Gazprom intensifies pressure on gas negotiations

Anadolu Agency, *17.02.2015*

Former head of BOTAS says Gazprom's recent increase in gas prices is a tool to pressure Turkey in gas negotiations. Russia is pressuring Turkish private natural gas importers to gain more ground in gas discount negotiations with the Turkish government, former head of Turkey's Petroleum Pipeline Corporation said Thursday.

Turkey is negotiating with Russia for a reduction on imported natural gas prices. Russian President Vladimir Putin has offered a 6 percent discount last December; however the Turkish negotiators request a higher discount in order to import chaper natural gas.

This In January, Russian energy giant Gazprom increased the gas prices on imports by Turkish private natural gas importers by $68 dollars per thousand cubic meters. Gazprom has decreased gas prices for private companies by 10 percent in Jan. 2014. However, the discount period finished at the end of 2014, and the company withdrew its 10 percent discount which now leaves the price of Russian gas at $340 per thousand cubic meters.

Moreover, Gazprom added another 10 percent increase to the prices in January. Now Turkish private natural gas importers are importing Russian gas for $374 per thousand cubic meters. With this increase, private companies in Turkey are paying an extra $60 million to Gazprom for January's gas imports. “Russia increased the gas prices of Turkey’s private importers to make these companies pressure the Turkish government,” Gokhan Yardim, former head of Turkey's Petroleum Pipeline Corporation, BOTAS and current head of gas company Angora Gaz, told The Anadolu Agency by phone.

He added that through these tactics, Russia expects Turkey to settle with a 6 percent discount that Putin has offered. Turkish wholesalers lose with every sale. There are seven private natural gas importers in Turkey that import Russian gas. The gas is then sold to around 30 private gas wholesalers in Turkey. According to tariffs determined by BOTAS and approved by Turkish watchdog Energy Market Regulatory Authority, EMRA, the gas wholesalers are allowed to sell the gas with prices between $323 to $350. In other words, with the final increase of prices with Gazprom, the wholesalers in Turkey lose $24 to $51 for every thousand cubic meters of gas they sell.

Turkey as a member of the energy community

Daily Sabah, *17.02.2015*

EU-Turkey relations go back almost to the origins of European integration in the 1950s. Turkey first applied to join the European Economic Community as an associated member in 1959. This resulted in the signing of the Ankara Agreement in 1963.

As of today, Turkey has attained EU candidate country status. Membership negotiations are still ongoing, albeit without any serious progress. As far as the opening of the energy chapter in these negotiations is concerned, there is no doubt that its blockage on the European Union side constitutes a "political" bottleneck.

This bottleneck resulting from internal EU issues severely damages EU-Turkey relations, particularly in energy, and harms both sides. However, there is an alternative option to enhance EU-Turkey energy cooperation outside the EU accession process that could lead to an even more fruitful partnership. This option is Turkey's membership in the Energy Community. Turkey has been a promoter and a trailblazer of international cooperation, being a member, or in many instances, even a founding member, of NATO, the U.N., Organization for Economic Co-operation and Development (OECD), Organization for Security and Co-operation in Europe (OSCE) and the World Trade Organization (WTO) among others. It may be concluded that the modernization of Turkey by international integration is an established state policy. Being close neighbors, improved EU-Turkey cooperation and integration could also bring significant benefits and would create a massive win-win situation in economic, social and cultural terms.

Membership in the Energy Community would bring manifold benefits to the country, while the opening of the energy chapter in EU accession negotiations would be a mere symbolic victory for Turkey. Entering the Energy Community as a fully-fledged member amounts to much more than the beginning of asymmetrical negotiations. Membership in the Energy Community entails not only the full implementation of energy law according to a country-specific transitional period – as negotiations within the energy chapter would – but also brings immediate membership in and full access to the EU internal energy market. The members of the Energy Community are an integrative part of this market and enjoy the same treatment as EU member states. One could refer to this as functional EU membership in energy. Energy Community members debate with the EU on an equal footing in the Ministerial Council and have the same voting power. As the highest decision making body, the Ministerial Council brings together ministers responsible for energy and the European Union represented by the European Commission. The Energy Community decision-making process differs from the EU's mechanism.

According to Article 77 of the Treaty: "Each party shall have one vote," including the EU. The system treats all parties equally in decision making. As a member of the Energy Community, Turkey would be treated as an equal partner of the EU in energy discussions. What is more important, its membership in the Energy Community would have a leverage effect on EU accession talks. Energy Community members cannot only influence the selection and adaptation of new laws for the Energy Community, they are even entitled to propose new legislation, which is binding on all members, i.e., including the EU, on the basis of Title IV of the Energy Community Treaty. Furthermore, Energy Community membership would give Turkish companies the possibility to participate in EU institutions including the European Agency for the Cooperation of Energy Regulators (ACER), the European Network of Transmission System Operators for Electricity (ENTSO-E) and the European Network of Transmission System Operators for Gas (ENTSOG) on equal terms with EU member states. In formal terms, the process of energy cooperation in the framework of the Energy Community has nothing to do with EU accession. One does not prejudge the other or vice versa. Article 103 of the Energy Community Treaty stipulates: "Any commitment taken in the context of negotiations for accession to the European Union shall not be affected by this Treaty." What makes the Energy Community stand out from the purely political bilateral relations with the EU are its legal foundations. The lack of clear and enforceable legal commitments and rights may be considered the most important shortcoming in EU-Turkey energy discussions today.

The liberalization of the Turkish energy market and its progressive integration with the European market are a compulsory step for achieving Ankara's goal of transforming the country into an energy hub and a crossroads between Russia, the Caspian Sea, the Middle East, the Mediterranean and Europe. However, Turkey cannot become a regional energy hub without a legal framework harmonized with its neighbors and subject to proper external monitoring. The same goes for Turkey's desire to attract investment and promote technology in the sectors of renewable energy and energy efficiency in which participation in the European energy market represents added value to deal with the exceptional growth in Turkish consumption expected in the coming years.

The harmonization of Turkey's energy legislation with the EU's Third Energy Package for electricity and gas is a precondition for Turkey to make progress in the direction taken. Turkey has synchronized its electricity system with the European one, joined the Capacity Allocation Office for South East Europe and asked for full membership in ENTSO-E, including voting rights. Currently, the Turkish Electricity Transmission Company (TEİAŞ) can only be an observer. According to the new ENTSO-E Articles of Association, both associated membership and membership requires an agreement with the EU on the implementation of the Third Package and other relevant EU legislation. For associated membership, Turkey could sign a special bilateral agreement that at least undertakes, or provides evidence for a commitment, to harmonize with the EU internal market in the near future. Compared to such a unilateral commitment, accession to the Energy Community is more beneficial for Turkey as it balances obligations with far-reaching procedural and market access rights.

The EU and Turkey share a common destiny in the energy field. The shared scenario is the lack of natural resources – hydrocarbons in particular – and continuously increasing energy consumption. In terms of energy demand, Turkey was recently one of the fastest growing countries in Europe. Consequently, the EU and Turkey also share common challenges and long term priorities such as securing sustainable energy supplies, diversifying energy sources, creating a competitive energy market as well as increasing the effect of energy efficiency measures.

The biggest concern for the EU in the field of energy today is the security of supply. The EU has to diversify its external supplies, strategically defined as “diversifying supplier countries and routes.” For Turkey, beside security of supply, the current account deficit is a significant problem. The reason behind this deficit is the high costs of energy import – $56 billion in 2013 and 22 percent of total imports. To overcome this problem, the policy of Turkey is not only to be an importer but also an energy exporter by becoming an energy hub in the region. Evidently, the EU and the markets in Southeastern Europe would be the most important customers.

“The opening of the energy chapter [of the EU accession negotiations] will surely pave the way for negotiations with the EU on Turkey’s membership to the Energy Community.” This statement on the webpage of the Turkish Ministry of Foreign Affairs apparently illustrates Turkey’s blocked progress toward Energy Community membership. Turkey showed its intention to join the Energy Community early on by supporting the idea of integration of energy markets in Southeastern Europe. When the idea of establishing an Energy Community in Southeastern Europe took shape, Turkey continued to show interest in becoming a full member. Turkey’s economic and political relations with the region also made it a key country in the discussions.

During the negotiation process many concerns expressed by Turkey were resolved and several of its requests were satisfied. However, to the surprise of most, Turkey declared that it would not take part in the community as a full member and decided not to sign the treaty at the last moment. The main reason behind this withdrawal was Turkey’s concerns about the legal framework related to the environment, competition and external energy trade policy in the treaty. In the end, Turkey limited its involvement to observer status. There were further explorations in 2009 sounding out the prospects for Turkey’s full membership in the Energy Community. However, the initiation of new negotiations was deadlocked after an initial exploratory meeting. Today, discussions to enhance further EU-Turkey cooperation takes place in another dimension called the “Positive Agenda,” launched by the European Commission and the Turkish government in 2012. Energy has also been included in this agenda upon the commission’s request.

Turkey’s longstanding energy policy priority is to liberalize its energy market in order to maintain competitive, transparent and efficient market conditions. Turkey initiated market liberalization in the past decade and in 2008 privatized the electricity distribution system operators (DSOs). As of today, all DSOs have been successfully privatized. The next step is the privatization of electricity generation plants. Turkey is planning to have a fully liberalized electricity market in 2016. In the gas market, the liberalization process is not as advanced. The influence of the state-owned company BOTAŞ Petroleum Pipeline Corporation needs to be addressed before the liberalization of the gas market can be realized. However, some steps, such as the privatization of some DSOs, amendment to the Natural Gas Market Law and a slight increase of the private sector’s share in gas imports, have been taken.

There is no doubt that the EU has one of the most competitive and liberalized energy markets in the world. Its know-how and experience – liberalization started more than 20 years ago – is a model for other countries seeking energy market liberalization. Today, the point of reference is the Third Package. Turkey’s attempt to transpose the Third Package unilaterally is not very persuasive. A systematic monitoring of the compliance of its legislation with the EU legal framework was carried out in 2008 for the last time.

Membership in the Energy Community would entail the monitoring of its legislative framework by the secretariat, including transparency and competition conditions in the energy market. This is relevant not least for the European counterparts such as the European Commission or ENTSO-E. Due to its favorable geographic location as a bridge between a supply-demand line and its dependence on energy imports, Turkey's future vision is to become an energy hub of the "region." The first prerequisite for becoming a regional hub is a "single market" framework consisting of synchronization of energy networks, harmonization of the legislative framework and integration of markets on the same conditions throughout the region. Prior to this, the creation of a single market requires an active involvement in all jurisdictions to be covered or affected by the hub.

On the way to becoming a regional hub, Energy Community membership will not only bring the EU and Turkey together, but also other contracting parties – Western Balkan countries, Ukraine, Moldova and Georgia – under the EU single market framework. This cooperation will enable the integration of the Turkish energy market into the energy market of the Energy Community, including the EU. It should also be kept in mind that any future expansion of the Energy Community will extend the geographical scope of the single market, which means Turkey may serve as a hub on an even bigger scale.

Joining the Energy Community may be the first token of a more active involvement of Turkey in other markets. The most important requirement in becoming an energy hub is transparency and openness of the energy market. This in turn requires harmonization of the rules in line with the EU's Third Energy Package as well as the essential requirements regarding policies on energy, the environment and competition. The vision of becoming a future energy hub will not only enhance Turkey's economic and geopolitical power, but also benefit the EU and other Energy Community members. As a hub, Turkey would be able to stabilize fluctuations in demand and supply by decreasing its dependency on certain sources. Moreover, this would contribute to the flexibility of Turkish and European energy markets and create more competitive pricing schemes. Hence, Turkey's value to Europe could potentially increase.

As demonstrated in the arguments above, there are many reasons to believe that Energy Community membership is of strategic importance for Turkey. The same holds true for the EU. Both sides should overcome the political barriers to Turkey joining the Energy Community. Turkey's reasoning for not joining the Energy Community, namely the fear of weakening its negotiating position in the EU accession process, should not be the only motive considered. Energy Community membership and market integration will increase the interdependency between the EU and Turkey. As a result, Turkey will attain a more important position as a future gas transit country or hub. In turn, this position will give Turkey increased bilateral negotiating power and leverage for any future accession to the EU.

Paying a price: Turkey's private gas sector battles to keep afloat

ICIS, *19.02.2015*

The drama of the last few weeks that saw Turkey's gas shippers locked in strained negotiations with Russia's Gazprom over this year's import price has reached its moment of truth: Will Turkey's private gas sector hold up, or crumble into bankruptcy?

Private companies are expected to pay for their January off-takes until the end of this week, but the prices quoted in their invoices are higher than the capped tariffs they sell at on the regulated market. A number of companies interviewed by ICIS said they would pay their bills, although these would entail losses estimated between $50m-70m per month.

But why pay for an unprofitable arrangement? Rationally there is no explanation for such an action, but a market participant put it disconcertingly simply: for credibility. Turkish private gas companies hope that by accepting to pay, even if this is likely to hurt them, they will continue to be perceived as trustworthy. And yet, they are fully aware that the situation cannot continue if Russia does not consent to a price discount. The background to the current circumstances is linked to the beginning of February last year when private gas importers requested Russia to offer a cheaper US-denominated import price that would tide them over a difficult business environment. Gazprom agreed to suspend its oil indexation formula in import contracts in lieu for a fixed price that would include a 10% discount in 2014, but which would be offset by a 10% increase in this year's price.

The arrangement is beneficial to Gazprom as its oil-indexed gas prices are set to follow slumping crude values lower. Not the same can be said about Turkey's private importers who received the new invoice price last week and were forced to reflect it in their own invoices to their customers – wholesalers or distribution companies. Turkey's private gas sector looks set to extend its own lease of life by another month, perhaps two, if customers accept to pay at a loss for their January and February bills. But time is running out and there is only so much that the private sector, which has been buffeted by political and financial storms in recent months can take.

Ironically, the losers in this game will be not only Turkey's private gas sector, but also Gazprom and the Turkish government. Russia's Gazprom has been traditionally seen as a credible exporter in Turkey. It had supplied gas in a reliable manner and granted discounts albeit conditioned on a wide range of inducements. However, the experience of the last six months when Gazprom halved its gas flows to Turkey for two months just ahead of winter, its Turkish subsidiary off-took some 300 million cubic metres (mcm) above its allocated annual quota, squeezing other Turkish companies, and now delaying the price negotiation process, has raised questions about its reliability as a supplier.

Gazprom itself faces a difficult position. Its export price for 2014 dropped by 11% compared to 2013 and its European exports decreased by 15% last year compared to the year before. Gazprom attributed the fall in price and supplies to dropping oil values and warm weather in Europe, pointing out that it would mitigate their effect by adapting to new market circumstances. It is not known whether Gazprom does have a new strategy, but if it were to have one, it would be logical to assume that the company would wish to strengthen its position in markets where they are neither hamstrung by legislation that could limit their penetration, nor by sanctions such as those adopted by the EU and US in the aftermath of the Ukraine crisis.

Such a market is Turkey, Gazprom's second largest gas consumer after Germany. Given the current circumstances it would not be surprising to see Gazprom tighten its grip over Turkey where it would seek to maximise its profit opportunities. However, a heavy-handed approach and refusal to compromise could easily backfire as Turkish private customers are already beginning to doubt Gazprom's credentials. Why have Russian gas flows been halved for two months ahead of winter only to be ramped up in the days after Turkey's announcement it would partner up in the 63bcm/year Turkish Stream that would replace the now defunct South Stream (see TEHD 18 September 2014)? Why, they would also ask, has Russia reportedly conceded to grant Hungary an import price that is at least $100.00/1000m3 cheaper than what they received? If the private sector survives until the end of the year, when supply contracts with end consumers are renewed, many companies will seriously reconsider their options of staying in the business, viewing Russia and Gazprom in a different light. A collapse of the Turkish private gas sector either through bankruptcy or through the voluntary exit of shippers would bring Turkey back to square one – a position where the incumbent BOTAS would have complete monopoly on the market.

Such a situation would be counter-productive because BOTAS, which already makes millions of dollars worth of losses footing the subsidies bill will add a further burden when the 10bcm/year currently imported by independents is transferred to its portfolio. BOTAS itself has been trying to negotiate its import price with Gazprom for 2015, but has so far failed to clinch a 15% discount. A reputed UK-based energy think tank suggested in a research paper in January that Turkey's influence over Russia was increasing as Moscow now depended on Ankara for the building of the 63bcm/year Turkish Stream that would divert a portion of gas currently transited through Ukraine to Turkey.

The argument was received with howls of laughter in Turkey, as shippers' immediate reaction was to question why the Turkish government has so far been unable to secure the desired discount if its leverage over Russia was as great as described. It is difficult for an outsider to pass judgement on confidential inter-governmental discussions, but there is a common sense observation that needs to be made. The government's failure to support the private sector throughout these difficult moments, would not only result in heavy economic losses for the country, but would also increase its vulnerability towards Russia. Without the private sector and its pressures for greater competitiveness, accountability and transparency, BOTAS will be unable to face internal and external challenges. And then, it will not be long before its own moment of truth will come: Will it hold up or crumble into bankruptcy?

Turkey is regional pioneer and Russia's reliable partner

Anadolu Agency, *20.02.2015*

The Turkey of today is not one that follows other countries, but is a country that is followed by other countries, Natalia Ulchenko, the head of the Turkish section of the Oriental Studies at the Russian Academy of Sciences said.

Ulchenko told that the agreement between Russia and Turkey on the Turkish Stream opens up "new vistas" for the development of bilateral relations. In December, Russian President Vladimir Putin announced that energy tsar Gazprom was ditching the South Stream natural gas pipeline project, which would bring Russian gas under the Black Sea via Bulgaria to Europe.

Following the announcement, Putin announced a new project dubbed "the Turkish Stream," which would replace the South Stream. The idea of the new project is to carry 63 billion cubic meters of natural gas annually to the Turkish-Greek border through Turkey. Ulchenko in her evaluation of the project said that "Russia considers Turkey to be a reliable partner and believes in Turkey's mission as an influential global power." She explained that Turkey's lack of energy resources can be compensated through availing of the advantage of Turkey's geopolitical position. Turkey can benefit from using its location as a hub to link energy resource producers, such as Russia and the Caspian Sea region countries and resource-consuming countries, such as Europe. "Therefore, Russia's decision has suddenly and unexpectedly made it possible for Turkey to realize its ambitious strategic plan by extending the scope of its partnership between the two nations," Ulchenko said.

Commenting on the recent increase of economic ties between Turkey and Russia in the last decade, Ulchenko said the process of strategic differentiation has been evident, when Turkey distanced itself from the European strategies by refusing to uphold the sanctions against Russia. The punitive measures imposed by the West came after Russia annexed Crimea in March 2014 after holding a referendum on Crimea's future. The measures target Russian banks, its arms industry and oil companies, as well prohibiting Western companies from selling high-tech drilling equipment to Russia. The U.S. and EU imposed sanctions on Russian energy companies that prevent them borrowing from western financial institutions. "Turkish foreign policy has lost its former sense of unambiguity as its interests were more or less coincidental with the interests of its Western partners," Ulchenko said. "As wider cooperation with Russia responds to Turkey' national interests, there is not much possibility of unfavorable interference of a third side," she added.

The main political obstacles between Russia and Turkey in the diplomacy arena have been the developments in Syria, Cyprus, Crimea and Egypt. The two sides take opposing sides in these countries where political conflicts have surfaced. “A new promising tendency is developing in bilateral relations: they have become more pragmatic and that means more effective,” Ulchenko said. The expert asserted that the two sides do not let their contradictory points of view prevent progress in the energy field for cooperation. “The two countries are discussing and searching for mutual understanding and even reaching compromises on the problem points,” she said, adding that, “They do not stop developing energy cooperation.”

Turkish energy min: Iraqi oil continues to flow

Anadolu Agency, *12.02.2015*

Oil from Iraq, Erbil and Baghdat, continues to be shipped around 450 barrels per day, Turkish energy minister said. Answering the reporters’ questions in Kutahya, a province in Marmara Region, Turkish Energy Minister Taner Yildiz said that oil shipped from Erbil and Bahgdat is not Turkey’s oil but Iraq’s and Turkey enables the delivery of oil to international markets via Kirkuk-Yumurtalik Pipeline.

“We should keep in mind that trade in that direction is for normalization of Iraq,” he stated. Speaking on Turkey’s negotiations over the price of natural gas with Russia, Yildiz said that both sides need more negotiations.

Turkey and Russia held three meetings over the price of natural gas that Turkey bought from Russia. During Russian President Vladimi Putin’s visit to Turkey in December, Putin offered a 6 percent discount to Turkey; however, as Turkey demanded a higher discount, both countries are still in the process of negotiation. “I think that we will reach to a positive conclusion,” Yildiz underlined. Yildiz also pointed out that he has been asked whether Turkey will go to arbitration court for Russian gas prices as in the case with Iran. “We do not think and foresee such a case between Russia and Turkey. The relations between the two countries are good enough. Our meetings with Russia are not finalized, yet; however, we think no disagreements will lead to international arbitration courts,” he emphasized.

Yildiz added that Turkey has always sold natural gas to domestic consumers below the purchase price. “Turkish Petroleum Pipeline Corporation, BOTAS, is in debt of around 6 billion lira, $14 billion, to different institutions. BOTAS will pay the debt. We will evaluate every factor along with the oil prices,” Yidiz said. He emphasized that as it is not certain if these oil prices are sustainable or not, it is not right to create long term policies and pricing mechanism. “However, I can say that Turkey uses natural gas prices at the same level of 2008 and the cheapest gas is used in Turkish industry compared to the EU-28 countries,” said Yildiz.

The gas price per kilowatt hour in Turkey was €0.033 ($0.039) for households, and €0.024 ($0.029) for industry in the first half of last year, according to data from the European statistics agency Eurostat released on Thursday. Turkey uses most of its natural gas for its electric power sector which accounts for nearly half of the country's natural gas consumption. The industrial and residential sectors each account for approximately 20 percent. Yildiz also commented on Turkey's relations with Greece and said that "Energy should be for peaceful reasons. Both countries are neighbors. Thus, they should create their policies in that direction carefully."

Iran works on gas pipeline to Iraq

Natural Gas Europe, *16.02.2015*

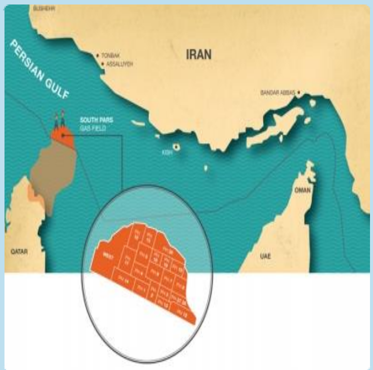
Iran continues its attempts to increase its regional clout, with domestic companies joining forces to finance the gas pipeline to Iraq.

The National Iranian Gas Company (NIGC) said that there are 14 consortia that voiced their interest to take the next step in the project. 'Hamidreza Araqi, who is … managing director of the National Iranian Gas Company (NIGC), said the groups of companies have already received the necessary documents related investment in the project, and should offer their qualifications by the set deadline' reads a post on the company's website.

NIGC will be called to review the qualifications of the companies. The companies have to be ready to allocate $1.5 billion on the project. Araqi confirmed the company's intention to support Iranian production, adding that capacity is expected to rise by 200 mcm per day in the Iranian year starting in March. The additional gas would confirm Iran's progress in the field. "Iran's gas production capacity has risen by 100 million cubic meters per day this year"Araqi commented in a separate press note. According to local reports, Iranian authorities met with Iraq's Prime Minister Haider al-Abadi in Baghdad on Monday. The meeting reportedly led to the signing of seven cooperation agreements. Power and energy was one of the areas covered by the cooperation deals.

Iranian bank to invest $7 bln in south pars gas field

Natural Gas Europe, *18.02.2015*



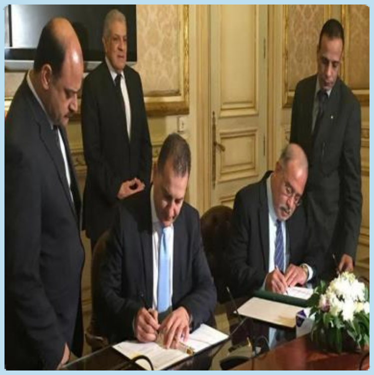
The Managing Director of Bank Mellat, Iran's biggest private bank, has announced that the instituation will invest $7 billion in the development of South Pars gas field, Iran's largest resource holding some 30 percent of the country's total proved gas reserves.

Iran's Shana news agency quoted Mohammad Reza Saroukhani as saying that some $5 billion will be invested in phases 20, 21, 22 and 23, while $2 billion will be put in phase 13 of South Pars. It's expected that some 125 million cubic meters of gas per day (mcm/d) will be produced from the mentioned phases in total.

Iran has inaugurated phases 1 to 10 to 2009 and commenced the phases 12, 15, 16, 17 and 17 with half production capacity in 2014. South Pars has been divided to 24 phases and currently produces less than 390 mcm/d of raw gas. Managing-director of Pars Oil and Gas Company Ali-Akbar Shabanpour told Mehr News Agency that Qatar produces 1.6 times more gas than Iran from joint South Gas field. Iran planned to complete South Pars by 2018. After full implementation of this field, the country's total gas production level will stand above 1.1 billion cubic meters per day. Currently Iran produces about 660 mcm/d in total. Iran reportedly needs $20 to $25 billion in investment to complete the South Pars project. National Iranian Gas Company (NIGC) Planning Director Hassan Montazer Torbati told reporters today that Iran's gas production in South Pars had increased by 22 billion cubic meters during the current fiscal year, which started on March 21th, 2014, leading to a 2.5 billion cubic meter gas trade balance. Iran exports gas to Turkey and imports Turkmen gas.

MOU between Cyprus & Egypt signed: a milestone towards monetization of "Aphrodite"

Natural Gas Europe, *17.02.2015*



The ministers of energy of Egypt and Cyprus signed an MOU in Cairo pledging cooperation in the field of energy. Since its discovery of the Aphrodite field in 2011, the island has been studying various export options for its 4.54 tcf field.

The country has been pursuing gas explorations in the hope to discover additional quantities of the hydrocarbon that would justify the commercial viability of export projects such as the planned LNG terminal in Vassilikos. TOTAL's recent withdrawal from the island and ENI's preliminary disappointing results raised fears that Cyprus would not monetize its offshore riches in the near term.

Cyprus' talks with Egypt could however signal otherwise. The island's negligible gas demand may not justify production of Aphrodite; however, exporting the gas to a regional customer would encourage the development of the Cypriot field. Egypt is in desperate need for gas as it undergoes a severe energy crisis caused by a growing demand and a flat production. The country was considering importing gas from Israel despite domestic sensitivities hostile to energy deals with the Israeli neighbour. Regulatory setbacks in Israel have prompted Egypt to look for a Cypriot alternative.

The development of the Aphrodite would turn Cyprus into a net natural gas exporter and would also allow the island to reach natural gas independence. Cyprus has good diplomatic ties with all its neighbours. In 2003, Cyprus and Egypt signed a delimitation agreement of their exclusive economic zones based on the median line principle and have enjoyed good-neighbourliness. The MOU is not the only one of its kind. On November 8, a tripartite cooperation agreement was signed between the President of Egypt Sissi, Greek Prime Minister Antonis Samaras and the Cypriot President Nicos Anastasiades. The agreement, known as the Cairo Declaration, announced the beginning of a close cooperation between the two countries and included mentions of the Cyprus' problem and Turkey's violations of Cyprus' EEZ. It is expected that Cyprus and Egypt will conduct advanced talks in the coming weeks over the exploitation of Aphrodite and the best way to deliver the Cypriot gas to Egypt.

Montenegro takes first steps to gas industry

Natural Gas Europe, *19.02.2015*

Montenegro can achieve multiple benefits stemming from the development of the Trans-Anatolian (TANAP) and Trans-Adriatic (TAP) pipeline projects commented the Minister of Economy, Vladimir Kavaric.

The senior Montenegrin official noted that the projects provides an opportunity to collect substantial funds from transit fees, but also that the construction of gas infrastructure will create conditions to allow a clean and cheaper energy source to be delivered to industry and households. In addition, there are hopes for commercial discoveries of natural gas offshore Montenegro.

“With the realization of the Ionian Adriatic Pipeline (IAP) regional pipeline, we will have the necessary infrastructure for its placing on the market. In this way the gas, as a very important source of energy, would come to Montenegro. It will be a chance to be not only a transit country, but a country that can offer its own gas reserves in the market. With the research of oil and gas and its production, we can make the first step towards the creation of this industry in Montenegro”, Kavaric commented in an interview with Natural Gas Europe. Montenegro, the smallest country in the Western Balkans with only 600.000 inhabitants, does not have a developed gas infrastructure. Officials hope that with participation in regional gas projects and exploration on its part of the Adriatic coast – that can be changed.

The fact is that Montenegro does not have a developed gas infrastructure. We are a small market, and given that we do not have a developed gas industry, we have the intention to participate in regional projects which when implemented, Montenegro could see some significant benefits. One such project is the building of the Ionian Adriatic Pipeline. Connecting with the Trans Adriatic Pipeline in Albania, IAP would run through through Montenegro and Bosnia and Herzegovina to Croatia, where it would connect with the existing gas infrastructure network. In this way the gas, as a very important source of energy, would come to Montenegro, and the entire project will be given a new dimension if commercial reserves of gas be found in the Montenegrin coast. It will be a chance to be not only a transit country, but a country that can offer its own gas reserves in the market. With the research of oil and gas and its production, we make the first step towards the creation of this industry in Montenegro.

Currently, there is a “Master Plan Gasification of Montenegro - The priority project portfolio in Montenegro” which will closely analyze all aspects of the development of the gas industry in Montenegro. The Master Plan is underway and expected to be completed during this year. In so far research, the existence of geological structures in which it is possible to reach the finding hydrocarbon deposits is confirmed.

Taking into account previous research of seabed of Montenegro, as well as analysis of the company that submitted a bid that clearly indicate the existence of this resource, give us additional optimism. We are extremely pleased because reputable investors submitted their offers especially if we have in mind that the detection of commercial reserves of oil and gas production and their risk for future investors who must invest in research. Simply put, if there are investors willing to invest money in research, there are chances that it has commercial reserves of hydrocarbon, oil and gas.

When we talk about oil and gas exploration in the coastal region of Montenegro, we think about the underwater world. So, at this time the focus is on the sea, not on land, which does not mean that in perspective we will not think about that. As for the cost of the research of our underwater, they fully borne by the exploring companies. The project was designed so that the Government does not participate financially in the process of exploration and production of hydrocarbons.

Certainly, Montenegro has a human resources that can give their contribution in building the oil industry, but the fact is that we need to increase the existing capacity. It will not be difficult when the gas industry being developed and capable to create the necessary personnel itself, but also represents a challenge at the stage where we are now - at the beginning of the process leading to the creation of new industries. In all of this, we expect the great help of the companies that will work on the research and which will be required to annually allocate funds that will invest in the training of local personnel. Such investment is in the mutual interest, because these same companies will have to set up their company in Montenegro and, of course, to employ a certain number of domestic people.

Benefits would be multiple. From a financial aspect, Montenegro could transit fees because of the passage of TAP-IAP pipeline through our territory annually. The construction of gas infrastructure will create conditions that this clean and cheaper energy source comes to industry and households. As I mentioned, all this gets a whole new dimension in the case of commercial discovery of gas offshore, because with the realization of the IAP pipeline we will have the necessary infrastructure for its placing on the market. Given that we are a country of about 600,000 inhabitants, our chance of achieving diversification of energy sources is to be part of a regional or European project. Each investment that would enable to Montenegro the arrival of gas, i.e. diversification of energy sources, and become a means of strengthening our economy, the Government is prepared to consider.

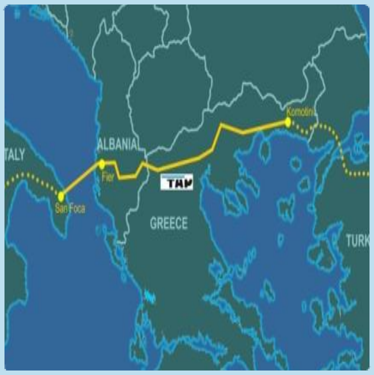
We can say that we completed the local regulations when it comes to this area. In the previous period, The Government adopted a series of laws and regulations that governing the field of oil and gas - law on exploration and production of hydrocarbons, tax law on hydrocarbons, as well as regulations governing the field of calculating compensation payments for oil and gas production, development and production of hydrocarbons, drilling and construction of the exploration and production of hydrocarbons. In addition, the Government adopted the models of the Contract for Concession for the production of hydrocarbons, the Agreement on joint operations and the Treaty on the accounting operations. By creating such a normative framework, we have set up equal conditions for all companies, encouraging the transparency and competitiveness of the market and allowing the proper development of the upstream industry in Montenegro.

Progress in this section is rated as very good, mainly due to the fact that Montenegro is a member of the Energy Community since 2006 and that works for nine years in order to monitor all the obligations imposed by the EU in this area. Of course, there are still a lot of work to fully meet the requirements that accompany this sector. Chapter of energy has not been opened, and the only measure to open the preparation of the Action Plan (AP) for the provision of required reserves in oil. In this regard, the AP is prepared and already discussed with experts from the European Commission, so that its adoption and opening chapters is expected very soon. Regardless of the opening of the chapter, it is our intention that this year our legal framework reconcile with the requirements of the third energy package, which is why we are currently working on the preparation of the new Energy Law and the Law on transmission systems for cross-border exchanges in electricity and natural gas. In the field of energy efficiency, the adoption of the new Law on the effective use of energy in December last year, all obligations under the Directive states that work in this area were successfully transferred. During this year it is planned to adopt the Law on mandatory oil reserves.

Cooperation with countries in the region has recently intensified precisely with the aim of implementation of infrastructure and energy projects of regional and European significance. Such importance is certainly IAP pipeline project whose implementation is conditioned with the cooperation of the Western Balkans, and there I think of Albania, BiH and Croatia. It was this project, in addition to the Adriatic-Ionian highway and Belgrade-Bar railway, marked as a priority, that is a project that will Montenegro, as well as countries in the region, to seek help from the European Union in its realization. Also, besides Montenegro, other countries in the region have started or are planning to start projects of oil and gas in the waters of the Adriatic. We are sure that commercial discoveries of oil and gas in any part of the Adriatic,shall increase attractiveness and increase the ability to implement these projects in all other countries in the region.

Greece backs TAP, requests changes

Natural Gas Europe, *16.02.2015*



The Syriza led Greek government has changed the nation's stance on Trans-Adriatic Pipeline (TAP) as it specifically tries to enhance the role of the country in terms of extracting benefits for the state budget along with further energy security guarantees.

The newly appointed Greek energy minister, Panagiotis Lafazanis, recently met with the stakeholders of the Southern Gas Corridor route at an group Advisory Council meeting in Baku and laid down the requests of his government, by offering support for TAP in exchange and the continuity of the project by Greece's side.

First of all, Lafazanis requested for transit fees to be paid to the country once the route is functional, after 2019, as well as, stable amounts of gas to be reserved for the Greek side, bearing in mind that the Greek gas company DEPA had in the past signed memorandums of cooperation with Azerbaijan's SOCAR, for quantities of stable supplies of around 1 bcm per annum. Similar agreements have been signed by Bulgaria, whilst Albania, a country without natural gas infrastructure is institutionally interested in securing supplies.

At this point it should be noted that the EU's Commissioner Maros Sefcovic assured the stakeholders, including all energy ministers of Southeastern Europe, that the Southern Corridor would be able to secure not 10 bcm per year to Europe from Azerbaijan, but at least 20 bcm, due to the inclusion of Turkmenistan via a trans-Caspian pipeline route. Nevertheless it should be noted that such a plan falls into several major hurdles, including the inability of infrastructure work in the Caspian because of international law disputes of the neighboring countries, and effective opposition by Russia, Kazakhstan and Iran. Furthermore a new linkage such as this would further derail the budgetary aspects of the Southern Corridor projects, which already has surpassed 60 billion Dollars, if one adds the Ionian-Adriatic Pipeline (IAP), planned route in the Western Balkans.

The large Shah Deniz field in Azerbaijan could indeed secure supplies of additional 10 bcm by itself, but only for a medium period of time, since its overall estimated reserves are 1 trillion cbm, and will supply the long-term needs of Azerbaijan, Georgia, Turkey, several Balkan countries up to Italy. Thus it will not be able to actually make a significant diversification change in the energy supply architecture of the major European markets. Based on all the above, Athens is rushing to secure quantities before other countries jump in and more imports will require the activation of the Trans-Caspian route, an unlikely option for the time being. More importantly Athens made clear to its TAP partners that these Azeri-sourced quantities should be competitively priced compared to the Gazprom's supplies that secure already more than 70% of Greece's needs.

Furthermore, the Greek energy minister, pressed forward for the completion of the Interconnector Greece-Bulgaria, which is a rather small but integral part of the TAP's supply system into the Balkans. Already an agreement has been signed between the Greek delegation in Baku with the Bulgaria energy minister Temenuzhka Petkova, that stipulates that the final investment decision should be taken no later than the 31st of May 2015 and the whole project should be operational by mid-2018 and before the inauguration of TAP.

Lastly Greece is mulling changing the rules regarding the ongoing DESFA privatization process and instead of selling 66% of the state's shares to SOCAR as earlier agreed, it will give up 49%, keeping thus the state active in the Greek transmission manager company. Although SOCAR was reluctant to respond to such offer, well-placed energy executive sources in Baku note for Natural Gas Europe that "This will only be accepted in case a significant discount is made on the share's current agreed price by Athens". In the meantime this particular privatization is frozen due to the EU's competition authority's negative stance which considers that it essentially violates the third energy package of the EU, a cornerstone of its unified energy policy.

Moreover there has been a notable interest by the Belgium Company Fluxys to compete once and if SOCAR abandons DESFA's privatization bid. Under these terms, the Greek energy ministry seems to be keeping a stance of flexibility trying to accommodate all these different policies and actions in line, before it truly decides for its final course. Concluding, the newly elected government is playing ahead with the TAP and the Southern Corridor project and puts forward certain demands, aiming to boost the country's budget and energy role. For the moment, there are positive signs that these demands were approved by all sides, thus leaving space for technical consultation and negotiations amongst the technocrats of each side.

SOCAR open to approaches from Greece

Natural Gas Europe, *17.02.2015*

SOCAR is prepared to sell a portion of its holdings in the TAP project to Greek entities. Speaking to reporter, SOCAR Vice-President Elshad Nasirov said: "If Greece wants to buy any share, we are ready to sell it".

"But the main requirement for the Greek side is that it must settle the account on time. If there is such a company, SOCAR is ready to resell some shares. We want this pipeline to be more "Greek". Another thing is to find a solvent company not to delay the construction of the pipeline and the Southern Gas Corridor project implementation", commented the official.

The present shareholding of the project consortium which will connect with the Trans-Anatolian Pipeline (TANAP) to move Azeri gas from the second phase of the Shah Deniz project to European markets, is comprised of BP (20 percent), SOCAR (20 percent), Statoil (20 percent), Fluxys (19 percent), Enagás (16 percent) and Axpo (five percent). The Syriza led Greek government has changed the nation's stance on Trans-Adriatic Pipeline (TAP) as it specifically tries to enhance the role of the country in terms of extracting benefits for the state budget along with further energy security guarantees. Greece is seeking the payment of transit fees to be paid to the country once the route is functional in 2019. The new government is also revisiting an agreement for the sale to SOCAR of a 66% interest in DEFSA, the Greek transmission manager company.

Nasirov also addressed the issue of a revision in gas contract pricing to Greece for deliveries via TAP. "A contract was signed with Greece for 25 years. According to contract, there are provisions about possibility of negotiations regarding change of purchase and sale price of gas. This can happen when sharp changes are observed in the market. However, this can be after gas supply. As Greek side does not buy gas yet, any price change is out of question", Nasirov said.

Azerbaijan's gas production hits new record

Natural Gas Europe, *19.02.2015*

Azerbaijan's gas production hit a new record due to increased output from Stage 1 of the Shah Deniz gas field. 2014 saw 29.418 bcm of gas (+0.7%) of gas extracted in Azerbaijan with marketable gas production amounting to 18.728 bcm (+4.9%).

BP Azerbaijan Co. reported today that gas production from Shah Deniz Stage 1 increased to its highest level since the field became operational in 2006, with opportunity for further growth. According to BP Azerbaijan report, during 2014 some 9.9 billion cubic meters of gas (bcm) and 2.3 million tons of gas condensate were produced from Shah Deniz Stage 1.

Comparative figures for 2012 and 2013 were 7.73 bcm and 9.8 bcm of natural gas, respectively. The report says that optimization of the equipment would permit output to surpass 10.7 bcm in 2015. From its inauguration in November 2006, the first stage of the Shah Deniz project has produced a total of 57.2 bcm of gas. Shah Deniz is estimated to contain 1.2-1.5 trillion cubic metres of gas. Shareholders of Shah Deniz are BP (operator - 28.8%), TPAO (19%), Petronas (15,5%), SOCAR (16,7%), LUKoil (10%) and NICO (10%).

A new era for Caspian oil and gas

CSIS, *14.02.2015*

The recent decline in world oil prices is likely to constrain economic growth and investment in the Caspian region. The steep decline in global oil prices has dealt a blow to earnings for many energy-exporting states, pushing their finances and investment projects over the red line.

They have suffered slowdowns since crude prices began to slide in mid-2014, but most of them still expect to weather the crisis and will draw on their significant currency reserves to keep their economies and projects floating. The Caspian states – specifically, Azerbaijan, Kazakhstan and Turkmenistan – are among these believers.

This essay will focus on their responses to the price crash. Nobody knows with certainty when and how this prolonged and unexpected market fluctuation will end. Even if conditions were to stabilise soon, the consequences of the dramatic fall that has already occurred could be serious. And if the market remains bearish, these countries could have a very hard time, not only with respect to recouping their losses but also in facing much tougher competition for new investment.

Caspian oil and gas exporters are already feeling the pressure from low oil prices and slow global economic growth. Additionally, they are also being squeezed by the knock-on effects of Russia’s economic crisis. Among the former Soviet republics, Kazakhstan and Azerbaijan are the biggest crude oil producers in the Caspian region. According to the International Energy Agency (IEA), Kazakhstan exported about 1.69 million barrels per day of oil in 2014, while Azerbaijan exported 840,000 bpd and Turkmenistan 280,000 bpd. Since Turkmenistan is predominantly a gas-exporting country, it is more insulated from the fall in oil prices. But if the market remains at its current level for a long time, the country will soon face more serious problems than it has so far. Its export contracts may soon be generating less money than usual, as they link gas prices to global oil prices, which have sunk by about 50% since last June. Kazakhstan and Azerbaijan are also bound to be hurt by the deterioration of crude prices. Since these two countries rely heavily on oil exports to generate budget revenues, they have felt an immediate negative impact from the bearish market conditions.

Until this year, oil revenues accounted for 60% of Kazakhstan’s budget and made up 33% of GDP. Now, though, income is set to fall. Last October, Astana revised its 2015 and 2016 budget projections, which were originally based on average forecast oil prices of US$90 per barrel, to a more conservative US$80 because of the fall in oil revenues. Since then, crude has dropped even more dramatically, falling to US$50 per barrel. According to the International Monetary Fund (IMF), Kazakhstan can only balance its budget if oil prices average about US$65.5 per barrel or more. As a result, the bearish market has pushed the budget well into the red, and the Kazakh economy may well post zero growth in 2015. Last December, Kazakh President Nursultan Nazarbayev told local television channels in an interview that his government had sufficient reserves to weather the crisis. Additionally, he said, Astana has an action plan to handle the situation if oil prices fall to as low as US$40 per barrel, so the country’s citizens should not worry. Kazakhstan does indeed have large reserve funds. Its National Fund contains US$76 billion, or three quarters of Kazakhstan’s total reserves of US$104 billion, according to official reports. It remains to be seen, though, whether these can be deployed effectively over the course of the price crash.

Azerbaijan faces much the same situation. That is, its state budget depends on oil for 65% of revenues. Last December, the Azeri government declared that the country would not face any major obstacles in 2015. It also said the economy could remain afloat if crude oil prices averaged US$60 per barrel and that there were no obstacles to the implementation of major infrastructure and social projects. Since then, though, prices have fallen even further than Baku expected. Even so, President Ilham Aliyev recently promised that the population would not experience hardship from falling oil prices. He claimed that the country had reserves of about US$50 billion, enough to protect itself from global economic upheavals. As such, both Azerbaijan and Kazakhstan have ample resources to grapple with fiscal shortfalls and to prevent further economic slowdown in the short term, and perhaps in the medium term as well. Both have short- term back-up plans to use those resources. However, recent developments have highlighted a serious long-term problem – namely, the need to craft new strategies to reduce the current heavy financial dependence on oil income.

Meanwhile, the same financial institutions and agencies that predicted steadily higher oil prices last year have now dramatically slashed their forecasts. At the same time, international oil companies (IOCs) are likely already analysing their mistakes. Their overconfident forecasts of rising prices led them to take what now appear to be overly risky investment decisions. As a result, they are revising investment programmes based on the belief that oil would remain bullish over the long term. This means that huge and costly projects such as Kashagan will be scrutinised and questioned in a much tougher way. Work at this field, which is the largest oil deposit in Kazakhstan, is already running far behind schedule. Investors must now ask themselves whether Kashagan will be a loss-making operation if oil prices fall further. According to some estimates, production costs at this Kazakh site are already about four or five times higher than at an average Iraqi or Saudi field.

Similar questions may be asked about other potential projects in the region. Though none is likely to equal Kashagan in complexity and expense, Caspian initiatives do tend to entail higher production costs. Thus IOCs have obvious reasons to focus on fields that are less expensive to develop. This shift was already under way last year, even before oil prices began falling. It is now set to accelerate, which means less money will be available for new Caspian projects. This is not good news for Caspian energy-producing states. Eventually, lower oil prices, shifting investment targets and scarce financial resources could cause these countries' current account balances to deteriorate significantly, making new projects even less attractive.

In its Short-Term Energy Outlook, released in January, the US Energy Information Agency (EIA) said it expected oil prices to average in the mid- US$50 per barrel range in 2015, close to current market levels. Meanwhile, the IEA has scant hope that crude will return to higher levels. But even if prices do recover, IOCs are likely to conclude that some oil exports and energy projects are simply not economically justified over the long term. As such, they are likely to scale back investments in the Caspian region in the short term.

IMF aid package pushes Ukraine gas prices up 280%

Reuters, *18.02.2015*

Ukraine has agreed to increase the cost of gas to consumer by 280 percent, and 66 percent for heating, as part of the IMF terms for getting extra financial aid, says Valery Gontareva the head of the National Bank of Ukraine.

"From now on, in accordance with our joint program with the IMF, the tariffs will see rather a sharp increase of 280 percent for gas and about 66 percent for heat," said Gontareva. She added that as a result inflation will be 25-26 percent by the end of 2015. The tariff rises are part of the amendments to the 2015 budget the government has had to introduce in order to receive an $8.5 billion loan from the IMF.

The changes will also see Ukraine's budget deficit growing to 4.1 percent of GDP and forecasts a 5.5 percent decline in the Ukrainian economy. Prime Minister Arseny Yatsenyuk had warned of future price rises for gas and heating, and stressed the IMF saved Ukraine from default, and now it's time to make moves which should eventually result in Ukraine's complete independence from Russian gas. The tariff increase was among the subjects Ukraine and the IMF touched upon during negotiations in January. Deputy Chairman of the Ukraine parliament's budget committee Viktor Krivenko said the IMF had requested a sevenfold increase in prices.

The head of IMF Christine Lagarde said on February 12 that the preliminary agreement reached between Kiev and Western creditors envisages increasing the aid package to $40 billion over the next four years. The program will help Ukraine receive an additional $25 billion in financial aid, of which $17.5 billion will be provided to stabilize the financial situation in the country. The latest IMF program will replace the $17 billion package agreed in April 2014. Ukraine has already received $4.5 billion under that agreement, thus the total IMF loans to Ukraine since the beginning of the crisis amount to $22 billion.

Ukrainian PM believes country should consume zero Russian gas

Sputnik, *16.02.2015*

Ukraine should bring the consumption of natural gas from Russia down to zero, the country's Prime Minister Arseniy Yatsenyuk has said.

"We have proven that we are able to break our dependency from Russian gas… I want to bring it [the consumption of Russian gas in Ukraine] down to zero," Yatsenyuk said as quoted in a statement published on the official website of Ukrainian government. Ukrainian Prime Minister added that in 2014 Ukraine bought only 33 percent of the gas it has consumed from Russia while in 2013 this figure stood at 95 percent.

Earlier Ukrainian gas network operator Ukrtransgaz said that in 2014 Ukraine imported 5.1 billion cubic meters of gas from Europe – Slovakia, Poland and Hungary — which is 51 percent more than in 2013. In 2014 Ukraine spent almost six months not receiving any gas from Russia due to Kiev's massive debt that at the time exceeded $5 billion. Following months of negotiations with participation of the European Union, Moscow resumed the deliveries of natural gas to Ukraine on December 9.

Eustream reports shippers entirely booked capacty of Vojany-Uzhgorod pipeline

Natural Gas Europe, *19.02.2015*

While Russia starts supplying gas to Eastern Ukraine as a reaction to Naftogaz' announcement to halt its deliveries to the area, Eustream announced that shippers entirely booked capacity of the pipeline connecting Slovakia and Ukraine.

Prime Minister of Slovakia Robert Fico announced the country would have increased the capacity of the Vojany-Uzhorod pipeline. 'Interest of the shippers again exceeded the offered capacity. Entire booked capacity of the Vojany-Uzhorod pipeline until the end of 2016 has reached 14,6 bcm/year' Eustream wrote, reminding that the Open Season procedure required binding requests to be submitted.

A few hours earlier, Naftogaz said that it would have not shipped more gas to Eastern Ukraine due to damages to gas transmission infrastructures. 'Resumption of gas supply is being made impossible because of the ongoing active hostilities in the region' the company led by Andriy Kobolyev reported on its website. According to Euractiv, Gazprom said that the company would have increased by 40% its gas deliveries to Ukraine, with the additional deliveries meant to supply east Ukraine "as humanitarian aid."

Putin's Hungary visit: "win-win"

Natural Gas Europe, *18.02.2015*

Hungary has successfully negotiated the right to access, according to its needs, past years' take-or-pay natural gas contract volumes from Russian gas supplier Gazprom, in accordance with the country's 20-year gas contract which is set to expire this summer.

This, one of the results of an official visit Tuesday by Russian President Vladimir Putin to Hungary, where he met with with Hungarian Prime Minister Viktor Orban for talks on a host of economic agreements between their countries, including the gas contract renewal and Russia's financing of two new nuclear reactors in Hungary.

At an evening press briefing, Prime Minister Orban reported that the two sides had deliberated over Hungary's 1996 gas contract, reaching agreement on the unused volumes, a problem which he said has been solved. "This means that with this agreement we have secured energy supplies for Hungarian families and we've guaranteed it for Hungarian industry, as well, " commented the Hungarian Prime Minister. "This is a big relief for us," he added, admitting that the technical details of the contract had not yet been hammered out, but would be in the coming months.

According to Mr. Orban, the government would not have been able to continue its utility cuts without the leeway in the Gazprom gas contract going forward. President Putin welcomed the chance to strengthen ties between Russia and Hungary in the oil and gas sector, in light of his country being the major contributor of hydrocarbons to Hungary, commenting: "We are glad to be a reliable delivery partner for Europe and for Hungary." He said the discussions not only included Hungary's gas contract but also its gas storages.

Of the latter, Mr. Putin said, "As you may know, we were forced to abandon the South Stream project, but we believe that what we have pulled together with the Hungarian side, including the joint venture, we should be able to use it when we expand our relations with our Turkish friends as part of the so-called 'Turk Stream'. "There are many versions of it and we're willing to discuss these with all those who are affected," he added. Having not set foot in a European Union country since last summer, the Russian President was accompanied to Hungary by numerous high-level officials, including the heads of Gazprom and Russian nuclear power enterprise, Rosatom. Outside of the natural gas negotiations, ministerial and industry representatives on both the Hungarian and Russian sides signed a variety of economic agreements, including Russia's financing the bear's share of two new nuclear reactor units they are building in Hungary to the tune of EUR 13 billion.

Analyst Andras Deak, Senior Research Fellow at Institute of World Economics, HAS, explained the importance of the natural gas contract for Hungary: "Of course it is very important, but there's a wide range of options that we can take with it. Something has to be done because it's going to expire by the end of the year, but whether we continue with it is simply a technical act, or we sign an absolutely new contract – this was an open question." Deak contends that Gazprom's marketing of gas supply this year has been changing. "Less flexibility is provided for shorter durations, it is not clear whether they are ready to contract long term delivery points at the EU-Ukraine border, and this is the first long-term contract after South Stream. It could be quite challenging if the Russian side decides to contract under the new marketing regime – the contract could be much different from those in the past," he explained.

Of what the Russian president's visit to Hungary means for gas diplomacy in Central & Eastern Europe, Mr. Deak explains, "The message is that Putin can derive political benefits from small Central European countries in exchange for economic concessions. That's the big story." As for the prospect of cementing Russian influence on where the gas supplied to Hungary will reverse-flow, Mr. Deak says it may be a moot point as the reverse flow route from Slovakia is available to Ukraine. "I don't think it's going to be a big issue," he adds. "Hungary needs Russia," said Prime Minister Orban said at the press briefing. "For we Hungarians, it's important that Russia be open for our products; and it's also in our interests that we have access to Russian energy." He added that it is important to mend ties between the EU and Russia, that it needed a thoughtful resolution, which is what Hungary stands for. The security of the region, he said, can only be achieved with the cooperation of Russia.

Gazprom to substitute engineering supplies from pro-sanctions countries

Reuters, *17.02.2015*

Gazprom, Russia's largest gas company plans to expand the program of import substitution by no longer buying metal and engineering products from more than 400 foreign firms, which could mean $2.5 billion in lost orders from Russia.

From now on metal products and machinery items, including agricultural and road construction equipment will be purchased mainly from Russian producers, "except in case the goods are not produced, or there is no counterpart, in Russia," Vedomosti reports Tuesday referring to a Gazprom document. The companies on Gazprom's 'blacklist' include suppliers from about 20 countries.

Firms from the US (Caterpillar, Motorola), Germany (Siemens, MAN Turbo), France (Schlumberger, Schneider Electric), the UK and Japan (Sumitomo, Kenwood, Kawasaki) make up more than a quarter of the companies affected, according to the document obtained by Vedomosti. Besides the products from Western countries supporting the anti-Russian sanctions, Gazprom is considering replacing supplies from number of companies in Belarus, Ukraine, Israel, India and Argentina. Gazprom officials have said they were thinking of looking at alternative suppliers from China or Korea that aren't already on Gazprom's list of foreign suppliers.

Gazprom's purchases in foreign currency account for about 21 percent of its capital costs, according to Deputy Chairman Andrey Kruglov. Capital costs of Gazprom for 2015 will be $11.6 billion (733 billion rubles). That means almost $ 2.5 billion (or 154 billion rubles) were allocated to foreign purchases. In early February, Gazprom created a special department for import substitution with a mission to ensure the company's technological independence. A similar department was established by its oil subsidiary Gazprom Neft. The company says its new policy will see as much equipment as possible produced in Russia. Experts suggest Gazprom could find it difficult, and it could cause problems with such projects as Baltic LNG, the Power of Siberia and the Turkish Stream pipelines, as there is a lack of Russian hi-tech producers. In February Russian Prime Minister Dmitry Medvedev claimed that most machinery could be replaced with "Russian-made" equipment. At the time he signed a billbanning the ordering of new imported foreign machinery for state-run organizations. It's part of Russia's anti-crisis plan that has import substitution as one of the main tools in stabilizing the economy.

Gazprom discusses joint LNG project with Sonatrach

Reuters, *19.02.2015*

Gazprom discussed with Algeria's Sonatrach joint LNG projects, during a meeting in Moscow with Said Sahnoun, President and CEO of Sonatrach, and Ali Hashed, Advisor to the Energy Minister of Algeria.

'It was highlighted that starting from 2010, a great scope of 2D and 3D seismic survey operations had been conducted and six exploratory wells had been drilled… The well survey has proven the availability of hydrocarbons pay zones. At present, the delineation of deposits is underway at the field' reads a note released, referring to the El Assel area in Algeria.

Last week, the International Monetary Fund went to Algeria to speak with the country's Minister of Energy Youcef Yousfi. The parts discussed cooperation in the energy sector. Gazprom confirmed its intention to place shares on the China's Stock Exchange. The decision would follow its listing on the Singapore stock exchange in 2014. In the last hours, the company also announced two new managerial positions. Oleg Arno has been appointed Director General of Gazprom Dobycha Yamburg, while Vladimir Krokha will take the helm of Gazprom Dobycha Shelf Yuzhno-Sakhalinsk. Both of them have a strong financial and scientific background. Both hold an MBA degree.

Gazprom faces falling gas sales to Europe

Reuters, *19.02.2015*

Plunging sales to Europe and falling energy prices are not only sapping the revenue of Russia's top natural gas producer Gazprom but also depriving the country's budget.

Gazprom usually contributes almost one fifth of federal budget revenue, an amount the finance ministry would love to have this year as it tries to build up its resources to weather an economic crisis deepened by Western sanctions over Ukraine. But a mild winter, better energy efficiency and a reluctance in Europe to take gas from Russia which is under European Union and U.S. sanctions have meant some of the gas company's main customers have halved their supplies.

And if prices stay low as they track oil, which has fallen almost 50 percent since mid-last year, Gazprom, and Russia, may lose billions of dollars. The price in Gazprom's contracts is pegged to the oil price with a lag of six to nine months. Sberbank CIB analyst Alex Fak said the budget may lose around $6 billion a year if gas prices for Europe decline by 35 percent as expected, with possible sales falling by one third. A Gazprom spokesman declined to comment on the figure but said falling exports were due to warmer weather and low prices. Sales to Europe account for more than half of Gazprom's revenue and the company generates around 8 percent of Russia's gross domestic product.

According to European gas operators Nel and Opal, Russian average daily gas supplies to the Nord Stream pipeline via the Baltic Sea have more than halved in Feb. 1-17 to 45 million cubic metres (mcm) from 98 mcm in the same period last year. Supplies via Ukraine, through which around half of Russian gas traverses to Europe, averaged during the period at 48 mcm, down from 104.4 mcm in the corresponding period of 2014. Gazprom has also had to deal with the falling price of its long-term contracts, the backbone of agreements with European companies. The Russian economy ministry expects the average Russian gas price for Europe to fall by more than one third to $222 per 1,000 cubic metres. “Traders know they'll be able to buy the gas cheaper in April or May and so they're doing arbitrage, they're taking it from storage for now,” an Italian wholesale trader said.

Industry experts say gas consumption in western Europe is at multi-year lows due to a weak economy, at least outside Germany. Europe's biggest utilities have reduced purchases of Russian oil-linked gas by around one quarter, or 50 cubic metres per day, since Jan. 1, flow data on Reuters Eikon shows. “Two mild winters in a row have curbed use by household customers who are also becoming more energy-efficient, switching to low usage condensed boilers,” a European market regulatory source said.

Transit countries should have final say on South Stream gas pipeline

Sputnik, *17.02.2015*

The survey revealed that 66 percent of respondents in Bulgaria and 52 percent in Serbia believe their countries should have had the final say on the South Stream gas pipeline.

In Austria, 42 percent said the decision was theirs to make, while 46 percent said it was rightfully left to the European Commission, the European Union's executive body. Austria, Bulgaria and Serbia were to host sections of a Russian alternative gas transport route, which was to bypass Ukraine. Its estimated capacity was 63 billion cubic meters of natural gas a year.

Last summer, Bulgaria decided to freeze the construction of its leg due to the European Commission's fears that the project violated the EU Third Energy Package. This law prohibits simultaneous ownership of both the gas and the pipeline through which it flows. Months of bickering over the pipeline's legality led to Russian energy giant Gazprom scrapping the project in December. In December, Serbia estimated it would lose up to $375 million in project development costs after the pipeline was eventually relocated to Turkey. Bulgaria will lose an annual $600 million in transit fees, according to Bulgarian Energy Minister Rumen Ovcharov. The poll was conducted among 3,000 residents in Austria, Serbia and Bulgaria between January 12 and 30, 2015. International public opinion research project Sputnik.Polls was launched in 2014, in conjunction with British public opinion survey leaders ICM Research. It conducts regular opinion polls to monitor public sentiment toward social, political and cultural issues in Europe and the United States.

Major French companies unite to rekindle shale gas debate

Natural Gas Europe, *16.02.2015*

That famous advertising slogan, sponsored by the French government during the 1970s after the major oil crisis, may be not so true.

France does possess considerable non-conventional resources such as shale gas and shale oil in its territory according to EIA, however no detailed underground investigations have been made so far. Widespread public protests saw the banning of the process of hydraulic fracturing of Nicolas Sarkozy in 2011 and the repeal of three licenses granted in March 2010 for shale gas exploration to Total and Schuepbach.

Up to 20 French corporations announced the creation of the Non-Conventional Hydrocarbons Center (CHNC), a joint effort to revive the shale gas debate across the country. Oil and gas companies such as Total, GDZ Suez joined with others members from the energy sector including Technip, Air Liquide, Vallourec and Arkema. The goal of this new organization is to provide information to a wide audience based on real facts regardless of any political or ideological consideration. "The CHNC is a documentation and information centre. We want to explain the different kinds of non-conventional resources, the energy revolution and its global impact, the technics used abroad", Jean-Louis Schilansky told. The director of the CHNC.

The current leader of Paris MEDEF, the main employer's organization in France, Schilansky promises to address the environmental issues as well. "We will analyze the potential damages on the environment, taking stock of the solutions. To be fair, I do not know if fracking is really bad for the environment. Nothing will be hidden". The works will be judged by a panel of nine independent experts from the Academy of Sciences, Medicine and even the highly respected National Centre of Scientific Research.

Schilansky sees investigations as logical: “We do not know if the natural gas resources are significant in the French soil. It may be huge. Nobody can make a real prediction.” This latest initiative could easily be seen as a move from the oil industry to put pressure on the French government and lawmakers but the CHNC director denies this assertion. “We are not creating an energy lobby to force the government to act in a specific way and pass a bill. We are going to provide information to elected officials so we can debate on the issues. We are not coming with claims or proposals”.

Facing energy price challenges, there have been calls for the development of France’s shale prospects to be reconsidered. Cheap shale gas has provided for an economic resurgence in the United States, resulting in a shake up the petrochemical industry worldwide. Despite pressure to reverse his policy against shale gas exploration, the French President François Hollande reiterated that there would not be shale oil and shale gas exploration: “As long as I am president, there will be no exploration for shale gas in France.” In late December, Energy Minister Segolene Royal restated the government’s stance by refusing to extend some research permits in the south West of France near Toulouse. “I assert that the requirements needed are not fulfilled to renew permits”, the Minister said. Hollande’s position has the wide support on this issue, with 62% of the public is opposed to fracking according to an opinion poll released in early October. Meanwhile former president Nicolas Sarkozy who is mulling another bid for the presidency, said publicly he is in favor of exploring natural gas resources. Fracking could become an issue on the campaign trail come 2017 in a country with a 10% unemployment rate and a challenged recovery.

From whence cometh thee, LNG?

Natural Gas Europe**,** *16.02.2015*

There was no clear answer to the question of where LNG for Europe might come from in a session devoted to the topic at the European Gas Conference in Vienna, Austria, but that didn’t mean that panel participants were unable to provide a wealth of information and insights to the discussion.

In his attempt to address the query, Danila Bochkarev, PhD Senior Fellow, EastWest Institute said that besides the LNG project in Sakkhalin, Russia has its designs elsewhere. “Not only is Russia a latecomer, it is mostly focused on Asia.” However, he offered that gas export within Russia has been partially liberalized for LNG.

Regarding Novatek’s project in Siberia, Mr. Bochkarev commented: “The economics of it was originally focused on Asian markets, but the delivery might be an issue. Considering the ice situation in the winter, it might be easier to go West.” The sanctions against Russia also remain a concern, according to him. “The project is quite sound – it has good tax breaks, recently received support and looks to be completed on time,” he noted, adding that Sakkhalin II remains questionable.

Ignacio de Aguirre, Manager for Strategy and Energy Economics, Gas Natural Fenosa, said it was likely there would not be demand in Europe, “Because we have great doubts on domestic, industrial and power demand and because of climate and energy policy from the EU - 20/20/20 – and new goals for 2030/50. All of this is not very positive for gas.” He pointed out that many gas contracts that had been signed in the 1960s will be up for expiry in the near future. One source of volatility he said is gas from the power sector, in light of renewables. “So we need more flexible supply for a demand that’s not that firm – US LNG makes a great fit for that,” offered Mr. de Aguirre.

Andrew Walker, VP Global LNG, BG Group, noted that Europe is a balancing market for the global LNG market, that volumes tend to ebb and flow depending on global demand and regulated demand in Europe. “So, actually where will volumes come from has become harder to determine as the global model has evolved; it used to be we had a fairly simple model for Europe: we knew that what was contracted to Europe didn’t come because people were diverting it,” he explained. However, according to Mr. Walker, this depends on the region: LNG is divertible in Northern Europe, and the inflexibility of markets in the South meant the LNG typically ends up there. “The model continues to evolve – some of the LNG that was coming to Europe is gone; some that’s flexible comes but doesn’t stay – it reloads and goes,” he said.

Portfolio players like BG or Natural Gas Fenosa, he explained, became intermediaries that balanced their portfolios with these deliveries. This all adds up to making it very difficult to say which volumes of LNG will go from where to where. Session moderator David Ledesma, Independent Gas & LNG Consultant, offered that 10-20 million tons of LNG is set to come online in the next few years up to 2020. In light of that, he asked what panel members thought of how flexible Asian demand is. Danila Bochkarev said Pakistan provides a very interesting case study, as it had a very developed infrastructure and production like Russia, so it had switched to fuel oil during high prices. “When the prices go back up, you see it as a new market for LNG,” he explained. “They can come and say, ‘the infrastructure is already in place.’“ Mr. de Aguirre countered that it is not always about price. “We are risk managers: we buy, then we have to manage.” David Ledesma pointed out that, just like in Europe, countries like Pakistan need support from the government to initiate new LNG infrastructure. He went on to ask how panel participants think producers will react to current market conditions.

Andrew Walker replied: “Where we see any impacts of current uncertainties/low oil price on the supply side, I think it’s almost inevitable there must be a feedback that goes into the supply side. We’re a long-lead industry so I’d suspect you’ want to see a big impact on the existing capacity; you may see some kind of targeted maintenance by people who think they can shift that slightly, but it’s a big question in my mind. “For an industry that’s made FID for about 25 million tons in the last 4-5 years, how much do you think we’ll see next year? Twenty-five, more than 25, or a lot less than 25?” asked Mr. Ledesma. Mr. Walker said that the industry had found itself in this situation before, seeing a hiatus of projects in 2006-08. “If investments go down over the next few years, are we starting to see the shaping of the curve in the 2020 timeframe where we all do our nice linear extrapolations, forget we’re kind of cyclical? I do wonder whether we’ll see that,” concluded Mr. Walker, who said he remained hopeful.

EU urgently needs real energy union

EU Observer, *16.02.2015*

The past few months have shown the world in which we live is more dynamic and the challenges we face are more complex and demanding than we had imagined. EU energy policy is an area which perfectly illustrates this complexity - it is challenged from both outside the EU and from within.

We see a military conflict in our Eastern neighbourhood which may seriously compromise our energy security. We must also take part in global climate change mitigation efforts. Equally, there are challenges from within the EU, such as growing demand, massive build-up of intermittent resources and physical energy market infrastructure.

These challenges threaten our competitiveness and hamper our efforts to sustain and develop the industrial potential of the EU. EU energy policy must deal with three essential issues: enhancing energy security, making the internal energy market fully functional and implementing the 2030 climate and energy framework. We must protect European competitiveness and keep energy prices low. We have seen much discussion and some determination to address these challenges. But the holistic view is often lacking. Given the complexity, we strongly welcome the determination of the European Commission to address the issue in a comprehensive and strategic manner.

The Energy Union seems to be an appropriate step forward. Expectations are high, as the Energy Union should address all dimensions and cover all key topics from geopolitics, practical and legal aspects of everyday operations on the EU internal energy market, through to energy infrastructure build-up, and consumer protection. The Czech Republic would support an Energy Union that will lead us towards a competitive, integrated and resilient energy policy and increased energy security. We have already shared some of our views in a non-paper presented together with Poland and Slovakia. As the presentation of the Energy Union draws near, we focus on the two most important intimately related and mutually supportive expectations: energy security and fully functional Internal energy market.

Firstly, on energy security: the Energy Union should be based on mutual respect and solidarity between the member states, strengthened by individual responsibility under the framework of efficient, fully integrated and liberalised internal energy market. Transparency is key, with specific focus on diversification of supply of energy sources. To foster energy security we must rely on a balanced and diversified energy mix based on an effective use of all indigenous energy sources, including nuclear.

These in turn must be supported by adequate infrastructure. Major national energy decisions should be shared among member states before they are taken. Drafting joint preventive action plans and emergency plans at the regional level would appear most desirable. But a hasty approach to joint purchases of natural gas would probably not bring the results wanted.

Should these be considered, they should concern the relevant subjects purely on a voluntary basis and would have to fully comply with the rules of the internal energy market. In such a scenario, the role of the European Commission should include the re-negotiation process of contracts with external gas suppliers only when necessary and upon a request of an individual member state. The combination of these principles would maintain a balance between enhanced energy security and development of an efficient and liberalised energy market.

Secondly, a functional internal energy market without distortions is a key prerequisite for the success of the whole Energy Union concept. Recently, we have been witnessing discussions over a possible introduction of capacity markets – which means that electricity producers would be remunerated according to available capacity instead of electricity produced.

We do not consider capacity markets an ideal solution. If ever introduced, a market-based, non-discriminatory and technologically neutral approach involving all market participants must be a condition. To make this approach viable, full implementation of existing legislation is a must, and barriers and market distortions must be removed. The internal energy market requires a coherent approach in all relevant areas: enforcement of internal market rules, construction of timely and adequate transmission systems and distribution grid development.

The internal energy market should be accompanied by functional reforms of the EU Emissions Trading Scheme complemented by an effective effort and burden sharing mechanism, as stated in the EU 2030 climate and energy framework. Besides putting these systemic elements in place, stakeholders at the other end of the supply chain must not be left out. Specific measures should be explored to protect vulnerable customers, to address threats of energy poverty and to assess the social impact of high energy prices. The bottom line is an effective implementation of the EU 2030 climate and energy framework.

Nevertheless, decarbonisation should not be the only focus - CO2 reduction efforts must not undercut either energy security or competitiveness, which are now at times jeopardised. Further system integration of intermittent renewable energy sources must be based solely on market principles and must not threaten security of the grid as a whole. Thus, mobilisation of investments in R&D and innovation projects of all kinds are highly desirable and should be supported by both national and European resources. To address the challenges in the energy field, we must jointly sustain our energy security and make the market work. Rising risks from beyond our borders and challenges from within can be tackled in a comprehensive approach in these two focal points. They will also allow us to remain competitive, we will preserve the environment for the future generations and contribute to climate change mitigation. The Czech Republic supports these steps from isolationism to complexity and we are eager to be a vocal participant in the debate.

Cuadrilla CEO says proceeding with shale-gas development in U.K.

Bloomberg, *12.02.2015*

Cuadrilla is proceeding with the development of shale gas in northern England even as environmental opposition grows and other regions impose temporary bans on drilling.

“Where we are in Lancashire, we are still going forward,” Chief Executive Officer Francis Egan said Tuesday on Bloomberg television. “We have all the permits from the environment agency now.” Scotland and Wales this year imposed a moratorium on fracking, which involves blasting water, sand and chemicals at high pressure to release gas within shale rock, until they study new environmental safeguards.

Cuadrilla faced a setback last month when planners in Lancashire County Council recommended rejecting its applications to drill at two sites. The final decision was delayed to April after the company asked for an extension to address residents’ concerns about traffic and noise. Parts of northern England may hold as much as 1,300 trillion cubic feet of gas, enough to meet U.K. demand for half a century even if just 10 percent is extracted, according to Bloomberg calculations. If the U.K. doesn’t develop its own resources, it will be vulnerable to the geopolitical risks associated with importing from Russia or the Middle East, Egan said at a conference.

Shale gas Espana reports bnk’s developments in Burgos

Natural Gas Europe, *18.02.2015*

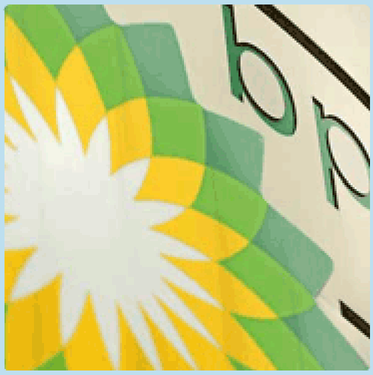
Shale Gas España said that the new law on hydrocarbons could translate into gains between 2 and 4 million euros for the owners of the land from where energy companies would extract shale gas.

According to the draft document the owner would indeed get 1% of the revenues. The Spanish platform for exploration and development of unconventional gas in Spain also unveiled BNK España’s progress with its shale plans in northern Spain. ‘BNK España presented to the Administrations the projects to carry out surveys in six sites covered by its permits Urraca and Sedano’ reads a note released.

According to Shale Gas España, BNK España would invest up to €250 million. In another press release, the platform reported that unconventional hydrocarbon could be soon supported by the European Commission, as part of Brussels' effort to trigger domestic production. 'Exploration and production of unconventional gas are meant to reduce this energy dependence, and effectively reduce the current costs that hinder the competitiveness of European companies.'

BP doesn't see significant shale gas production in Europe by 2035

Natural Gas Europe, *18.02.2015*



While registering an increase in global production of shale gas, BP said that significant unconventional hydrocarbon productions remain unlikely in Europe at least till 2035.

'Renewables, shale gas, tight oil and other new fuel sources in aggregate grow at 6% p.a. and contribute 45% of the increment in energy production to 2035' reads the BP Energy Outlook 2035. It estimated that Asia Pacific and North America are the regions with the highest levels of remaining technically recoverable shale gas. Europe and Eurasia is the second last region, before the Middle East. According to the forecasts, US shale gas production should grow by 4.5%.

Dutch GasTerra says it must buy gas on open market

Reuters, *18.02.2015*

Dutch gas trader GasTerra said it will have to buy gas on the open market to meet its contractual obligations after the Netherlands government ordered a production cut at the massive Groningen field.

The decision is a sign the company believes the government output cap, which sent Western European gas prices soaring when it was announced on Feb. 9, is unlikely to be reversed. Spokesman Anton Buijs said GasTerra, which purchases and sells Dutch-produced gas, had contracted to sell a little less than 40 billion cubic metres (bcm) from the Groningen field, Europe's largest, in 2015.

The government unexpectedly mandated an output cut to 16.5 bcm in the first half of 2015 due to concerns about earthquakes linked to production, although it left the door open to an increase in the second half. However, the idea of an increase is already politically unpopular and the country's Safety Board released a report criticising gas producers and government regulators for neglecting security concerns. "We need to buy back gas we have sold already," Buijs said. He said he cannot disclose purchase amounts, as it is commercially sensitive information. The day-ahead gas price on the Dutch Title Transfer Facility (TTF) rose 0.35 euros, or 1.5 percent, to 23.20 euros per megawatt hour. Month-ahead TTF prices surged more than 10 percent after the Feb. 9 decision.

GasTerra said it will not extend existing long-term delivery contracts, or sign new ones, in light of the output cap. "It underlines there's not a lot of hope for additional gas to come out of the Netherlands this year, or probably ever," said Trevor Sikorski, an analyst at UK-based consultancy Energy Aspects. Still, he said markets were "reasonably comfortable and relaxed" and noted that Western European prices were lower than two years ago, despite the recent rise. GasTerra is the biggest gas trading firm in the Netherlands and a major supplier to European countries. It exports the majority of its gas to Germany, Britain, France, Italy and Belgium. GasTerra, half owned by the Dutch government with Shell and Exxon each holding a 25 percent stake, got more than half of its gas from Groningen in 2014, according to its annual report. GasTerra purchased 15.0 bcm of gas on the open market in 2014, up from 9.6 bcm in 2013. The company also forecast further declines at smaller Dutch fields, which made up 30 percent of its purchases in 2014. GasTerra accounts for two thirds of gas trading at the TTF, which last year passed Britain's National Balancing Point (NBP) as Europe's largest gas hub.

GDF SUEZ' contract suggests LNG industrial potentials

Natural Gas Europe, *19.01.2015*

A GDF Suez' subsidiary focused on LNG transportation signed an 18-month contract with Lactalis group in France, showing that the future role of gas might be closely related to niche usages and to conversions from oil to gas for companies not connected to the gas network.

'Selected after a call-to-tender, LNGeneration is offering an overall energy solution combining transport, storage, regasification and supply in LNG for the Bouvron site, which is still not connected to the natural gas network' reads a note released. GDF Suez also said that the transition would result in a 20% reduction in CO2 emissions.

A few hours before, Gazprom Germania and Solbus launched 35 LNG buses in Poland, proving once more the possible role of gas for transportation. With respect to LNG, several European companies are investing in innovation to come up with new solutions. Germany's Ziemman developed a patented container for the transport of cryogenic LNG.

'With the solution of Ziemann, the tank systems (terminals), which had previously been permanently installed at the facilities of the end consumers, become unnecessary' the company wrote on its website, adding that the new product could simply the use of LNG.

Egypt to receive 7 LNG shipments from US company Noble

Anadolu Agency, *17.02.2015*

Egypt will import seven shipments of LNG from American energy company Noble, the country's energy ministry announced. The deliveries of cargoes will start from April 2015 and will be completed in two years, the ministry said.

The agreement is part of a $2.2 billion tender won by four international companies regarding the importation of 75 cargoes of LNG over two years to Egypt. Chairman of Egyptian Natural Gas Holding Company, Khalid Abdel Badea, said that the upcoming period will witness the signing of the rest of the LNG shipment contracts with the awarded companies in the tender.

An oil and gas producer itself, Egypt continues to suffer from chronic electricity shortages, particularly during the summer season. The country is attempting to boost its energy sector with exploration agreements that it made with many international energy companies. Since Nov. 2013, Egypt has made 53 new agreements for the exploration of oil and gas with a minimum investment of about $2.9 billion to drill 228 wells, according to the country's energy ministry. According to the U.S. Energy Information Administration, Egypt turned from an exporter of natural gas to an importer in the last few years. The country's natural gas production declined by an annual average of three percent from 2009 to 2013.

KazTransGas, Gazprom to explore for CBM in Kazakhstan

Natural Gas Asia, *20.02.2015*

Kazakh state owned KazTransGas and Russia's Gazprom have signed a memorandum to cooperation to develop coal bed methane (CBM) resources in Kazakhstan.

According to a statement published by the Kazakh firm, KazTransGas and Gazprom Dobycha Kuznetsk, a subsidiary of Gazprom would cooperate in the fields of technology, research, equipment leasing, creation of joint ventures and exploration and production of CBM. "The study of this issue is important and will continue to contribute to one of the alternatives for the gasification of the central and northern regions of the Republic of Kazakhstan," KazTransGas said.

KazTransGas was established in 2000 for corporate management of gas exploration, production, transportation, and distribution assets. KazTransGas is the national operator of the natural gas sector in Kazakhstan. Gazprom Dobycha Kuznetsk is a 100 percent subsidiary of Gazprom involved in prospecting, exploration and production of CBM and other hydrocarbons.

Turkmen official: Gazprom 'unstable partner'

AFP, *18.02.2015*

An article published on the website of Turkmenistan's oil and gas ministry attacked Gazprom, calling the company an unreliable partner for the reclusive Central Asian state.

The article Turkmen Institute comes shortly after Gazprom's announcement it would be cutting gas imports from the secretive republic by nearly two-thirds, and Turkmenistan's 19 percent devaluation at the New Year of its national currency. "Gazprom and its affiliates periodically violate agreements at interstate, intergovernmental and interdepartmental level, leading to the view that unfortunately the major energy company is an unstable partner," it stated.

Gazprom's vice chairman Alexander Medvedev said this month that the decision to reduce imports from Turkmenistan and neighbouring Uzbekistan in 2015 was based on the company's own growing production capacity. Since a mysterious pipeline explosion in 2009, Russia has imported roughly 10 billion cubic metres of natural gas from Turkmenistan annually, but this figure will now drop to 4 bcm, Medvedev said. Before the explosion, which some industry experts credited to a dispute over prices, Gazprom imported as much as 45 bcm from Turkmenistan annually, most of which was re-exported at a profit to Europe via Ukraine.

Turkmenistan has the world's fourth largest known reserves of natural gas but limited export infrastructure and few reliable partners. Up to 90 percent of the country's exports are hydrocarbons. The main importer of Turkmen gas is China, which now imports 35 bcm annually from the republic with that figure expected to rise to 65 bcm by 2020. In addition to China and Russia, Turkmenistan also exports up to 10 bcm of natural gas to fellow producer Iran. At the beginning of the month, state media reported Turkmen President Gurbanguly Berdymukhamedov as saying the government would take anti-crisis measures to deal with depressed hydrocarbon prices, but did not specify what they would be.

India, Oman to restart undersea gas pipeline talks

Natural Gas Asia, *19.02.2015*

China India and Oman are expected to soon revive talks pertaining to an undersea gas pipeline. The decision to restart the talk for long-stalled undersea gas pipeline, first conceived in 1999, was taken on Wednesday during India's External Affairs Minister Sushma Swaraj's meeting with Yusuf bin Alawi bin Abdallah, Oman's Minister Responsible for Foreign Affairs, the newspaper reported Thursday citing an Indian official.

The talks would focus on the technological feasibility of laying the 12,000-km undersea gas pipeline at a depth of around 4,000 metres, said the official.

Morgan Stanley: Here are 3 signs that the oil recovery is near

Business Insider, *17.02.2015*

The oil market is closing in on stabilizing. Crude oil has rallied in early February as some traders have speculated that the supply glut — which has been blamed for the oil crash — may be under control.

Morgan Stanley's Martijn Rats said that even though crude oil supply may remain unchanged while demand drops in Q2, "we are seeing tentative signs that oil markets are starting to rebalance later this year." "Make no mistake: There is still overproduction," he added. "But the amount of estimated overproduction is getting less, and that is a positive development."

These are his three reasons why: Energy companies were quick to cut capital expenditure plans in reaction to the oil crash: Collectively, oil companies have skimmed $88 billion off their capex plans. That dollar amount is enough to build up 500,000 barrels of oil per day, and this is how much less oil would be produced if companies don't revise their capex cuts in 2016. The entire industry has slashed capex by 22% — close to the 24% reduction in 1986. Drilling activity is following capex cuts lower: Oil rig counts in the US have been tumbling, down 30% from their high. Rig counts are down about 10% outside the US. Non-OPEC supply growth forecasts have also been falling:

Discoveries of new oil and gas reserves drop to 20-year low

The Financial Times, *15.02.2015*

Discoveries of new reserves dropped to their lowest level in at least two decades last year, pointing to tighter world supplies as energy demand increases in the future.

Preliminary figures suggest the volume of oil and gas found last year, excluding shale and other reserves onshore in North America, was the lowest since at least 1995. 2014 may turn out to have been the worst year for finding oil and gas. The slowdown in discoveries has been particularly pronounced for oil, suggesting that production from shales in the US and from OPEC, will play an increasingly important role in meeting growing global demand.

New finds of oil and gas are likely to have been about 16bn barrels of oil equivalent in 2014, IHS estimates, making it the fourth consecutive year of falling volumes. That is the longest sustained decline since 1950. Because new oilfields generally take many years to develop, recent discoveries make no immediate difference to the crude market, but give an indication of supply potential in the 2020s. Peter Jackson of IHS said: “The number of discoveries and the size of the discoveries has been declining at quite an alarming rate . . . you look at supply in 2020-25, it might make the outlook more challenging.”

So far there has not been a single new “giant” field — one with reserves of more than 500m barrels of oil equivalent — reported to have been found last year, although subsequent revisions may change that. The figures for declining discoveries are particularly striking because exploration activity in 2014 showed little impact from the sharp fall in oil prices in the second half of the year. The last time oil and gas discoveries were around 2014’s level was in the mid-1990s, when exploration activity was hit by a period of weak prices.

Last year, the number of exploration and appraisal wells drilled worldwide was only 1 per cent lower than in 2013. This year, exploration budgets are being cut back across the industry and the number of wells drilled is likely to fall further. New discoveries are not the only sources of future oil supply. Companies can also add to their production potential with extensions of existing fields, and there are large known reserves — both “unconventional”, including shale in North America and heavy oil in Canada and Venezuela, and “conventional” in countries including Saudi Arabia, Iran, Iraq and the United Arab Emirates. The weakness of new discoveries increases the need for production from those sources to rise if, as expected, global demand for oil continues to increase.

The shale boom has transformed the outlook for oil in the US, and played a critical role in creating the oversupply that led to the collapse in prices, but it is still relatively small on a global scale, Mr Jackson said, accounting for about 5 per cent of world oil production. There are also very large shale oil reserves in countries including Russia, China, Argentina and Libya, but the industries there are still in their infancy. Shale is also a relatively high cost source of oil compared with reserves in the Middle East, and requires higher crude prices to be commercially viable. Mr Jackson said that with crude prices around their present levels, it would be “very difficult” to start up new shale production projects.

Announcements & Reports

► *BP Energy Outlook 2035*

Source : BP
Weblink : http://www.bp.com/en/global/corporate/about-bp/energy-economics/energy-outlook.html

► *Oil Buyer's Guide*

Source : Bloomberg
Weblink : http://www.bloombergbriefs.com/2015/02/03/oil-buyers-guide-2015-outlook/

► *China: The 'New Normal'*

Source : Oxford Energy Institute
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/02/China-the-new-normal.pdf

► *Lebanon: The Next Eastern Mediterranean Gas Producer?*

Source : The German Marshall Fund
Weblink : http://www.gmfus.org/wp-content/blogs.dir/1/files_mf/1423771844Fattouh_ElKatiri_Lebanon_Feb15_web.pdf

► *The Market Impacts of New Natural Gas Directed Policies in the United States*

Source : Baker Institute
Weblink : http://bakerinstitute.org/media/files/Research/24da2b64/CES-pub-NatGasPolicies-021615.pdf

Upcoming Events

► *Middle East and North Africa Energy*

Date : 18 – 21 February 2015
Place : London – United Kingdom
Website : http://www.chathamhouse.org/node/15232

► *4th Erbil Oil & Gas International Exhibition*

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

► Japan Oil, Gas and Metals National Corporation Forum

Date : 25 February 2015
Place : Tokyo - Japan
Website : http://www.woodmac.com/public/events/12526259

► Ukrainian Energy Forum

Date : 02 – 05 March 2015
Place : Kyiv – Ukraine
Website : http://www.ukrainianenergy.com/

Supported by PETFORM

► TUROGE 2015

Date : 18 – 19 March 2015
Place : Ankara – Turkey
Website : http://www.turoge.com/Home.aspx

► Rio Gas & Power Forum

Date : 25 March 2015
Place : Rio - Brazil
Website : http://www.woodmac.com/public/events/12526327

► 14th Georgian International Oil, Gas, Infrastructure & Energy Conference

Date : 25 – 26 March 2015
Place : Tbilisi – Georgia
Website : http://www.worldoils.com/showevents.php?id=3945&event_name=14th%20Georgian%20International%20Oil,%20Gas,%20Infrastructure%20&%20Energy%20Conference%20(GIOGIE)

► 9th Atyrau Regional Petroleum Technology Conference

Date : 14 – 15 April 2015
Place : Atyrau – Kazakhstan
Website : http://www.oiltech-atyrau.com/About.aspx

► 14th North Caspian Regional Atyrau Oil & Gas Exhibition

Date : 14 – 16 April 2015
Place : Atyrau – Kazakhstan
Website : http://oil-gas.kz/en/

► Wood Mackenzie 11th Annual Exploration Summit

Date : 26 – 29 May 2015
Place : Johannesburg - South Africa
Website : http://www.woodmac.com/public/events/12526247

Supported by PETFORM

► 6th World Forum on Energy Regulation *(in Turkey)*

Date : 25 – 28 May 2015
Place : Istanbul – Turkey
Website : http://www.wfer2015.org/

► OGA 2015

Date : 02 – 05 June 2015
Place : Kuala Lumpur - Malaysia
Website : http://www.oilandgas-asia.com/home/index.php

► 22nd International Caspian Oil & Gas Exhibition and Conference

Date : 02 – 05 June 2015
Place : Baku – Azerbaijan
Website : http://www.caspianoilgas.az/2015/

► World Gas Conference

Date : 01 – 05 June 2015
Place : Paris - France
Website : http://www.wgc2015.org/

► 6th OPEC International Seminar

Date : 03 – 04 June 2015
Place : Vienna - Austria
Website : http://www.opec.org/opec_web/en/press_room/2793.htm

► 12th Russian Petroleum & Gas Congress

Date : 23 – 25 June 2015
Place : Moscow – Russia
Website : http://www.mioge.com/RPGC-Congress/About-the-Conference.aspx

► 13th Moscow Inernational Oil & Gas Exhibition

Date : 23 – 26 June 2015
Place : Moscow – Russia
Website : http://www.mioge.com/mioge-exhibition/about-the-exhibition.aspx

► 7th South Russia International Oil & Gas Exhibition

Date : 02 – 04 September 2015
Place : Krasnodar – Russia
Website : http://www.oilgas-expo.su/en-GB

► 22nd Annual India Oil & Gas Review Summit and International Exhibition

Date : 09 – 10 September 2015
Place : Mumbai – India
Website : http://www.oilgas-events.com/india-oil-gas

► The Energy Event 15

Date : 15 – 16 September 2015
Place : Birmingham – United Kingdom
Website : http://www.theenergyevent.com/Content/MAIN-SF-W2L-enquiry-form

► 3rd East Mediterranean Gas Conference

Date : 22 – 23 September 2015
Place : Paphos – Greek Cyprus
Website : http://www.oilgas-events.com/East-Med-Oil-Gas

► 23rd Kazakhstan International Oil & Gas Exhibition and Conference

Date : 06 – 09 October 2015
Place : Almaty – Kazkhstan
Website : http://www.kioge.kz/en/conference/about-conference