Oil & Gas Bulletin
▸ 20.06.2014

Turkish energy minister warns of risks amid Iraq refinery battle

Trend Az., *19.06.2014*

Iraq's extra demand for Turkish fuel due to the Baiji refinery attack will strain the limited border export capacity, Yildiz said, as Iraqi government forces battled Sunni rebels for control of the country's biggest refinery. Iraqi government announced it took retook the control of Baiji June 19 as Prime Minister Nuri al-Maliki waited for a U.S. response to an appeal for air strikes to beat back the threat to Baghdad.

Yildiz told reporters during a trip to Moscow that Iraqi demand for Turkish refined oil products could cause a bottle-neck at the border with northern Iraq and it was unclear whether the demand could be fully met.

"This increase in the demand for refined oil products will cause a build-up of activity at the Habur border gate. Physical conditions including security concerns will determine whether the demand can be met," Yildiz said. The sprawling Baiji refinery, 200 kilomters north of the capital near Tikrit, was a battlefield as troops loyal to the Shi'ite-led government held off insurgents from the Islamic State of Iraq and the Levant and its allies who had stormed the perimeter a day earlier, threatening national energy supplies. A government spokesman said around noon that its forces were in "complete control" but a witness in Baiji said fighting was continuing and ISIL militants were still present.

In Arbil, the capital of Iraqi KRG which remained stable amid the increasing violence across the north of the country, there were long queues at petrol stations due to panic buying even though there were no actual shortages. "People are panicking because of the Baiji refinery," one taxi driver in Arbil said. "Deliveries are coming though. There are few shortages." Officials from the Kurdish Regional Government (KRG) visited Turkey in April and started talks on opening five new border gates to avoid the frequent long queues at Habur. Turkish Trade Minister Hayati Yazici said last November that Turkey had agreed with Iraq on opening two new border gates after talks with Iraq's central government and the KRG. None of these gates have been so far been opened, leaving Habur as the only crossing.

OPEC member Iraq was Turkey's biggest crude oil supplier in 2013 and it buys back refined oil products, particularly diesel, to meet its booming electricity demand. "This refinery was supplying northern Iraq but now it is unable to do that. We already supply fuel to the region to a certain extent," Yildiz said. Meanwhile, oil flow at Iraqi Kurd's pipeline link to Turkey continued and a third export cargo shipped to world markets independently was scheduled to load this weekend. Yildiz said buying crude oil from the KRG was definitely an option. "Tupras has not yet bid for this oil but it could in the coming period." Video aired by Al-Arabiya television showed smoke billowing from Baiji and the black flag used by ISIL flying from a building.

Iraq's higher demand for Turkish fuel a strain on border crossings

Reuters, *19.06.2014*

Iraq's extra demand for Turkish fuel due to the Baiji refinery attack will strain the limited border export capacity, Turkish Energy Minister Taner Yildiz said on Thursday. Iraqi government forces battled Sunni militants for control of the country's biggest refinery on Thursday as Prime Minister Nuri al-Maliki waited for a U.S. response to an appeal for air strikes to beat back the threat to Baghdad.

Yildiz told reporters during a trip to Moscow that Iraqi demand for Turkish refined oil products could cause a bottle-neck at the border with northern Iraq and it was unclear whether the demand could be fully met.

"This increase in the demand for refined oil products will cause a build-up of activity at the Habur border gate. Physical conditions including security concerns will determine whether the demand can be met," Yildiz said. In Arbil, the capital of KRG which remained stable amid the increasing violence across the north of the country, there were long queues at petrol stations due to panic buying even though there were no actual shortages. "People are panicking because of the Baiji refinery," one taxi driver in Arbil said on Wednesday night. "Deliveries are coming though. There are few shortages." Officials from the Kurdish Regional Government (KRG) visited Turkey in April and started talks on opening five new border gates to avoid the frequent long queues at Habur.

Turkish Trade Minister Hayati Yazici said last November that Turkey had agreed with Iraq on opening two new border gates after talks with Iraq's central government and the KRG. None of these gates have been so far been opened, leaving Habur as the only crossing. OPEC member Iraq was Turkey's biggest crude oil supplier in 2013 and it buys back refined oil products, particularly diesel, to meet its booming electricity demand. "This refinery was supplying northern Iraq but now it is unable to do that. We already supply fuel to the region to a certain extent," Yildiz said.

Turkey extended a warning to its citizens in Iraq to leave all but the Kurdish-run north on Wednesday, citing a potential battle for Baghdad and saying "negative propaganda" was being spread against it in the Shi'ite-dominated south. Eighty Turkish nationals were seized by insurgents in the northern Iraqi city of Mosul last week, 49 of them snatched from the Turkish consulate, including special forces soldiers, diplomats and children. Meanwhile, oil flow at Iraqi KRG's pipeline link to Turkey continued and a third export cargo shipped to world markets independently was scheduled to load this weekend. Yildiz said buying crude oil from the KRG was definitely an option. "Tupras has not yet bid for this oil but it could in the coming period."

Turkey's energy security is immune to the clashes in the region

Hurriyet Daily News, *07.06.2014*

Recent developments in Iraq do not pose risks to Turkey's energy supply security because the oil flow from the Kirkuk-Ceyhan pipeline has been suspended for three months anyway, Yildiz said. "The developments in Iraq related to the energy sector do not affect Turkey's oil security supply."

The extending control of the jihadist militants of the ISIL in Iraq, from where Turkey receives a considerable share of its oil supply, has sparked worries over the security of the pipelines and production fields. Yildiz said the flow of oil at the Kirkuk-Yurmutalık pipeline, which is now controlled by ISIL, had been suspended for the past three months.

The oil flow through the line has been halted due to a series of violent attacks over the past few months. Kirkuk, a major oil city in northern Iraq, was taken by the forces of northern Iraq's Kurdish Regional Government (KRG) from the central Iraqi authority on June 12. The seizure came after the start of the unrest in the north and west of Iraq on June 10, when ISIL took control of the Iraqi province of Mosul. Ankara and Baghdad's energy relations were already going through a rough patch due to dispute over Kurdish-controlled north's oil exports to world from Turkish port of Ceyhan on the Mediterranean coast.

The shipping of oil extracted from the Kurdish Regional Government (KRG) last month has chilled ties both between Baghdad and Ankara, and between the central government and Kurdish authorities in Arbil. The cargo of Kurdish oil left Turkey 10 days ago aboard a United Leadership tanker, prompting Baghdad to file for international arbitration against Ankara for facilitating the sale. Iraq says its State Oil Marketing Organization (SOMO) has exclusive rights to manage sales of crude from the entire country, including KRG, and considers unilateral exports from the region as "smuggling."

Third cargo of Kurdish oil 'set to leave' amid Iraqi crisis

Hurriyet Daily News, *10.06.2014*

KRG is ramping up independent oil exports, with a third tanker set to load a cargo of crude from its disputed pipeline as Iraq struggles to stop an insurgency by Islamist militants, its autonomous region. The third tanker is scheduled to depart Turkey's Mediterranean port of Ceyhan on June 22 carrying oil pumped through KRG's new pipeline, which by-passes Baghdad, Yildiz said June 16.

Kurdish Regional Government began independent pipeline exports via Turkey in May, despite protests from Baghdad which claims it has the sole authority to sell Iraqi oil via state-marketer SOMO.

Oil flows through the Kurdish Regional Government's (KRG) pipeline to Turkey have continued uninterrupted despite a lighting advance by Sunni militants in northern Iraq that threatens to dismember the OPEC country. "A third tanker is scheduled for June 22 to export the oil coming from northern Iraq," Yildiz told reporters. Energy officials said the tanker will be carrying 1 million barrels of crude. But Yildiz declined to elaborate on the buyer. "Iraq is carrying out the tender and the sale for this oil... That's why we don't go into the 'which country did it sell, when did it sell' types of issues." The oil is loading despite previous setbacks to the KRG's attempts to sell this controversial oil. Its first exports have still not discharged for a refinery.

Baghdad's threats of legal action and the black-listing of buyers has dissuaded most from touching Kurdish's new crude stream. The KRG's exports of smaller quantities of trucked oil have found many buyers but the central government is focused on catching those who touch the larger pipeline exports. The first tanker, the United Leadership, is still lingering off the Moroccan coast after it attempted to deliver oil to the North African country's Mohammedia refinery at the start of this month. The government told the vessel, laden with 1 million barrels of oil, to vacate its waters pending a final decision.

The second tanker, the United Emblem, sailed from Ceyhan to Malta last week, but the buyer of this cargo remained unclear. After the first tanker loaded, the central government in Baghdad filed a case for arbitration with the International Chamber of Commerce (ICC) against Turkey and its state-run pipeline operator BOTAS, saying the obligations under the Iraq-Turkey Pipeline Agreement were breached. Iraq and KRG have been trying to reach a political agreement over oil sales, but five months after the startup of KRG pipeline, there still had been no final decision, prompting the regional government to go it alone.

Energy saving projects to get incentives from Turkish government

Hurriyet Daily News, *16.06.2014*

The government is set to include energy saving investments within the scope of incentives, as it hopes to save around 15 billion lira-worth of energy per year, Yildiz told. Yildiz said increasing energy efficiency across the whole sector would earn the Turkish economy around 65 billion liras by 2023.

"With this aim in mind, it has been decided to provide incentives for some energy investments with a Cabinet decision taken on May 9," he added. The decision will pave the way for several investments that introduce efficient energy use in industrial facilities, in order to benefit from the government's most privileged "fifth incentive region."

Areas marked as part of the "fifth incentive regions" are considered underdeveloped and mostly cover the eastern and southeastern provinces, the country's poorest regions where Kurdish militant movements have been active for decades. The investments that qualify for incentives will be those that bring 20 percent energy saving per unit for at least five years in manufacturing facilities consuming at least 500 tons of oil equivalent (toe) energy, investments that save power through waste heat and liquidified natural gas (LNG), and underground gas storage investments worth at least 50 million liras.

Iraqi Kurds plan to continue oil exports, reach budget allocation

Reuters, *17.06.2014*

Iraqi Kurdish's natural resources minister said on Tuesday the region plans to continue oil exports and will be able to meet its allocated budget through independent oil shipments by the year-end.

Ashti Hawrami said the central government in Baghdad had withheld budget payments to the region so far this year and before was giving only around 10 percent instead of an agreed 17 percent. "They pushed us to do this," Hawrami said at a London conference, referring to independent oil exports. "We're going to create facts on the ground to have my 17 percent in my own hands," Hawrami said.

Development of Akkas gas field in Iraq delayed due to violence

Natural Gas Asia, *15.06.2014*

Crisis in Iraq has led to delay in development of Akkas gas field, South Korea's energy miWnistry said, quoting project owner KOGAS. KOGAS told that the delay began last week as those who worked on pipeline tasks near the battles had fled to safe areas. "If the civil war expands and the U.S. military joins, it is likely that the development will be halted... In the worst case, it is possible for us to withdraw."

South Korea's energy ministry said it would set up contingency plans for their projects in Iraq, including Akkas. Earlier this year the Korean firm expressed its desire to cut stake in the Akkas gas field to pay off debt.

Iraq's biggest oil refinery shut down, foreign staff evacuated

Reuters, *17.06.2014*

Iraq's biggest oil refinery, Baiji, has been shut down and its foreign staff evacuated, refinery officials said on Tuesday, adding that local staff remain in place and the military is still in control of the facility.

Militants from ISIL seized Iraq's second-biggest city of Mosul last week and other Sunni armed groups have advanced into the town of Baiji and surrounded its refinery. The refinery shut down overnight, the sources said. Baiji is one of three oil refineries in Iraq and only processes oil from the north. The other two are located in Baghdad and the south and are under government control and operational.

"Due to the recent attacks of militants by mortars, the refinery administration decided to evacuate foreign workers for their safety and also to completely shut down production units to avoid extensive damage that could result," a chief engineer at the refinery said on condition of anonymity. He said that there is sufficient gas oil, gasoline and kerosene to supply more than a month of domestic demand.

Kurdish oil exports rise as Iraq faces off with insurgents

Reuters, *17.06.2014*

As Iraq struggles to stop an insurgency by Islamist militants, its autonomous region KRG is ramping up independent oil exports, with a third tanker set to load a cargo of crude from its disputed pipeline. The third tanker is scheduled to depart Turkey's Mediterranean port of Ceyhan on June 22 carrying oil pumped through KRG's new pipeline, which by-passes Baghdad, Taner Yildiz said on Monday.

Kurdish Regional Government began independent pipeline exports via Turkey in May, despite protests from Baghdad which claims it has the sole authority to sell Iraqi oil via state-marketer SOMO.

Oil flows through the Kurdish Regional Government's (KRG) pipeline to Turkey have continued uninterrupted despite a lighting advance by Sunni militants in northern Iraqthat threatens to dismember the OPEC country. "A third tanker is scheduled for June 22 to export the oil coming from northern Iraq," Yildiz told reporters. Energy officials said the tanker will be carrying 1 million barrels of crude. But Yildiz declined to elaborate on the buyer. "Iraq is carrying out the tender and the sale for this oil... That's why we don't go into the 'which country did it sell, when did it sell' types of issues."

The oil is loading despite previous setbacks to the KRG's attempts to sell this controversial oil. Its first exports have still not discharged for a refinery. Baghdad's threats of legal action and the black-listing of buyers has dissuaded most from touching KRG's new crude stream. The KRG's exports of smaller quantities of trucked oil has found many buyers but the central government is focused on catching those who touch the larger pipeline exports. The first tanker, the United Leadership, is still lingering off the Moroccan coast after it attempted to deliver oil to the North African country's Mohammedia refinery at the start of this month.

The government told the vessel, laden with 1 million barrels of oil, to vacate its waters pending a final decision. The second tanker, the United Emblem, sailed from Ceyhan to Malta last week, but the buyer of this cargo remained unclear. After the first tanker loaded, the central government in Baghdad filed a case for arbitration with the International Chamber of Commerce (ICC) against Turkey and its state-run pipeline operator BOTAS, saying the obligations under the Iraq-Turkey Pipeline Agreement were breached. Iraq and KRG have been trying to reach a political agreement over oil sales, but five months after the startup of KRG pipeline, there still had been no final decision, prompting the regional government to go it alone.

Could Iran replace Russia as Europe's gas provider?

Reuters, *19.06.2014*

Gazprom has halted gas supplies this week to Ukraine in a dispute over unpaid bills. As a side-effect, Russia says Europe could witness occasional disruptions in its gas supplies that flow through Ukraine. But imagine another, much more far-reaching scenario, where no methane flows through the pipes that pass via Ukraine, Belarus and the Baltic Sea to provide Europe with the precious fuel.

What if the European Union decided to forego Russian gas in response to President Vladimir Putin's aggressive stance on Ukraine, effectively ending 40-year cooperation initiated during the Leonid Brezhnev era of stagnation?

This could happen, some say, because Iran, which looks to become part of the international community again, will make its huge gas reserves — the world's second largest behind Russia's — available to the Europeans. Alas, the Old Continent can find warm comfort and breathe a sigh of relief. This, of course, is pure fiction. Despite the Ukrainian crisis, Russia is still fulfilling its delivery contracts to Europe. But though Moscow is Tehran's ally on sensitive issues like Syria, it will do everything to prevent Iranian gas from flowing towards Europe and eating away at the market share of Gazprom, which is responsible for one-quarter of European consumption. And Iran cannot turn its back on its diplomatic, military and economic cooperation with its powerful neighbor, even though there is ancestral rivalry between the Persian and Russian empires.8

Europe, however, is threatening to hit Russia where it hurts: its hydrocarbon exports. As for Iran, it dreams of returning to the global energy game, although in a still very diplomatic manner. "We don't want to compete with Russia. But we know that Europe's demand for gas is increasing and would like a share in this," Iranian Industry Minister Mohammad Reza Nematzadeh recently said, underlining that his country could be a "reliable, secure and long-term" partner for Europe. Besides, is it totally by chance that he chose to say this in an interview with Germany's daily newspaper Handelsblatt, when 40% of the gas consumed by Germany comes from Russia?

But before Iranian gas can be used as a weapon against Vladimir Putin, the West will need to lift its sanctions on Tehran's nuclear program. Iran and the "5+1" — the five permanent members of the UN's Security Council (U.S., Russia, China, France, Britain) and Germany — resumed their talks in Vienna on May 14 and are expected to reach an agreement before July 20. The current temporary deal could be extended by another six months. Another hurdle will be whether the various political and religious groups in the Islamic Republic can agree on delicate issues, such as the space given to Western companies, the only ones to hold the liquefied natural gas (LNG) technology that allows full-scale exportation. Those most open to development are vocal about their intention to relaunch hydrocarbon production with these companies. On the other hand, the Supreme Leader has regularly dashed investor hopes in the past.

Convinced that the talks in Geneva and Vienna will fail, Ayatollah Ali Khamenei periodically insults the West in speeches, and asks Iranians to be prepared to develop their resources alone. But for some, replacing Russia with Iran is “nonsense.” First of all, because the Islamic Republic consumes growing amounts of gas. According to British firm BP, its consumption rose from 20 million tons of oil equivalent per year in 1990 to 150 million, as different uses developed: pumping in oil wells to improve extraction, fuel and raw material in industries, fuel for vehicles, electricity production, heating for part of the 80 million Iranians, not to mention huge waste.

The country appears incapable of developing its own resources and exports 40 times less gas to Turkey than Russia to Europe. It even imports regularly from Turkmenistan. “Europe imports 150 billion cubic meters of Russian gas per year,” says Philippe Sauquet, president of Gas & Power at Total. ”It’s impossible to turn your back on such large volumes. Replacing it with other sources would lead to a 20% to 30% rise in costs since very expensive infrastructure would need to be built, whereas the pipelines from Russia have already been paid for. Both Europeans and Russians would stand to lose.” Experts are also skeptical about Iran’s ability to quickly become a large gas exporter. “It’s going to take time to build alternative infrastructures,” Sauquet observes.

“Qatar accelerated its policy in 2001, but the production of LNG only really took off in 2010-2011 to reach 70 million cubic meters of export. And if the Qatari were so fast, it’s because they were united around the emir, and had the money and backing of major Western companies.” This is far from being the case with the Iranians, who do not know yet if they should give priority to the pipelines or to the liquefied natural gas terminals to export the gas from the South Pars field, which they share with Qatar. For the past 10 years, they have watched with resentment as the emirate makes huge progress in the LNG industry, especially since the Qataris probably siphon, unintentionally, part of their gas.

Europeans would also be wrong to believe that as far as oil nationalism is concerned, Iranians are more obliging than the Russians, or more easy to work with when it comes to business. Total is convinced that Iran will be incapable of exporting to Europe more than 20 billion cubic meters in the foreseeable future — in other words, seven times less than Russia today. This is far from the 90 billion cubic meters mark that Oil Minister Bijan Namdar Zanganeh alluded to. To cut their dependence on Russia therefore means developing more sources of supply. In Washington, those in Congress eager to use American shale gas against Russia have not given up on their ambitions. But it will take two to three years for the first — and modest — shipments of American LNG to reach Europe.

And 10 to 15 years for those from Eastern Africa, provided they don’t all end up in China, India or Japan. Europe is “competing with Asian countries that don’t hesitate to pay a high price for gas security,” says Claude Mandil, former chief of the International Energy Agency. On the liquefied gas market, there is no mercy. After the Fukushima nuclear disaster, Japan had to buy a lot of gas, driving the prices up. It is 50% more expensive in Asia than in Europe. That is the price for secure supply contracts. If Europe wanted such shipments, it would need to book them now to encourage the companies that invest in its money-consuming projects. Total and Russian group Novatek have already sold more than two-thirds of the production from the liquefied natural gas plant of Yamal (northern Siberia), although it will not start producing until 2017.

By 2035, Europe will be dependent for 80% of its gas, and could wind up importing a total of 450 billion cubic meters. Many observers reckon that its leaders are determined to cut Russia's future part in its supplies and to force it to open its market. This shift will be a slow and gradual one. Analysts all agree that Europe will not improve its security by excluding Russia, but rather by improving its energy efficiency, by developing other resources and by diversifying its supply sources. In this game, Iran represents only one of many possibilities. In Gazprom's operations center, where its chiefs like to take their hosts to show off their might, the diagrams are already lit up again. A new energy corridor will soon be there too. But the route is pointing eastward: On May 21, Moscow and Beijing signed the deal of the century, guaranteeing the supply of more than 1,100 billion cubic meters of Russian gas over the next 30 years for $400 billion.

Greek Cyprus could supply gas to Bulgaria

Bloomberg, *16.06.2014*

Bulgaria's foreign minister said Monday that Greek Cyprus could eventually supply his country and other central European nations with natural gas to lessen the region's heavy dependence on Russian deliveries. Kristian Vigenin said Greek Cyprus could be key to an envisioned "north-south corridor" supplying gas to central Europe.

"Greek Cyprus can play an important role in the project delivering gas to (liquefied natural gas) terminals in Greece and then from there this can bring gas up to Bulgaria, Romania and central Europe," Vigenin said after talks with his Cypriot counterpart Ioannis Kasoulides.

Vigenin said Bulgaria can't fully replace Russian gas given its near total reliance on Moscow for the fossil fuel, but Greek Cyprus could become a future supplier over the medium term. He cautioned much work remains to make that a reality. Bulgaria imports around 106 billion cubic feet of gas annually. Greek Cyprus has discovered one field off its southern coast estimated to hold 3.6 trillion to 6 trillion cubic feet of gas that US firm Noble energy and its Israeli partners Delek and Avner are looking to develop.

Greek Cyprus has licensed industry giants Eni of Italy, South Korean Kogas and France's Total to look for oil and gas off its shores and wants to speed up the search. Cypriot Energy Minister Yiorgos Lakkotrypis said Monday that Eni has expedited exploration plans by several months and drilling — which is expected to start toward the end of summer — will last 12 to 18 months. He said Total plans to start drilling in the second half of next year. The east Mediterranean island nation is seeking to build its own land-based facility to process gas for export, but needs additional deposits to make the project viable over a 20-year period.

Europeans shift attention to Iran for purchasing gas supplies

Fars News Agency, *15.06.2014*

Informed sources told FNA on Sunday that Switzerland has recently approached the Iranian oil ministry officials for the start of negotiations over importing the country's gas supplies. Also Greece has indirectly called for Iran's gas exports since the European country's officials believe that Iran can transfer its gas to Greece through Turkey and then to other countries across the Europe.

Other countries which have entered direct gas talks with Iran include Germany (a member of the world powers negotiating with Tehran over its nuclear program), Poland, Japan, Austria, Oman, Turkey and Iraq.

According to the sources, the European and other countries' officials and analysts believe that Iran is the safest supplier of energy in the world. Iran's energy sector is under unilateral US sanctions which punish any third party which works with Iran. Iranian officials have dismissed US sanctions as inefficient, saying that they have enough partners for trade and exports. Some European countries have recently voiced interest in investment in Iran's energy sector after a gas deal was signed between Iran and Switzerland regardless of US sanctions. The National Iranian Gas Export Company and Switzerland's Elektrizitaetsgesellschaft Laufenburg signed a 25-year deal in March 2010 for the delivery of 5.5 billion cubic meters of gas per year.

In mid-February, media reports said that Ankara has started talks with Iran for the construction of Iran–Turkey–Europe Natural Gas Pipeline Project (ITE) to convey the gas supplies to Europe through Turkey. The pipeline project is being considered by Turkey as international sanctions against Iran's energy sector are shrinking following the implementation of Iran's nuclear deal with world powers. For transit passage of natural gas sourced in Iran through Turkey, the Iranian Oil Ministry and the Energy and Natural Sources Ministry of the Republic of Turkey signed an "Agreement Protocol" on November 17, 2008. The protocol also provides for Turkey to be able to procure its natural gas requirement from the pipeline under the project, if required.

The total length of the pipeline under the project is about 5,000 km. The length of the pipeline within the East and Western borders of Turkey is about 1,750 km. The target annual amount of gas to be conveyed to Europe under this project is determined as 35 billion m3. Turkey's part of the ITE Natural Gas Pipeline Project will be from the Turkey– Iran border to the Ipsala/Edirne Greece border, passing through Agri, Erzurum, Erzincan, Gumushane, Sivas, Yozgat, Kirsehir, Kirikkale, Ankara, Eskisehir, Bilecik, Kutahya, Bursa, Balikesir, Canakkale and Tekirdag. The pipe diameter under the project is 56 inches and its operating pressure is 92 bars. Its proposed service life is 40 years. Iran owns the world's largest natural gas reserves after Russia, and is also Turkey's second biggest gas supplier after Russia. Iran's natural gas is of crucial importance to Turkey as the energy-hungry country uses a significant portion of imported Iranian gas to generate electricity.

Bulgaria strives for the establishment of a new gas corridor

Natural Gas Europe, *17.06.2014*

Bulgaria's energy policy has been mostly commented on with regards to its Black Sea endeavors, namely the South Steam pipeline project and its own research and exploration investments. As of late, the East Med option is gaining ground in the country, albeit as a supplementary energy corridor that could potentially enchase energy security options for both the country and the region.

In a recent visit to Israel by the Bulgarian Premier Oresharski and through his talks with his counterpart, Netanyahu, in Tel Aviv, it was relayed that Sofia is eyeing a potential inflow of Israeli gas through the Greek transmission system.

Although it could take at least 5 years before a definite assessment of the quantities of gas involved and the export route to be established, it is of importance that Bulgaria is trying to place itself as a preferred gas corridor to the rest of the EU, a trial that proved to be unsuccessful with the Nabucco project, whilst it faces significant legal hurdles with South Stream. The Bulgarian Prime Minister in a recent interview in Darik Radio Sofia, expressed the view that the Interconnector Greece-Bulgaria (IGB) would start to be constructed in late 2014, and is the first key step into unlocking a corridor from the Eastern Mediterranean, coupled with the intentions of Greece to boost also its LNG incoming shipments via an upgrade of its infrastructure in that sector. Thus, in a wider scale should an export corridor from the Israeli and the Cypriot exclusive economic zones be achieved, it will have two options of getting the commodity into the larger EU markets.

One is the proposal already made by the Greek government since mid-2013 and that is the route by sea towards the Adriatic coast of Southern Italy or via the Greek gas network to Bulgaria and though the establishment of interconnectors to Romania, Hungary and Austria, as well as the rest of the central European states, reaching into the Baltics. The Bulgarian proposal at first glance can be said to offer a more economical and viable solution. The IGB will have an initial flow of 3 bcm per annum that could be increased to 5 bcm, a quantity not sufficient for mass transfer of Mediterranean gas. Only if Greek LNG projects are set to move then a second interconnector with greater capacity could be discussed as to make the proposed corridor a likely item for selection.

IGB is scheduled to have reverse flow capabilities and presently the existing pipeline route that brings Russian gas to Greece from Bulgaria is also being upgraded to achieve reverse flow. That alone will further boost interexchange of gas flow. Concurrently, the LNG Revythousa station in Greece is to be up scaled via the construction of a third depot that will increase storage capacity from 130,000 cubic meters currently to 225,000. Furthermore the gasification capacity of the terminal will have a 40% increase in flow capacity and ships carrying LNG up to 260,000 cubic meters could dock, therefore bringing the country closer to distant producer markets and providing better variety in terms of suppliers selection.

To all the above, the Trans-Adriatic Pipeline (TAP) should be noted with a 10 bcm per year directed towards the Greek, Albanian and Italian markets, out of which Bulgaria is planning to acquire at least 1 bcm per year and an additional 2 bcm via a new interconnector with Turkey, which will have Azeri-originated gas. All of these are also planned to be paired by a floating storage facility in the Greek Kavala region or in Alexandroupolis and already the Bulgarian government has expressed unofficial interest to participate as a shareholder through its state gas company.

Overall, Bulgaria is pushing forward its role, that of a peripheral energy hub stretching from the Black sea to the Eastern Mediterranean, up to the Adriatic and the Danube basin. These initiatives also speed up the process of re-alignment between competing interests in the regional gas trade and eventually this will lead to the formation of new gas blocks between producers, transit countries and costumers. It can be said that natural gas diplomacy in South East Europe is really heating up with Bulgaria and Greece for the moment stirring up most of the initiatives, while Turkey and Croatia are weighting opportunities involved and may soon make their own moves.

South Stream remains a national priority for Serbia

Natural Gas Europe, *17.06.2014*

Serbia Foreign Minister Dacic has stated that all economic projects which have already been initiated will continue their implementation. Dacic made the comments addressing the status of the Serbian leg of the South Stream pipeline, following his meeting with Lavrov,

Lavrov said that plans for South Stream would continue as planned and that the pipeline represented the only solution for the supply of gas Southeastern Europe. “We have confirmed all our agreements and contracts as far as South Stream, and the necessity of implementation of this project because the project is still only as far as the security of gas.”

Lavrov commented that that he believed the decision of the Bulgarian government to suspend work on the section of the pipeline in that country, was temporary. “As far as the work, all decisions remain in force, no change of plans there,” said Lavrov.

EU energy boss says no South Stream talks while Russia appeals to WTO

Reuters, *13.06.2014*

Negotiations to bring Russia's South Stream project into line with EU law are pointless as long as Moscow is asking the WTO to review the bloc's energy rules, Oettinger Said.

Russia's Gazprom plans to build a giant pipeline named South Stream on the bed of the Black Sea to Bulgaria and then to Austria to ship gas directly to the EU, bypassing Ukraine, through which a large part of EU gas supplies currently travels. The EC says the pipeline breaches many EU regulations - on intergovernmental agreements, procurement, and free market rules that prevent gas producers from also owning the pipes used to transport it.

The already troublesome issue has become politically loaded since Ukraine's pro-Moscow president was toppled, after which Russia hiked gas prices to Kiev, which it refused to pay. As the relations between the countries deteriorated, Russia annexed Ukraine's Crimea region and is threatening to cut off gas to the rest of the country if it does not start to pay its bills. At a meeting of EU energy ministers on Friday in Luxembourg, Bulgaria - which signed a bilateral agreement with Russia that has not been ratified by the EU - urged the EU executive, to resume negotiations to bring South Stream into line with EU law, officials said.

The issue is one of many threatening to bring down the Bulgarian coalition government, which on Friday survived its fifth no-confidence vote. Both Washington and Brussels have said they will punish the country if it continues work on South Stream. But Energy Commissioner Guenther Oettigner said there was no point restarting talks on South Stream's legality - frozen when Russia annexed Crimea earlier this year - as long as Russia had a WTO case pending against EU law. "For the moment, (negotiations) are not being pursued for the very simple reason our Russian counterpart has appealed to the WTO," Oettinger said through an interpreter. "We are appealing that that complaint should not be pursued (by Russia)."

"We have a clear position, which is supported by member states. European law, which is currently in force, has to be taken into account," he said further, adding the European Union had to be united as "a team". Russia announced last month that it was talking to the WTO about EU energy rules, which Russia says are inconsistent with WTO rules. On Friday, Ukrainian Prime Minister Arseny Yatseniuk ordered his country's energy sector to prepare for Russian gas cuts from Monday after Moscow and Kiev failed to resolve their differences over gas prices, raising fears of interruptions in gas flows to Europe.

Gazprom halts natural gas supply to Ukraine; transit flow continues

ICIS, *16.06.2014*

Natural gas transit volume to Europe via Ukraine was flowing normally on Monday, after Russian producer Gazprom halted supplies to Ukraine from 10:00 Moscow time, a spokeswoman for the European Commission said. Slovakian grid operator Eustream also confirmed that flow and pressure from Ukraine towards Europe via Slovakia remained stable.

The supply halt comes after weeks of negotiations between the EU, Ukraine and Russia failed to result in an agreed price that Ukraine would pay for Russian gas. The embattled country owes around $4.5bn to Gazprom but refuses to pay, saying that Russia is over-charging Ukrainian Naftogaz.

Gazprom has now switched Naftogaz to a pre-payment system for gas, meaning Ukraine will not receive supplies for June, as they have not been paid for in advance. “The decision was made because of chronic non-payments by Naftogaz Ukraine (...) As of today, the Ukrainian company will receive the amount of Russian gas it will have paid for,” Gazprom said on Monday. According to the Russian producer, Naftogaz’s outstanding debt for Russian gas deliveries is $4.458bn, out of which $1.451bn is owed for November-December 2013, and $3.007bn for April-May 2014. A spokeswoman for Gazprom confirmed that the supplier had stopped providing any gas which would be intended for Ukrainian supply this morning, but added that European transit gas was continuing to be pushed through the pipes.

ICIS understands that gas flows into Turkey via Romania and Bulgaria were also unaffected. Gazprom has called on Naftogaz to ensure the transit of gas to Europe, but has also notified the European Commission of a possible shortfall in transit in case the Ukrainian company were to start illegally collecting gas from transit flows. Gazprom’s CEO Alexey Miller said his company will analyse gas transit to European consumers on a daily basis and, should there be any evidence that Ukraine takes any volume, Gazprom would increase supply through the Nord Stream and Yamal pipelines, avoiding Ukraine as a transit country.

Miller was quoted in local press saying Monday’s nominations for gas to flow to Europe through Ukraine were slightly more than 185 million cubic metres (mcm). Gazprom also filed a lawsuit against Naftogaz with the Stockholm International Arbitration Court to recover the $4.5bn in gas debt, the Russian company said. Gazprom added that the legal action follows Naftogaz’s violation of contractual obligations concerning purchase and sale of gas enshrined in the bilateral supply agreement signed at the beginning of 2009. Naftogaz, in turn, is also suing Gazprom in the Stockholm court, demanding revision of the price it is expected to pay under the current supply contract. Naftogaz is also seeking to retrieve $6bn in what it claims to have overpaid Gazprom since 2010, the company said on Monday. In 2013, Ukraine flowed 85 billion cubic metres (bcm) of Russian gas to Europe, which came to 52% of total Russian exports.

Gazprom switches to prepayment, Russian gas disruptions to Europe to come soon?

Natural Gas Europe, *16.06.2014*

As expected, the trilateral negotiations ended and nothing changed for good. While Ukraine and Russia remain at loggerheads, the worst came true and the situation got even worse: Gazprom reduced supplies to Kiev, saying that starting from today Ukraine's Naftogaz 'will receive only prepaid volumes of Russian gas.'

The dispute could disrupt supplies to European countries, which meet almost 15% of their gas needs through gas imported from Russia via Ukraine. But for the moment no pressure reduction or gas volumes have been registered. The main risk is for Eastern European Governments.

The situation is extremely complex and solutions are clearly not around the corner. 'Today at 10:00 (Moscow time), in full compliance with the effective contract, Gazprom switched Naftogaz of Ukraine to a prepayment of gas supplies. The decision was made owning to persistent non-payments by Naftogaz of Ukraine. The overdue debt of the company for the supplied Russian gas equals USD 4.458 billion: USD 1.451 billion – for November and December 2013 and USD 3.007 billion for April and May 2014,' reads a note released by Gazprom at 10:00 MSK. "We keep our fingers crossed and hope to resolve our differences in a civilized manner. Further escalation is clearly not in the interests of any of the parties involved," Andriy Kobolyev said on Saturday, reminding that Russian authorities rejected a compromise put forward by European authorities.

According to EU Energy Commissioner Guenther Oettinger, Russian negotiators pulled out of the negotiations. In this context, it comes as no surprise that the arm-wrestling could further evolve in a open-faced war. Moscow has many options to flex its muscles, Ukraine has mainly legal cards to play. 'The Prime Minister of Ukraine Arseniy Yatsenyuk has commissioned the Ministry of Energy and Coal Industry of Ukraine, Justice Ministry of Ukraine, Ministry of Foreign Affairs of Ukraine and Naftogaz Ukrainy to take all measures to protect national interests in Stockholm Court. He said at a session of the Government on Monday, June 16,' the Ukrainian government wrote on Monday afternoon, in response to Gazprom's decision to file a lawsuit in Stockholm International Arbitration Court seeking to get USD 4.5 billion from Naftogaz. Gazprom clearly put the onus on Ukraine.

Its message is clear: if Europe does not receive its gas is not Russian decision. 'Naftogaz of Ukraine is obliged to secure natural gas transit to third countries in full compliance with terms of the effective Contract No. ТКГУ on volumes and conditions for natural gas transit through Ukraine from 2009 to 2019, dated January 19, 2009 between Naftogaz of Ukraine and Gazprom.Gazprom relies on strict observance of contractual obligations taken on by Naftogaz of Ukraine for the gas transit to third countries,' Gazprom wrote at 11:00. The company's chief executive Alexei Miller is expected to meet Energy Minister Alexander Novak and President Vladimir Putin in the afternoon, after a possible Western reaction.

In the while, the European Commission was notified about possible disruptions of gas transit 'if Naftogaz of Ukraine illegally withdrew gas from transit flows.' For the moment, this does not seem the case. According to Ukrainian authorities, Gazprom does not intend to settle the issue, but it simply wants to put pressure on Brussels to receive the necessary green lights to its South Stream project. 'The clearly artificial gas price dispute with Naftogaz could be used as a new tool in this promotion, serving as an excuse to halt gas supplies,' the Ukrainian company commented. According to Naftogaz, the company paid all invoices for gas supplies the price of which is not disputed. It is also ready to pay for the remainder 'as soon as we reach agreement on price.' 'Naftogaz will not pay $485/tcm - the price demanded by Gazprom - because our contract clearly states that we should be charged $268.5/tcm.

This price cannot be changed by our Russian counter-party unilaterally.' Naftogaz's last offer was around $300/tcm. The company argued that that it is the fair and market-based price level, in line with European Commission's proposed compromise. But now Kiev has to play its cards. It has to find a common strategy with Brussels, while getting ready for the lawsuit filed by Gazprom. On Monday afternoon, Yatsenyuk did indeed instruct to send a Governmental delegation to Brussels, adding that national interests will be protected in Stockholm Court. Despite the hard times to come, Ukraine can rely on Western support. At least, that is what Kiev hopes. "I consider our prospects in court are very promising…We must be prepared for the hardest times and we should be ready for that," Ukraine's Prime Minister noted, adding that the Government will meet in the afternoon.

Considerations and forecasts are nothing but difficult. The only two certain things are that Ukraine and Gazprom will suffer. The company's share prices fell on Monday. On the other hand, Ukraine could enjoy its mild summer, but it should find a solution soon before running out of gas in late autumn. At the same time, the short-term consequences on Europe are clear. Markets will discount the uncertainty. According to Bloomberg, European gas prices jumped the most in more than three months, with the UK front-month gas jumping as much as 8.8%. The markets are discounting the uncertainties, but at the moment they can still enjoy their gas as Gazprom keeps sending full volumes to European clients. Eurostream, Slovakia's grid operator, wrote that it did not record pressure reduction or gas volumes decrease at the Compressor Station Veľké Kapušany, the only entry point from Ukraine. Despite the stable flows, things could drastically change any time soon.

'The Ukrainian side has confirmed nomination for the current day in the same amount… (But) Eustream is ready to ensure reverse flow from Austria in volume of 23,8 mil.m3/day and from Czech Republic in volume of 67 mil. m3/day via Slovak territory. There are the volumes of declared technical maximum on both entry-exit points, which will be kept by the Slovak Transmission System Operator. In case of need, there is possibility to use newly built Slovak-Hungarina pipeline, the construction of which is on the Slovak side completely finished,' reads anote released by the Eurostream on Monday. European authorities have now to decide what to do. Support Kiev? Ask for American intervention? Accept Russian requests, paving the way to South Stream? The situation is so tangled that questions are the only sentence with a vague sense. While asking ourselves this questions, eyes locked on Moscow, Kiev, Brussels, Oslo, Wien and Bratislava.

European consumers to receive Russian gas in full volume

RIA Novosti, *16.06.2014*

European consumers will receive Russian gas deliveries in their full volume, Gazprom spokesman Sergei Kupriyanov said Monday. “It should be noted that the volumes of gas intended for European consumers will be delivered in full compliance with the contracts,” Kupriyanov said.

The statement followed Russia gas giant Gazprom’s decision to implement a prepayment plan for the delivery of Russian fuel to Ukraine at 10:00 a.m. local time (06:00 a.m. GMT) on Monday after putting it off several times this month. Gazprom said Naftogaz’ arrears for Russian gas deliveries stood at $4.458 billion.

The gas pipelines that deliver Russian fuel to Europe partially lie through Ukraine. Russia is in the process of constructing a new pipeline - South Stream - that would deliver gas to Europe bypassing Ukraine starting in the first quarter of 2016. The pipeline will become fully operational in 2018. Europe gets a third of its oil and gas from Russia. Due to the escalation of the crisis in Ukraine and strained relations between Kiev and Moscow after Crimea joined Russia in March, both Ukraine and Europe started looking into ways to cut their dependence on Russian energy supplies.

Ukraine’s gas debt to Russia has been building up since 2013 as the country found itself amid a deep political crisis. Naftogaz’ discounted rate was scrapped in April after Kiev failed to deliver on its debt, which now accumulates at a rate of some $1 billion per month. Starting Monday, the Ukrainian company will only receive the amount of gas it will have paid for in advance. No payments have been received for June preliminary bill, yet. The latest price proposed by Russia stands at $385, which is the average market price Gazprom offered Kiev after axing a deal to subsidize gas exports to Ukraine.

Europe natural gas prices jump on fears of Russia-Ukraine ‘gas war’

Financial Times, *16.06.2014*

Natural gas prices in Europe rallied on Monday amid fears another ‘gas war’ between Russia and Ukraine could threaten supplies to the continent. ICE July UK natural gas rose as much as 9% to 45.5p a therm as investors squared bearish positions after Moscow cut supplies to Kiev.

The benchmark futures contract later pared gains to trade around 42.61p a therm, up 1.8 per cent, as analysts highlighted Europe’s unusually high gas inventories. Europe meets nearly a third of its gas demand through imports from Russia and almost half of that supply transits through Ukraine.

The rest comes via alternative routes such as the Nord Stream and Yamal pipelines. The last time Russia cut supplies to its neighbour five years ago, it caused serious disruptions as Ukraine drew on gas destined for customers in Europe and Russia responded by cutting off all supplies. Analysts say Ukraine’s gas pipelines are less important than in the previous crises because of new infrastructure such as the Nord Stream, which runs under the Baltic sea to Germany. Europe is also well supplied with gas, with around 52bn cubic metres currently in storage, a record high for this time of year. Alexander Pogl of Vienna-based consultants JBC Energy said the muted reaction to Russia’s action could in part be explained by timing.

“We have seen this happen before but usually during the autumn and winter when demand for gas is relatively high. At the moment it is summer period and we have a very well supplied market in Europe.” But if Russia were to cut off all supplies to Ukraine, including gas transported through the country, Europe would face a shortfall. It would then be forced to buy higher priced liquefied natural gas to balance demand, said Thierry Bros, analyst at Société Générale. Mr Bros said Monday’s rise also needed to be seen in the context of this year’s sharp decline in prices. Front month gas prices have dropped by almost 40 per cent this year after a mild winter left inventories in the European Union at record levels.

“Today’s move is a blip but perhaps we have seen prices bottom,” he said, adding that Gazprom, the state-owned Russian gas company, had a vested interest in continuing to supply gas to Europe. Not only did Gazprom have contractual obligations, Russia also needed the income from gas sales, he said. Trevor Sikorski, analyst at Energy Aspects, said it was hard it see prices of below 40p a therm returning as long as the disruption in Ukraine flows continued. “All expectations are on a relatively rapid resolution to the disruption issue but the main concerns we see are that given how many talks that have already happened on the subject, the outage is longer-lived,” he said. “This provides some upside risk to price levels across the curve.” UK gas prices for winter delivery, when a reduction in supplies would hit Europe most, traded as high as 63.5p a therm on Monday.

EU suggests dumping gas prices for Ukraine

Natural Gas Europe, *06.06.2014*

The European Union has offered reverse-flow gas supplies to Ukraine at a price lower than that of Russia's Gazprom, Naftogaz of Ukraine CEO Andrei Kobolev said on Monday, June 16.

CEO of the Ukrainian company said Ukraine had earlier asked the EU to increase reverse-flow gas supplies to the country. The transit of gas to Europe depends on whether Ukraine's underground storage facilities are filled sufficiently with at least 18.5 billion cubic meters of gas. According to the EU, there are 12 billion cubic meters of gas in the storage facilities now.

"The European Commission has for the first time officially asked European companies to consider buying gas for pumping into Ukraine's underground gas storage facilities," Kobolev said, adding, "the price of European companies is lower than that offered Gazprom subject to a discount." Naftogaz of Ukraine expects the EU to increase reverse-flow gas supplies for internal Ukrainian needs. Kobolev said "the request to the European Commission to increase reverse-flow gas supplies is a very important aspect". "Currently, Ukraine gets about 16 million cubic meters of gas in reverse-flow mode, and we will increase this volume," Kobolev said. However, Gazprom may impose restrictions on European companies which supply gas to Ukraine using reverse-flow mechanisms, Gazprom CEO Alexei Miller said.

"A reverse flow is a semi-fraudulent mechanism whereby gas runs in circles. But this is Russian gas," he said. Miller said that the points where gas was delivered to and accepted by European consumers were located in Europe, but "Ukraine uses our gas (intended for Europe) on its territory any way it likes". "Reverse-flow gas supplies run counter to the contracts with European companies that buy Russian gas, and for that reason restrictions may be imposed on them," Miller said. European and Ukrainian energy companies are now negotiating transit supplies of gas from Germany's RWE by the auxiliary pipeline in Slovakia. Ukraine is continuing to import gas from Poland and Hungary using a reverse-flow supply scheme.

"Starting from May, Ukraine has been receiving up to 14 million cubic meters of natural gas from Hungary daily in reverse-flow mode," the Ukrainian Ministry of Energy and Coal Industry said. "Technically, the maximum amount of 4 million cubic meters of gas can be supplied through Poland daily for the time being, or about 1.5 billion cubic meters a year," it said. According to Ukrainian Energy and Coal Industry Minister Yuri Prodan, reverse-flow supplies can reach 8 billion cubic meters by September 1, 2014, not by 2015. Gas will be supplied by the Vojany-Uzhgorod pipeline, not the transit pipeline. EU Energy Commissioner Guenther Oettinger said reverse-flow gas supplies from Slovakia to Ukraine by the trunk pipeline would be impossible without Gazprom's consent as it would run counter to the Slovak company Eustream's contractual obligations.

However he said such supplies by the Vojany-Uzhgorod pipeline would not require the Russian company’s agreement and would give Ukraine up to 10 billion cubic meters of a gas a year. Oettinger believes that diversification of supplies will help to solve Ukraine’s gas problem in part. However reverse-flow supplies from Poland and Hungary by the Vojany-Uzhgorod pipeline will not be enough for Ukraine get through the coming winter comfortably. RWE AG resumed gas supplies to Ukraine through its division RWE Supply and Trading on April 15 under a five-year framework agreement with Naftogaz of Ukraine signed in May 2012. “RWE supplies to Ukraine are based on the European pricing principles, including transportation costs.

The agreement provides for the delivery of up to 10 billion cubic meters of natural gas a year,” Naftogaz said. In 2013, RWE supplied about 1 billion cubic meters of gas to Ukraine. The maximum amount of gas Ukraine can get from Poland is 4 million cubic meters a day. However, “RWE has reiterated its readiness to increase gas supply to Ukraine as soon as transportation restrictions are lifted on the Slovak-Ukrainian border,” Naftogaz said. The European Union has promised assistance to Ukraine in diversifying natural gas supplies.

Kiev is planning to buy about 290 million cubic meters of gas in Europe in reverse mode (about 140 million cubic meters will be delivered through Poland and the rest through Hungary). Ukraine has been receiving natural in reverse flows from Europe since November 1, 2012. The gas is supplied across the Ukrainian border with Poland under a contract with from German RWE. The gas is supplied across the Ukrainian border with Poland. RWE planned to supply up to 5 billion cubic meters of gas to Ukraine until May 2013. Last year Naftogaz imported 55 million cubic meters of gas using the reverse flow scheme.

Gazprom Cuts Russia's Natural Gas Supply to Ukraine

New York Times, *17.06.2014*

Further aggravating already tense relations between Russia and Ukraine, Gazprom cut off natural gas supplies to its neighbor on Monday, warning that the reduction could diminish the amount of gas flowing to Europe.

The cutoff came after Ukraine missed a Russian-imposed deadline Monday to pay a nearly $2 billion installment for past gas deliveries, with senior officials on both sides exchanging heated remarks blaming the other. It also coincided with a statement by the Ukrainian president, Petro O. Poroshenko, saying he would present a detailed cease-fire plan this week to end the fighting in eastern Ukraine.

But it remained unclear how such a pact would be negotiated, in that Kiev has repeatedly said it would not talk with any separatists who had taken part in the uprising against the central government. For their part, the separatist leaders say Kiev has long ignored their concerns. The gas flowing into Ukraine as of Monday was meant only to transit the country to Europe. "Gazprom supplies to Ukraine only the amount that has been paid for, and the amount that has been paid for is zero," Gazprom's spokesman, Sergei Kupriyanov, told reporters. The Ukrainian leadership accused Russia of fomenting a gas war on top of the violence for which it blames Moscow, while the Russian Prime Minister, Dmitri A. Medvedev, dismissed the entire Ukrainian leadership as "inadequate" in remarks on his Facebook page.

On the surface, the dispute was about a large unpaid bill, nearly $4.5 billion in total, that Gazprom said Ukraine owed. The company, 50.01 percent owned by the Russian state, demanded that Kiev both settle its debt and pay in advance for future delivery before supplies resume. But Ukraine is disputing the size of the existing tab, and there is no agreement over future pricing nor whether an entirely new contract is warranted. Russia wants Ukraine to pay $385 per thousand cubic meters, like the rest of Europe, while Kiev is insisting on the favorable price of $268 per thousand cubic meters that it used to get as a former Soviet republic. But the gas showdown is rooted in two larger disputes.

First and foremost, the violence in eastern Ukraine between separatists devoted to Russia and the Ukrainian military is escalating, with 49 soldiers killed on Saturday when the separatists shot down a transport plane and demonstrators in Kiev marauded around the Russian Embassy in response. In a statement, the Ukrainian Prime Minister, Arseniy P. Yatsenyuk, said that Russia's move was part of a larger pattern of Kremlin aggression. "This is not about gas," Mr. Yatsenyuk said. "This is a general plan for the destruction of Ukraine." He said the decision was the latest in a series of steps that "began with the annexation of Crimea, the Donbass terrorists, supplying Russian weapons and sending Russian bandits to the territory of Ukraine."

Second, Gazprom has provoked economic ire in Europe over its plans to build an alternative gas route under the Black Sea for the company's exclusive use, contradicting Europe's open access laws. That has put the future of what is known as the South Stream pipeline in doubt. Gunther Oettinger, the European energy commissioner who has brokered the gas negotiations, said in Vienna that he would try to convene more talks this month. But he warned European Union members to maintain significant gas storage. Gazprom, which has sought for the past decade to convince the Europeans that it is a reliable supplier and not an arm of Russian foreign policy, painted the dispute as strictly commercial.

"They must pay their debts," Alexei Miller, the chief executive of Gazprom, told a news conference repeatedly, turning red in the face as he castigated Ukrainian efforts to link the dispute to the broader conflict. At his side, Russia's energy minister, Alexander Novak, criticized those calling the gas shutdown an "escalation" of the overall tensions. "We are talking about fully legitimate demands from the Russian side and Gazprom," he said, stressing that the two sides had sat down seven times this spring trying to forge a compromise. Russia has cut off gas supplies to Ukraine twice before, in 2006 and 2009, both times during the winter months. Analysts noted that if you had to pick a month for a dispute over gas deliveries, June would be it. Demand is low, and given the mild winter in Europe, most countries have significant storage capacity.

Mr. Miller said Ukraine probably had enough gas stored to see it through the early fall — remarks echoed by Ukrainian officials. More important, Ukraine is contractually obligated to continue shipping the gas that transits its territory via Europe; Russia said it was only reducing that portion of the gas that Ukraine uses. About a fifth of the European Union's supply of natural gas flows through Ukraine. Ukraine itself imported from Russia 63 percent of the natural gas it consumed in 2012, producing the remaining 37 percent domestically, according to the United States Energy Information Agency. Crunch time will come at the end of July, when both Ukraine and the rest of Europe will start topping off storage tanks in anticipation of winter.

Should Ukraine start siphoning off European supplies, Mr. Miller said Russia could increase the flow through the North Stream pipeline that runs under the Baltic Sea to Germany. But at least one-third of the supplies will still have to flow through Ukraine, said Laszlo Varro, who leads the gas, coal and power markets division of the Paris-based International Energy Agency. "Ukraine currently is essential to get Russian gas exports to Europe," he said. Both Ukraine and Russia have an interest in keeping supplies flowing. Ukraine is trying to become a European economic ally, due to sign an association agreement on June 27, while Russia does not need another source of tension after annexing Crimea, provoking Western sanctions. "Both will want to avoid any disruption of gas flows to Europe," said Chris Weafer, a senior partner at Macro-Advisory, a consulting company for foreign firms doing business in the former Soviet Union.

Yatsenyuk: “We’ll stop South Stream forever”

Reuters, *19.06.2014*

Arseny Yatsenyuk, stated in the Verkhovna Rada that the united operation of the Ukrainian gas transport system would stop construction of the Russian project of South Stream forever with the help of Western investment.

The statement announced a draft which permits the Ukrainian government to form a united operator of the Ukrainian GTS, in which 49% of shares will belong to investors of the USA and the EU. Yatsenyuk believes that the South Stream will make a united operator of the Ukrainian GTS non-profitable. He called on MPs to adopt the draft at least in the first reading.

According to the political scientist Igor Gridasov, the Ukrainian Premier tries to save Ukrainian pipes. “If there will be two streams by-passing Ukraine, two channels of gas transportation, the Ukrainian pipeline will be useless. In this case Ukraine will be deprived of a status of a transit country, of money for transit of Russian gas, and of an opportunity to use the gas illegally in some cases. Yatsenyuk tries to involve Western investors into putting pressure on Russia and making it maintain Ukraine as the main transit country of its gas to the West. I think the statement contains 80% of propaganda and 20$ of hopes,” he said.

Alexei Belogoriyev, the deputy director of the Institute of Energy Strategy, told Vestnik Kavkaza that Yatsenyuk’s idea to shut down South Stream is unreal. “What is a united operator? On the one hand, it is investment, and Naftogaz demands at least $5.3 billion for modernization of its GTS. In fact the sum will be much bigger. On the other hand, it is technologies and skillful management which can be brought by Western companies to Naftogas, for example Total and Exxon. The point is in modernization of the pipeline, I don’t know how it can influence construction of South Stream,” Belogoriyev stressed. According to the political scientist Igor Gridasov, the Ukrainian Premier is trying to save Ukrainian pipelines. “If there will be two streams by-passing Ukraine, two channels of gas transportation, the Ukrainian pipeline will be useless.

In this case Ukraine will be deprived of the status of a transit country, of money for transit of Russian gas, and of an opportunity to use the gas illegally in some cases. Yatsenyuk is trying to involve Western investors in putting pressure on Russia and making it maintain Ukraine as the main transit country of its gas to the West. I think the statement contains 80% propaganda and 20% hopes,” he said. Alexei Belogoriyev, the deputy director of the Institute of Energy Strategy, told Vestnik Kavkaza that Yatsenyuk’s idea to shut down South Stream is unreal. “What is a united operator? On the one hand, it is investment, and Naftogaz demands at least $5.3 billion for modernization of its GTS. In fact the sum will be much bigger. On the other hand, it is the technologies and skilled management which can be brought by Western companies to Naftogas, for example Total and Exxon.

Ukraine parliament to discuss bill to open gas pipelines to EU/U.S. firms

Reuters, *19.06.2014*

Ukraine's parliament agreed on Thursday to discuss a bill to allow gas transit facilities to be leased on a joint venture basis with participation from firms in the EU or the US.

Ukraine would hold 51 percent and foreign partners would be offered 49 percent in the venture, which would manage both transit pipelines and underground gas storage facilities. Suffering a third cut-off of natural gas supplies from Russia in under nine years, and with bilateral relations in crisis, Ukraine is desperate to become less dependent on Russian gas, but at the same time to provide more reliable transit for the Russian gas that Europe needs.

The government said the joint venture would bring in investment and remove the need for the South Stream pipeline, which Russia's Gazprom is building to take gas to southeastern Europe across the Black Sea, avoiding Ukraine. It would also aim to boost Ukraine's capacity to receive "reverse flows" of Russian gas reimported back from EU countries. "If Europeans join this company, Russia will not build South Stream," Prime Minister Arseny Yatseniuk told parliament. No date was set for discussion of the bill. South Stream has fallen foul of EU competition authorities, who object to the fact that it will not be open to other gas producers. However, a number of EU countries including Germany, Austria and Bulgaria are strongly in favour, and European Energy Commissioner Guenther Oettinger said on Monday that it was a project the EU could accept.

If it is built, the pipeline threatens to deprive Ukraine's badly strained budget of the transit fees that it currently receives from Russia for gas heading towards Europe. The EU imports 30 percent of its natural gas needs from Russia, and about half of that comes via Ukraine, with some already having been diverted through the Nord Stream pipeline under the Baltic Sea. Its supplies were briefly cut off in 2006 and 2009 when Ukraine argued with Russia about the price of its gas. The flow to Ukraine has now been cut off again after Kiev refused to accept a price rise imposed by Russia following the ousting of pro-Moscow president Viktor Yanukovich in February. However, Ukraine, whose new president Petro Poroshenko plans this month to sign the association and free trade agreements with the EU that his predecessor shunned, has continued to allow transit gas to flow normally across its territory.

Oettinger, who has been mediating in the dispute, has said he hopes to bring both sides back to the negotiating table by mid-July. For its part, the EU has tried to support arrangements for Ukraine to be able to re-import Russian gas back from other parts of eastern Europe, to help it offset in part any disruptions to supplies from Russia. Ukraine, which consumes about 45 billion cubic metres of gas a year and supplies just less than half that from its own production, has said it expects to receive about 6 bcm in reverse flows from EU countries this year. Yatseniuk has said total gas volumes shipped to Ukraine from the EU could reach 15 bcm a year.

Ukraine may start to get shale gas from US

Pravda, *16.06.2014*

The introduction of prepayment system for gas for Ukraine is the only possible move, the head of the State Duma Committee on Foreign Affairs, Alexei Pushkov said. The MP believes that Russia should have acted so a month ago. “Let Yatsenuk get shale gas from the United States,” Pushkov wrote on his Twitter today, June 16.

Earlier, the MP called for the cessation of gas talks with Kiev after the Russian embassy was attacked by radicals, and a crew of TV channel Zvezda was detained in the east of Ukraine. “I believe that Russia should move to sanctions against Ukraine.”

“In my opinion, it’s time all negotiations on the gas issue should be stopped. I consider the talks in Kiev inappropriate at the time when the Russian embassy in Kiev is attacked, the government is silent about it, the police is idle, and Ukraine’s Foreign Minister offends the Russian president. What negotiations? These negotiations must be stopped, and so must gas supplies to Ukraine,” he said in a June 15 interview with Russia 24 TV channel. Kiev was supposed to pay $1.951 billion for Russian gas before 10:00 MSK on June 16, but has not transferred the necessary amount.

In this connection, Gazprom introduced the prepayment system for Naftogaz Ukraine. “The decision was made due to chronic non-payment from Naftogaz of Ukraine. The arrears of the company for supplied Russian gas makes up $4,458 billion: $1.451 billion in November-December of 2013 and 3.007 billion in April-May of 2014,” a statement from Russia’s Gazprom said, ITAR-TASS reports. During the recent several weeks, nine rounds of talks have been held on the gas issue, but the last one of them has not led to any progress. On June 16, Gazprom’s administration filed a lawsuit at the Stockholm International Court of Arbitration against Naftogaz of Ukraine to collect the debt of $4.5 billion from the Ukrainian gas company. A message from the Russian company said that Naftogaz of Ukraine failed to execute its obligations under the contract signed in 2009.

The creeping ‘de-Gazpromization’ of Russian exports

Natural Gas Europe, *17.06.2014*

During a meeting of the presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security held in Astrakhan on 4 June, with the participation of Vladimir Putin, Rosneft‘s chairman Igor Sechin put forward a proposal to grant the right to export gas via the pipeline system to so-called independent producers.

This proposal concerns gas produced from fields in Eastern Siberia and the Far East, which would be intended for the markets of South-East Asia. Vladimir Putin, who previously had often criticized the idea of de-monopolizing the gas export pipeline system.

This time did not express any open opposition; this should be interpreted as a change in his position which makes the implementation of Sechin’s idea more likely. This further reduction of Gazprom’s export monopoly (in December 2013, a law came into force de facto giving only Novatek and Rosneft the right to export gas in liquefied form) will not be a process of de-monopolisation in the strict sense, but only a formal confirmation of the ever stronger position of those gas producers listed above, who are controlled by influential people from Putin’s inner circle. It is also likely that the right to export gas via the pipeline system will cover not only the Asian markets, but also the European market, which is strategically important for Russia.

In the first version, the Russian company would be obligated to purchase (after deduction of export prices of transport costs) gas produced by the so-called independent producers from fields located in the eastern part of Russia, and to export it onto foreign markets (Gazprom would formally retain the status of sole exporter and owner of the pipeline). The second option would involve the so-called independent gas producers creating a special consortium which would be responsible for constructing a transmission infrastructure (the centre of which would be the ‘Power of Siberia’ gas pipeline, with a capacity of 61 bcm and a length of 4000 km), enabling the export of gas to China.

The so-called independent gas producers’ (mainly Rosneft having significant gas assets in the eastern part of Russia) interest in participating in the Russian gas projects for Eastern Siberia and the Far East is their official justification for applying for the right to export gas via the pipeline system. The immediate pretext for the announcement of the proposal was the 30-year contract signed on 21 May between Gazprom and the CNPC to supply China with 38 bcm of gas annually. This fits in with the independent producers’ consistently implemented strategy to strengthen their presence on the rapidly growing Chinese energy market (Rosneft has been intensively developing its oil cooperation with China National Petroleum Corporation (CNCP) and Sinopec; Novatek will export liquefied gas to China via the Yamal-LNG project, which it is developing with the Chinese company CNPC and French company Total).

A consequence of this ‘de-monopolisation’ may be an increased likelihood that Russia will meet its contractual obligations to the CNPC on time (in the first years of the contract, Gazprom will not be able to provide an adequate level of production to fulfil the contract on its own). The possible creation of an export consortium (which apart from Rosneft and Gazprom may also include LUKoil, which has expressed interest in participating in the Eastern Gas Programme) would also allow the high costs of the project to be spread out among several entities (the investments in transmission infrastructure and the exploitation of the gas deposits have been initially estimated at US$55 billion). In fact, Russia’s gas expansion plans in Asia are a convenient excuse for the so-called independent gas producers to permanently break the Gazprom’s monopoly on gas export via pipeline system.

Although officially the proposal to break up the pipeline monopoly was only reported during the most recent meeting of the presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security, discussion of this matter has been ongoing for several years. Its roots lie both in the ownership changes in the gas sector, primarily through the acquisition by two leading players from Putin’s inner circle – Igor Sechin and Gennady Timchenko – of important gas assets; and in a decrease in the effectiveness of Gazprom itself. The effectiveness of the so-called independent gas producers at pushing this concept has been proved by the adoption of a law restricting Gazprom’s export monopoly in relation to LNG. Another step was the 23 January publication on the Russian Energy Ministry’s webpage of proposed changes to the Energy Strategy of Russia by 2035 (Russia’s energy minister is to present the final version of this document on 1 October 2014).

This document states that one of the main objectives of energy policy in the coming years should be to stimulate the development of the so-called independent gas producers, and to ensure that all market participants have equal access to the gas transmission infrastructure managed by Gazprom. Also in January this year, there were media reports that Rosneft has requested the government of the Russian Federation to introduce a thorough de-monopolisation of the gas sector. The proposal envisaged that the first stage would be ensuring equal access to the gas network for all Russian companies operating in the Russian gas sector, and to allow them to export gas (in a pilot scheme) via the pipeline system. A key element of the second stage would be to create an organisational and legal entity managing the gas transmission infrastructure; this company, controlled by the state, would ensure fair access to the gas network for all participants on the Russian market. In addition, the second stage would involve granting the legal right to export gas via the pipeline system to all market participants.

On one hand, an analysis of the programme’s assumptions could indicate a willingness to carry out serious reform of the gas market (a broad de-monopolisation of gas exports, a division of Gazprom based on the separation of the legal and organisational entities responsible for the extraction and transport of gas). On the other, however, the existing regulatory changes, in particular the law on the liberalisation of LNG exports (drafted in such a way that its beneficiaries are de facto only Novatek and Rosneft) indicate that the real reason for their introduction is primarily a legal sanction of the growing influence of Novatek and Rosneft; both companies have announced their further expansion into the Russian gas sector (significant increases in gas production are planned: Novatek from 62.2 bcm in 2013 to 115-120 bcm in 2020, and Rosneft from 21.6 bcm in 2013 to 100 bcm in 2020). It is highly likely that in the longer term, the process of de-monopolising pipeline exports will also cover gas supplies to the European market.

This will be the result not only of the lobbying by the so-called independent gas producers (mainly Novatek, as illustrated by the statement of Gennady Timchenko during an international economic forum in St. Petersburg, when he said that the company is ready to supply gas to Europe via the pipeline system), but also of a strategic decision by the Russian government, dictated by the decreasing efficiency of Gazprom and the increasing number of legal challenges (mainly regulatory) to it on the European market. The specific de-monopolisation of the Russian presence on the European gas market (i.e. the export of gas via the pipeline system not only by Gazprom, but also by Novatek and Rosneft) could indeed prove useful for warding off the European Commission's allegations of violations by the Russian side of the EU competition rules and rules regarding the liberalisation of the EU gas market (above all the so-called Third Energy Package).

Given the strong positions of Igor Sechin and Gennady Timchenko in the current political and business elite, which is reflected in the decisions taken by Vladimir Putin in the energy sector, it is highly likely that the plans of the so-called independent gas producers will be realised, deepening the process of 'de-Gazpromization' Russia's gas exports. The plans' final shape, however, will be a kind of compromise taking into account the interests of Rosneft and Novatek on the one hand, and those of Gazprom on the other; despite its weakening position the Kremlin still uses Gazprom to achieve important economic (such as its joint financing of the organisation of the Olympic Games in Sochi) and political objectives (making the supply of gas conditional on the state of political relations between Russia and the importer country – as in the case of Ukraine).

Russian gas transit to Europe continues, while legal fight with Ukraine starts

Natural Gas Europe, *17.06.2014*

Slovakia's Eustream did not register any pressure reduction or gas volumes decrease at the Compressor Station Veľké Kapušany on the border with Ukraine, reads a note released on Tuesday.

On the other hand, Ukrtransgaz wrote that an incident occurred in the main pipeline Urengoy-Uzhgorod Pomar in the Poltava region, due to damages in the pipeline. 'From 15 to 16 we carried out work to localise the damages in the pipeline. Deaths and injuries are not available,' reads a note released on Tuesday, adding that the incident will not impact on gas transit to Europe.

Also on Tuesday, the European Commission disbursed the first loan trance from the new EU Macro-Financial Assistance (MFA II) programme for the country. The €500 million transfer follow a €100 million disbursement on 20 May from the MFA I programme. 'The objective of both MFA programmes is to support Ukraine economically and financially in the current critical stage of its development,' the European Commission wrote on Tuesday. In the while, the contestation goes on. "A bad one – Russia has completely terminated gas deliveries to Ukraine.

Stopping Russia from cornering Europe's energy market

Washington Post, *15.06.2014*

President Obama's meeting this month with the Group of Seven leaders focused on European energy policies in light of the crisis in Ukraine. As Western leaders seek the right response, they would do well to keep in mind that Europe's dependence on Russian energy did not develop overnight. It was, instead, the result of meticulous planning and execution over decades. It cannot be countered without equally disciplined policies led by government institutions.

To reach its goal of energy dominance in Europe, Russia has left no stone unturned, and those who got in the way have sometimes paid a price.

In 2009, when Turkmenistan entered into discussions with the European Union about building a pipeline to Europe across the Caspian Sea, a gas valve was closed on the Russian side of a shared pipeline. This caused an explosion that crippled Turkmenistan's gas export infrastructure for some time. Moscow has taken steps to block the entrance of Iran into European gas markets; in 2006, the Russian company Gazprom bought a pipeline from Iran to Armenia and limited its size to ensure that it could be not be used to carry Iranian gas into Europe. Where Moscow has not succeeded in staving off new suppliers altogether, it has found ways to undermine projects. Moscow is clearly unsettled by the prospect of the Southern Gas Corridor pipeline moving gas from Azerbaijan to southern Europe.

This pipeline could easily accommodate spurs into the Balkans and Eastern Europe, as well as carry gas from sources such as Iraq and Israel, so Russia has sponsored bogus environmental challenges to the line in Bulgaria and elsewhere. Russian companies are also attempting to buy parts of the transmission systems along the route. And Moscow has bought into rival projects directly, via Russian companies, or indirectly, through closely allied companies in Europe, to hold on to its influence over the supply of gas. Gazprom and a number of European companies also use informal alliances to circumvent E.U. legislation meant to unbundle production, transmission and distribution.

And when importing states fail to pay their bills, Gazprom simply takes over their domestic gas transmission systems and other energy infrastructure as payment, further deepening Moscow's hold over its neighbors. In January,Armenia lost its last stake in its local gas company this way. All of this raises the question: How should Europe respond? Its answer, unfortunately, has been to push "liberalization" of its natural gas and electricity markets — including privatization, the unbundling of energy companies and encouragement of shorter supply contracts. As the challenges have grown, Brussels has increasingly pulled the European Union and its institutions out of the business of ensuring energy security and delegated the job to the invisible hand of the market. But the marketplace alone will not be enough to counter a relentless Russia.

National and E.U. institutions must take a more active, strategic role. Here's what Europe should do instead: Eastern European states must embrace policies designed to boost their own long-term security and independence, and Washington and Brussels should clarify to NATO and E.U. members that belonging to these organizations entails protection of their energy security from external control. Ukraine and other states bordering Russia must pay their gas bills — and not by signing over their national infrastructure. European gas-trade hubs that will set prices for many of the new contracts present a tempting opportunity for manipulation by Russia and others, and their operation must be carefully monitored for this danger. If such market manipulation occurs, regulators need to act forcefully to counter it. Finally, astute, professional government analysis should identify and disrupt the sophisticated organizations and companies that Moscow works through in Europe to foil rival gas suppliers.

Russia's oil, gas reserves to suffice for deliveries to Asia-Pacific and Europe

ITAR-TASS, *16.06.2014*

Russia has traditional commercially viable reserves of hydrocarbon fuel for at least several decades ahead. Eastern Siberia and the continental shelf are a development priority, Russian Deputy Prime Minister Dvorkovich told in an interview. Dvorkovich is the Chairman of the organizing committee of the 21st World Petroleum Conference.

"Signing a really historic gas contract with China coincided with a mounting tension (in relations) with some of our partners. However, this does not mean at all that we have come to prefer the Asian market to the European market especially EU."

"As far as our oil and gas reserves are concerned, they will suffice for delivery to both Asia-Pacific and our European partners, and they are interested in this. A patent example of that is the following: the chiefs of major European energy corporations are among the participants in the WPC in Moscow," Dvorkovich stated. Speaking of prospects for the production of shale oil in Russia, Dvorkovich said, "This is, first of all, a multi-aspect scientific problem (technology, ecology, reducing production costs) and the possibility of implementing pioneering projects." "Development is currently underway in experimental amounts in such areas as, for example, Tatarstan, at Bavly Field. But this is not the only promising non-traditional source of the rawstuff.

It is essential to study, for example, the production and processing of gas hydrates," Dvorkovich pointed out. He added that while oil prices are high, projects for the production of shale oil remain attractive notwithstanding the high outlays. "The deposits of shale oil Vaca Muerta in Argentina and the Bazhenovo formation in Russia are considered the most promising outside the United States," the deputy prime minister said. He noted that the idea of substituting oil for alternative sources of energy had been discussed over the past 30 years.

However, ever since the idea was first mooted, nothing fundamentally new had been invented. This is why Dvorkovich, who is in charge of state policy in the fuel and energy sector, does not see grounds to believe that, in the medium term, a new type of rawstuffwill emerge that would be able to edge hydrocarbon fuel out. “However, we address renewable sources of energy, the so-called green energy. Moreover, interest in cooperation in this respect is also expressed by our foreign partners, China, for example. I think it is worthwhile developing new technologies precisely through co-production arrangements with partners,” Dvorkovich emphasized.

South Stream offshoot to Crimea ‘possible’

EurActiv, *12.06.2014*

The South Stream gas pipeline could have a ramification to the Crimean peninsula, Oleg Savelyev, Minister of Crimean Affairs, announced. Savelyev, who is in charge of the territory which was incorporated into Russia i March, was quoted by RIA Novosti as saying that a section pumping gas into Crimea could be constructed in 2016, after the underwater part of the pipeline is finished the year before.

Citing documents handed to him by the Energy Ministry, he announced it has already been envisaged that gas pipes should pass through the peninsula and that they are most likely to be part of South Stream.

He underscored that would not change the main route of the pipeline and that Gazprom will be fully in charge of expenses covering the additional thread. New government plans are part of Moscow’s attempts to provide supplies to Crimea after it absorbed the former autonomous Ukrainian region. In April 2014, Russian media reports suggested that some parts of the South Stream could also go through Crimea.0 The likelihood of such decision was then surprisingly confirmed by Bulgarian Deputy Economy Minister Ivan Ayolov, but Russian government officials made no official response to those claims.

US production outpaced petroleum demand in May

API, *19.06.2014*

US crude oil production in May increased 14.7% from May 2013 to 8.3 million b/d—the highest level for the month since 1987—according to a report from the API.

Total US petroleum deliveries, a measure of demand, meanwhile, increased 1.9% from last May to average 18.9 million b/d, the highest May deliveries in 6 years. The report comes on the heels of BP's 63rd annual Statistical Review of World Energy in which the firm said the US recorded the largest increment to global oil consumption in 2013, while recording the largest increase in the world and the largest annual increment in the country's history.

"Last month saw a continuation of recent trends, with strong demand and even stronger production resulting in falling import levels," said John Felmy, API chief economist. Total imports averaged just less than 9.6 million b/d during the month, falling 4.5% from the prior year. Crude oil imports fell 1.9% over the same period to 7.6 million b/d. Both figures represent the lowest May levels in 19 years, the report said. Refineries, fuels US imports of refined products declined 13.2% from last year to the lowest imports level in 18 years at 2 million b/d.

At 16.1 million b/d, US refinery gross inputs were up 2.4% from last May to the highest level for the month since 2005. Exports of refined products were up 10.9% from the prior year to average 3.8 million b/d, the highest on record for the month. The refinery capacity utilization rate averaged 89.7% in May. API's latest refinery operable capacity was 17.934 million b/d. Crude oil stocks ended at 382.9 million bbl, down 2.4% from the prior year. Stocks of motor gasoline were down 3.6% from last year to 213.7 million bbl in May. Distillate, jet fuel, and other oils stocks were all down from year ago levels.

Gasoline demand gained 3.6% from May 2013 to average 9.3 million b/d, the highest level for the month since 2007. Demand increased for jet fuel 0.6% and for distillate 5.2% from the prior year to average 1.4 million b/d and just below 4 million b/d, respectively. Residual fuel deliveries fell 13.5% over the same period to an all-time record low of 186,000 b/d, and demand for other oils fell 1.1% over last year's levels. Gasoline production rose to a new all-time high of 10.3 million b/d—the first time ever above 10 million b/d—on an increase of 10.9% over May 2013 output. Production of distillate fuel reached the highest output level ever recorded for the month of May. The 5% increase from the prior year lifted distillate production to just more than 5 million b/d.

Russia-Ukraine natural gas fight comes to Capitol Hill

Washington Post, *17.06.2014*

Gazprom's decision to cut off natural gas supplies to Ukraine is expected to amplify talks about natural gas exports scheduled to begin this week on Capitol Hill.

The move by the state-owned company comes as Congress' natural gas export discussions, which had recently cooled off following an initial frenzy when Russia annexed Ukraine's Crimea region in March, are heating up in the House and the Senate. The upper chamber's Energy and Natural Resources Committee is holding a hearing Thursday, while the House plans to vote on a bill to expedite exports next week.

The recent tension between Russia -- which has used its dominance of Central and Eastern European gas markets as a political weapon -- and Ukraine will change the flavor of the Senate hearing. It also will heighten focus on the Colorado Senate race, a key midterm battle for Senate control predicated on identical natural gas export bills. Chairwoman Mary Landrieu, D-La., originally scheduled the hearing to comment on a proposed change by the Energy Department in how it processes applications for export to nations that lack a free-trade agreement with the United States. But she is facing calls from lawmakers, including Democratic colleague Sen. Mark Udall of Colorado, to bring up natural gas export legislation. "Sen. Udall and his team are continuing to talk with both leadership and the (energy) committee" about moving the bill, Mike Saccone, a Udall spokesman, said in an email.

Udall's bill, which mirrors GOP Senate challenger Rep. Cory Gardner's measure, was introduced in late April at the height of Washington discussions on the national security and geopolitical implications of exporting natural gas. That discussion will again rear its head. Gazprom said Monday that it would end deliveries to Ukraine unless it gets $1.95 billion in back pay from the country, which has said it won't honor its debt until Gazprom adjusts its rates to market prices. That has raised concerns about supply disruptions to the rest of Europe, as Gazprom's gas flows through Ukraine's pipelines. Gardner's bill is expected to come to the House floor next week, congressional aides said, and is expected to pass with bipartisan support. The bills would require the Energy Department to rule on exports to non-free trade nations within 90 days, addressing concerns from GOP and Democratic lawmakers that the department is moving too slowly.

The Energy Department last month proposed shifting its decision on the exports to follow developers receiving approval from the Federal Energy Regulatory Commission, which the DOE suggested that would speed approvals. Natural gas exports must be deemed in the public interest and therefore require more scrutiny -- the DOE has conditionally approved seven so far, and 25 are pending. The Energy proposal garnered largely mixed responses, though House Republicans slammed the move as a delay tactic and the industry said it could create more confusion.

The Energy proposal is undergoing a 45-day public comment period. Senators will have their chance to weigh in during the Thursday energy committee hearing, though there are some questions about whether the proposal would conflict with the Udall and Gardner bills. “One thing we have heard is that DOE’s new (free-trade agreement) process has created some question about the specific language in these bills. Industry is working on that -- both on trying to figure out what the new rules mean and how it would interact with the (liquefied natural gas) bills,” Matt Letourneau, a spokesman with the U.S. Chamber of Commerce’s Institute for 21st Century Energy, said in an email.

The congressional focus is likely to remain in the upper chamber, as House passage of Gardner’s bill appears imminent. The bill, which secured Democratic committee support, is a scaled-back version of the original, which mimicked a Udall measure. Expanding natural gas exports has support from Republicans and Democrats who say it would buoy allies and benefit the economy through increased revenue and jobs. Some Democrats, however, are concerned a rapid boost would spike domestic natural gas prices and dent the competitiveness of some energy-intensive manufacturers. Republicans on the House Energy and Commerce Committee on Monday evening touted the bill’s importance to ending Russia’s stranglehold on European natural gas. “For decades, Russia has been wielding its energy resources as a weapon to exert power over our allies, but the U.S. now has the opportunity to fight back against this Russian aggression with our own emerging energy prowess,” they wrote.

Many questions remain about how Landrieu will proceed in the Senate, as congressional aides and industry sources are unsure of what Landrieu, a supporter of expanding exports, is planning. One thing that is certain is that lawmakers will continue to push the issue. Sen. John Hoeven, R-N.D., for example, is thinking about entering the fray with a bill, a GOP aide said. But an industry source said that Hoeven’s search for Democratic co-sponsors has proved fruitless, which the source said is keeping it shelved. “If anything is going to leave the committee, it’s going to have to have a Democratic original sponsor,” the source said, noting the short legislative window between now and November’s midterm elections.

CEO of OMV calls on EU to speed up implementation of South Stream project

ITAR-TASS, *17.06.2014*

Austria's OMV, an oil and gas company, has called on the European Union to speed up the implementation of the South Stream project.

Gerhard Roiss, OMV CEO, said on Tuesday the European Union should not have rolled back negotiations on the South Stream project, but add momentum to the process instead. On Monday, European Energy Commissioner Guenther Oettinger, the European Union Commissioner for Energy, told Itar-Tass that negotiations between the European Union and Russia on South Stream would be resumed at the earliest possible opportunity.

Norway's Statoil says could boost gas to EU, but cannot replace Russia

Kyiv Post, *18.06.2014*

Norway's Statoil could increase gas supplies to the European Union but would not be able to replace Russian gas, CEO Helge Lund said on Tuesday, a day after Moscow cut off supplies to Ukraine over a price dispute.

"We can increase somewhat but we cannot replace Russian gas," Lund told reporters on the sidelines of an energy conference when asked if the company could boost supplies to substitute exports from Russian company Gazprom. He did not provide any figures. Statoil is the second largest supplier of natural gas to the European market, with a market share of around 14 percent, according to company data.

Gazprom's supplies to Europe including Turkey rose 16 percent to a record high of 161.5 billion cubic meters (bcm) last year from 138 bcm in 2012 while Norway's fell by 5 percent to 102.5 bcm.

Oil India, Gazprom sign MoU

Natural Gas Asia, *19.06.2014*

Oil India and Gazprom signed a Memorandum of Understanding (MoU) for evaluating and pursuing exploration and production opportunities across the world, Oil India said in a statement Thursday.

The Memorandum of Understanding was signed in Moscow by Oil India's Chairman and Managing Director S. K. Srivastava and Valery Goulev, Managing Director of Gazprom International, reports Business Line newspaper. "This is a very strong association and we should take advantage of leveraging each other's strengths," said Srivastava of Oil India in a statement.

"Our countries have a history of close co-operation and very good relations and I sincerely hope that our partnership will grow from strength to strength and yield results in the shortest time possible." The MoU also provides an option to the companies for technological association and any area or project of common interest would also be covered, Business Line adds.

RWE completes fracture of Breagh Well in North Sea

Natural Gas Europe, *16.06.2014*

RWE Dea and Canada's Sterling Resources completed the fracture stimulation and production testing of Breagh well A07, in the Southern North Sea, 65-km north-east of the UK.

'After several days of flowing the well to clean it up, the well was production tested at a stabilized rate of 32 million standard cubic feet per day (100 percent) at the planned initial operating conditions of the well. The performance achieved under these conditions represents an estimated two to three-fold increase in production rates over what would have been expected if the well had been completed with the standard completion used in the Breagh field to date.

Rosneft signs flurry of deals, Europe moves closer to Azerbaijan

Natural Gas Europe, *16.06.2014*

Rosneft signed agreements with companies from Mozambique, Russia and Vietnam during the 21st World Petroleum Congress. The flurry of deals seems to back the Russian hard line on Ukraine, adding further pressure on Europe, which is trying to cement its ties with Azerbaijan.

Rosneft President Sechin signed a Memorandum of Understanding with JSC Zarubezhneft in geological exploration in Vietnamese shelf. "The signing of this Memorandum by Rosneft, Zarubezhneft and PetroVietnam is an evidence of mutually beneficial cooperation between the Russian oil and gas companies and Vietnamese partners."

Rosneft also signed a Strategic Cooperation Agreement with Yokogawa Electric Corporation for information technology and measurement systems. The Russian company also signed a MoU with Mozambique's ENH. 'Under the Memorandum, the parties will look into areas of mutual interest and cooperation, including joint bidding in upcoming hydrocarbons exploration and production licensing rounds in the Republic of Mozambique,' the company wrote on Monday. On Saturday, President of the European Commission Jose Barroso met Ilham Aliyev, President of Azerbaijan, to discuss ways to increase and accelerate bilateral relations.

'Let me say that Azerbaijan is a very important partner for the European Union. We have achieved a reliable strategic partnership in the energy field. And we want to build on this, moving to a long-term association grounded on democracy and shared values, in particular fundamental freedoms. I have explained very openly to President Alyiev that we believe that multi-party democracy, open societies and open economies are the best way to achieve stability and prosperity. A thriving civil society is essential for a thriving democracy,' Barroso said in Brussels. The President of the European Commission confirmed the timing of the Southern Corridor, saying that it 'will initially bring 10 billion cubic meters of new gas to Europe by 2019.' Barroso and Aliyev also discussed ways to accelerate and expand the project.

BP says Russia will profit from rising demand for oil and gas

Moscow Times, *16.06.2014*

Global demand for oil and gas — Russia's key exports and the lynchpin of its foundering economy — is growing, and Russia is well placed to capitalize on it, according to a BP review on world energy unveiled Monday.

Presenting the report at the 21st World Petroleum Congress held in Moscow, Bob Dudley, CEO of BP, said Russia was at the top of the world energy market. "In 2013, Russia was the world's largest producer of oil and gas combined and the largest energy exporter," Dudley said. Oil, gas and coal will continue to serve as the three horses driving the global energy cart in at least the next decade the report said.

The U.S. and China remain the world's two largest energy consumers, together accounting for 70 percent of all energy consumption growth, but in general, the report revealed that the energy gap between the developed countries of the OECD and countries outside the organization is at its smallest since 2000. The two groups' aggregate energy consumption was almost equal in 2013, while a decade ago developed countries were the oes consuming the most energy. "China became a symbol of that ascent. It overtook EU energy consumption in 2007, the U.S. in 2010, and all of North America last year," BP's chief economist, Christof Ruhl, told the conference. Many would have found this hard to believe 10 years ago, he added.

While the economies of OECD countries have grown 18 percent in the last 10 years, energy consumption in the group has been flat, Ruhl said. In the European Union, energy consumption last year was back to the level of 1988, despite cumulative economic growth of 54 percent. But though developed economies hardly contributed, global oil producers beat a lot of records last year. Russia posted a record oil output high for the post-Soviet era, and Canadian production reached an all-time peak. Thanks to extraction of shale and hard-to-reach oil, U.S. production exceeded 10 million barrels per day last year and reached its highest level since 1986, the report said. U.S. oil consumption was up by 400,000 barrels per day from 2012, the fastest growth of any country last year.

By comparison, it showed an average yearly decline of 100,000 barrels per day for the last 10 years. While global gas consumption increased by 1.4 percent, consumption in EU fell to the lowest levels since 1999. Still, Russia was able to take advantage of several factors to increase its gas imports to Europe. "As was the case with oil imports, falling exports from North Africa, Nigeria and also from Norway resulted in a need for alternative deliveries, where Russia stepped in, increasing Europe's imports from it by almost 20 percent in 2013," Ruhl said. He also said the ongoing standoff over Ukraine will not harm the gas trade in the long run — Europe will still need Russia's resources at an affordable price while Russia will continue to rely on the EU for much of its revenues from selling resources.

Statoil, Exxon find more gas offshore Tanzania

Natural Gas Asia, *18.06.2014*

Statoil and co-venturer ExxonMobil have made another high impact gas discovery offshoreTanzania, Statoil announced Wednesday.

The discovery in the Piri prospect is the sixth discovery and the fifth high-impact discovery in Block 2 offshore Tanzania. The discovery of an additional two to three trillion cubic feet (tcf) of natural gas in place in the Piri-1 well brings the total of in-place volumes up to approximately 20 tcf in Block 2, Statoil said. "Since 2012 we have had a 100% success rate in Tanzania and the area has become a core exploration area in a very short period of time."

"We quickly went from drilling one well to a multi-well programme, and with Piri-1 we are continuing the success," says Nick Maden, senior vice president for Statoil's exploration activities in the Western Hemisphere. The new gas discovery was made in the same Lower Cretaceous sandstones as the gas discovery in the Zafarani-1 well drilled in 2012. The Piri-1 discovery is the venture's sixth discovery in Block 2. It was preceded by the high-impact gas discoveries Zafarani-1, Lavani-1, Tangawizi-1 and Mronge-1, and a discovery in Lavani-2. Piri-1 was drilled by the drillship Discoverer Americas.

The well location is two kilometres southwest of the Lavani-1 well at 2,360-metre water depth. The Discoverer Americas has now moved location and is currently drilling the Binzari prospect in Block 2. "Additional prospectivity has been mapped and will be tested throughout 2014 and 2015. We expect to drill several additional exploration and appraisal wells and hope that the results from these wells will continue to add gas volumes for a future large-scale gas infrastructure development," says Maden. Statoil operates the licence on Block 2 on behalf of Tanzania Petroleum Development Corporation (TPDC) and has a 65% working interest. ExxonMobil Exploration and Production Tanzania Limited holds the remaining 35%.

Shell sells 19% of Woodside

Natural Gas Europe, *17.06.2014*

Royal Dutch Shell announced the sale of 19% of Woodside‘s issues share capital, for an estimated value of around US$5.0 billion on an after tax basis. Under the agreement, Australia‘s Woodside will buy-back half of the shares from Shell. The remaining shares are to be sold to ‘a range of equity market investors.’

For Tuesday, the securities of Woodside will be placed in Trading Halt Session State. “Today’s announcement is part of our drive to improve Shell’s capital efficiency and to focus our Australia growth in directly owned assets”, Shell Chief Executive Officer Ben van Beurden.

As a consequence of the agreement, Shell’s world-wide LNG equity liquefaction cap action will decrease from 26.1 mtpa to 24.9 mtpa after the completion of the agreement. On Monday, BP released a report saying that LNG’s share of global gas trade declined to 31.4%. While pipeline shipments grew by 2.3% in 2013, natural gas trade grew by 1.8%. As already discussed several times, the Russian pricing strategy is making many LNG facilities and other projects unprofitable. Last month, the Australian company terminated the non-binding Memorandum of Understanding signed in February 2014 for a 25% participating interest in two offshore licences in Israeli waters.

Shell, CNOOC further cement global energy partnership

Natural Gas Asia, *19.06.2014*

Shell and China National Offshore Oil Corporation have agreed to further cement their existing strategic partnership in China and around the world.

The two massive companies signed a ‘Global Strategic Alliance Agreement’ through which the companies expressed their commitment to exploring potential cooperation opportunities in upstream, midstream and downstream, Shell said in a statement Tuesday, June 17th. The Agreement was signed by Royal Dutch Shell Chairman Jorma Ollila and China National Offshore Oil Corporation Chairman Wang Yilin in London.

Announcements & Reports

► U.S. Energy Security Remains an Elusive Goal

Source : STRATFOR
Weblink : http://www.stratfor.com/sample/geopolitical-diary/us-energy-security-remains-elusive-goal

► Reflecting on Baltic Countries

Source : STRATFOR
Weblink : http://www.stratfor.com/sample/analysis/reflecting-baltic-countries

► The Beginning of the End of Coal?

Source : Chatham House
Weblink : http://www.chathamhouse.org/expert/comment/14833

► Asia's Oil Supply Risks and Pragmatic Remedies

Source : Chatham House
Weblink : http://www.chathamhouse.org/publication/asia%E2%80%99s-oil-supply-risks-and-pragmatic-remedies

► Turkish Kurdish Energy Cooperation in the Iraqi Conundrum

Source : Center for Strategic and International Studies
Weblink : http://csis.org/publication/new-energy-new-geopolitics-background-report-3

► Iraq and Global Oil Markets

Source : Center for Strategic and International Studies
Weblink : http://csis.org/publication/iraq-and-global-oil-markets

► Oxford Energy Forum (No. 96)

Source : Oxford Institute for Energy Studies
Weblink : http://www.oxfordenergy.org/2014/04/oxford-energy-forum-issue-96/

► This Week in Petroleum

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/oog/info/twip/twip.asp

► *Natural Gas Weekly Update*

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/totalenergy/data/monthly/pdf/mer.pdf

► *Venezuela Country Analysis Brief*

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/countries/analysisbriefs/Venezuela/venezuela.pdf

► *Annual Report 2013*

Source : Energy Charter
Weblink : http://www.encharter.org/fileadmin/user_upload/Publications/AR_2013_ENG.pdf

► *Analysis of Mutual Exchanges of Business Assets within Investment Activities in the Energy Sector*

Source : Energy Charter
Weblink : http://www.encharter.org/fileadmin/user_upload/Publications/Asset_Swaps_2014_ENG.pdf

► *World Energy Investment Outlook*

Source : International Energy Investment
Weblink : http://www.iea.org/publications/freepublications/publication/name,86205,en.html

► *Medium Term Oil Market Report*

Source : International Energy Investment
Weblink : http://www.iea.org/W/bookshop/b.aspx

► *Medium Term Gas Market Report*

Source : International Energy Investment
Weblink : http://www.iea.org/W/bookshop/b.aspx

► *Russia 2014 – Energy Policies Beyond IEA*

Source : International Energy Investment
Weblink : http://www.iea.org/W/bookshop/b.aspx

► *Update on Overseas Investments by China's National Oil Companies*

Source : International Energy Investment
Weblink :http://www.iea.org/publications/freepublications/publication/PartnerCountrySeriesUpdateonOverseasInvestmentsbyChinasNationalOilCompanies.pdf

Upcoming Events

► *Iran Oil & Gas 2014 Summit*

Date : 23-25 June 2014
Place : Dubai
Website : http://www.iransummit.com/

►*ECSEE 2014 - The Second European Conference on Sustainability, Energy and the Environment*

Date : 3 – 6 July 2014
Place : Brighton – United Kingdom
Website : http://ecsee.iafor.org

► *2014 EIA Energy Conference*

Date : 14-15 July 2014
Place : Washington – USA
Website : http://www.fbcinc.com/e/eia/?src=home-b1

►*3rd International Conference on Smart Grid Systems (ICSGS 2014)*

Date : 17 – 18 July June 2014
Place : Bangkok, Thailand
Website : http://www.icsgs.org/

►*International Conference on Energy (ICOE) 2014*

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

► *4th Erbil Oil & Gas International Exhibition*

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

► *South Russia Oil & Gas Exhibition*

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

► *2nd East Mediterranean Oil & Gas Conference*

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

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

► *Turkey International Underground Gas Storage Conference*

Date : **2**9 – 31 October 2014
Place : Ankara – Turkey
Website : http://tugs2014.org/

► *7th International Energy Congress Expo*

Date : **18 – 19** November 2014
Place : Ankara – Turkey
Website : http://www.energy-congress.com