Turkey- 2014 *(in Turkey)*

Date : 24 – 25 September 2014
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/?lang=tr

► 2nd European Shale Gas and Oil Summit 2014

Date : 29 – 30 September 2014
Place : London – United Kingdom
Website : http://www.esgos.eu/

► USEA 7th Annual Energy Supply Forum

Date : 02 October 2014
Place : Washington - USA
Website : http://www.usea.org/

► Energy and Economic Competitiveness

Date : 06 – 07 October 2014
Place : London – United Kingdom
Website : http://www.chathamhouse.org/events?field_event_flags_tid=conference

► Energy Hedging, Risk Management & Trading Seminar

Date : 15 – 16 October 2014
Place : Houston - USA
Website : http://www.mercatusenergy.com/energy-hedging-trading-risk-management-events/

► FT European Gas Summit: New Supplies for Europe: Feast or Famine

Date : 23 October 2014
Place : London – United Kingdom
Website : http://event.ft-live.com/ehome/index.php?eventid=87259&&reference=twittertweet

► European Automn Gas Conference

Date : 28 – 30 October 2014
Place : London – United Kingdom
Website : http://www.theeagc.com/

► Turkey International Underground Gas Storage Conference

Date : 29 – 31 October 2014
Place : Ankara – Turkey
Website : http://tugs2014.org/

► Gas to Liquids

Date : 29 – 30 October 2014
Place : London – United Kingdom
Website : http://www.smi-online.co.uk/energy/uk/conference/gas-to-liquids

► Climate Change: Raising Ambition, Delivering Results

Date : 03 – 04 November 2014
Place : London – United Kingdom
Website : http://www.chathamhouse.org/ClimateChange14?campaign=ngfe

► *Turkmenistan International Oil & Gas Conference and Exhibition*

Date : 18 - 20 November 2014
Place : Ashgabat - Turkmenistan
Website : http://www.oilgasturkmenistan.com/

► *Oil & Gas Cyber Security*

Date : 24 – 25 November 2014
Place : London - United Kingdom
Website : http://www.smi-online.co.uk/energy/uk/conference

► *4th Erbil Oil & Gas International Exhibition*

Date : 18 – 21 Feburary 2015
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/