Oil & Gas Bulletin
► 05.06.2015

N. Iraqi oil to Turkey reached approx. 18 mb in May

Anadolu Agency, *03.06.2015*

Oil exports from northern Iraq to Turkey's Ceyhan port reached 17.9 million barrels in May, the Ministry of Natural Resources of the Kurdish Regional Government announced.

According to a statement on the ministry's website, 577,621 barrels of crude oil were exported to Turkey per day during the month of May. "Of that amount 407,111 barrels were supplied from the Kurdish region, while 170,510 barrels of oil came from Kirkuk," said the statement. It also said the oil exports were conducted under the supervision of SOMO, the State Organization for Marketing of Oil, which is responsible for marketing Iraq's oil.

The Kurdistan Regional Government (KRG) exported 563,000 barrels of crude oil per day to Turkey's Ceyhan port or a total for April of 16.9 million barrels of oil. The KRG in Erbil and the central government in Baghdad reached an agreement on Dec. 2 regarding the amount of oil exports and the budget share the KRG would receive from the central government. According to the agreement, the KRG was to export 250,000 barrels of oil per day with the Kirkuk province providing 300,000 barrels per day under the supervision of SOMO. In return, Baghdad was to provide 17 percent of the national budget. There have been numerous disputes between the two sides due to the amount of crude oil being exported and also with the lack of full payments made from the budget. While Erbil accuses the federal government of failing to provide its full share from the national budget, Baghdad claims the KRG has not delivered the promised amount of crude oil from Kirkuk. The KRG exports its crude to Turkey's southern port in Ceyhan in the eastern Mediterranean, where oil is then sent to international markets. "If the Kurdish Regional Government does not receive a commitment from Baghdad for oil sales payments by June 15, it won't continue to deliver oil to the State Organization for Marketing of Oil, SOMO," Dilshad Shaban, the deputy head of the oil and gas committee of the KRG parliament told Anadolu Agency.

Gazprom presses on with Turkey pipeline despite questions

Reuters, *03.06.2015*

Gazprom plans to start building a pipeline to Turkey this month to get gas to Europe without going through Ukraine, company sources said, although it has no firm agreement with Ankara and faces opposition from the European Union.

With the EU determined to reduce its energy dependence on Russia and Turkey seeking big discounts for its gas for participating in the new pipeline, Russia may pay dearly for its ambition or even see it thwarted. Moscow has stepped up efforts to find alternative gas supply routes to Europe, its biggest market, that avoid Ukraine, since Ukrainian protesters ousted a pro-Russian president last year.

Russia annexed Crimea from Ukraine soon afterwards and pro-Russian rebels began a conflict in eastern Ukraine which has sent Moscow's relations with the West to post-Cold War lows. In December, Russia scrapped its South Stream pipeline project which would have supplied gas to southern Europe without crossing Ukraine because of objections from the European Union on competition grounds. It instead announced the planned construction of an alternative pipeline, dubbed the Turkish stream, with the aim of delivering 63 billion cubic metres (bcm) of gas per year, 47 bcm of it to Europe, by 2020. Gazprom had already begun to upgrade its domestic pipeline system so it could link up to the more modern South Stream project and spent 271 billion roubles ($5 billion) in 2013-2014. It says it will build on this work and spend another 278 billion roubles this year, part of a total 715 billion on modernising Russia's gas system to fit now with the Turkish Stream, Gazprom documents on its website show. Two sources at Gazprom said the state-controlled company planned to start laying pipes beneath the Black Sea by the end of June. Gazprom declined to comment.

Its plans may have to stop there. The pipeline will consist of four lines, which each have an annual capacity of 15.75 bcm, with the first line reaching Turkey. Gazprom hopes to create a gas hub at the Turkish-Greek border for transit to Europe, but depends on Turkey agreeing to build on its territory and needs EU countries - many of which want energy independence from Russia - to develop required infrastructure. Turkey, Gazprom's second biggest export market after Germany, is driving a hard bargain for its participation in the pipeline project. Gazprom supplied Turkey with a total of 27.4 bcm of gas last year split between two routes: the offshore Blue Stream pipeline and the Transbalkan pipeline, known as the Western line in Turkey. Ankara secured a 10.25 percent gas discount in late February for the Russian gas but is pressing for more now. Gazprom is forecasting an average gas price for Europe, including Turkey, of $242 per 1,000 cubic metres this year.

Turkey also wants a new price for the gas it will get via its portion of the Turkish Stream, sources in Turkey say. “The last word for Turkey has not been said yet,” a senior Turkish official said. “There are two important points for Turkey here: the insufficiency of the 10.25 percent reduction Gazprom is giving to us. This should be close to 15 percent.” A Turkish energy sector insider with knowledge of the project confirmed that this was Turkey’s stance. The first source also said that Turkey wanted a new price for when the new pipeline was brought on stream. “There is intense traffic of meetings but the final point has not been reached,” a Turkish energy insider with the knowledge of the Turkish Stream said. Leonid Chugunov, head of Gazprom’s project management department, was quoted as saying by Interfax news agency that despite starting work this month, the company needed permission from Turkey to lay 280 km of pipes along the Turkish coast.

The plans could also be torpedoed by the European Union, which is at loggerheads with Russia over the Ukraine crisis. It is supporting rival projects in the Caspian region: The Trans Anatolian and Trans Adriatic Pipelines (TANAP-TAP) should bring 6 bcm of gas from Azerbaijan to Turkey and another 10 bcm to Europe in 2020. “The arrival of Azeri gas is sharply reducing Gazprom’s chances of extending its own contracts,” said Mikhail Korchemkin of East European Gas Analysis. “It is much less expensive to ship gas to Turkey from (Azeri) Shah-Deniz than from (Russian gas fields in) Yamal.” Last week, Chief Executive Alexei Miller met the energy minister of EU member Greece to discuss Gazprom’s possible involvement in gas infrastructure construction in the country. This was seen as a possible reversal of Russia’s previous position that EU countries had to do their own construction if they wanted to get Russian gas after the transit contract with Ukraine expires in 2019. Anna-Kaisa Itkonen, a European Commision spokeswoman, also warned that “any pipeline... needs to comply to the EU rules”, telling a briefing on Monday that the bloc had not yet received any specific plans from Russia.

Turkey to become energy hub by pricing gas on spot market

Anadolu Agency, *02.06.2015*

Turkey can become a true energy hub by pricing natural gas on the spot market, Dr. Volkan Ozdemir told.

Noting that Turkey is buying natural gas from Azerbaijan, Russia and Iran at the moment, Ozdemir said northern Iraqi and eastern Mediterranean gas can also be included with those who transit gas to Europe in the near future. “If Turkey wants to truly become an energy hub, it has to become a financial center where the price of natural gas is determined on spot markets,” he explained. Stating that natural gas prices are less indexed to oil prices, Ozdemir stressed Turkey is drifting away from European gas markets.

“In Europe, around 55 percent of natural gas prices are determined on spot markets by supply and demand balance, while the remaining 45 percent of prices are indexed to prices of oil, petroleum products, and long-term contracts. In the U.S., it is the same. Their natural gas is priced at Henry Hub,” he added. The Henry Hub price indexation is used as a pricing point for natural gas in the U.S.’ state of Louisiana. Here gas pipelines also physically merge and serve as a distribution point, while the price of gas is determined by supply and demand balance in the market. “Instead of just being a transit country for natural gas deliveries from the east to the west, Turkey can host a commercial gas market, where supply and demand meet and price is formed,” Ozdemir emphasized.

He highlighted that in order to do this; Turkey should come up with a financial mechanism under the Turkish Electricity Market management body under the force of Istanbul Stock Exchange Market (EPIAS) where natural gas would be priced by the balance of supply and demand between multiple sellers and buyers. “Turkey can also propose the idea of establishing a ‘virtual hub’ to Russia and together market Russian gas to Europe,” Ozdemir explained. Early December last year, Russian President Vladimir Putin scrapped the South Stream pipeline that would have carried the Russian gas to Europe via Bulgaria. Instead, Putin proposed a new project to deliver the gas under the Black Sea to Turkey’s Thrace region on the northwest to reach the Turkish-Greek border. Although the South Stream natural gas project had legal issues due to EU regulations, which forbade companies supplying and owning both gas and gas pipelines -- according to Ozdemir, with this new project, Russian natural gas giant Gazprom will not have such legal problems. “In this new project, Russia will not have gas pipelines that will penetrate EU borders. Instead, it will deliver the gas on the Turkish-Greek border. As long as Russia passes the gas on to Greece at the border and does not cross into the European border, the same issues will not arise,” he concluded.

Iran wants to deliver more gas to Turkey

Anadolu Agency, *02.06.2015*

Iran wants to deliver more natural gas to Turkey, the managing director of the National Iranian Gas Exports Company said, according to Iran’s Shana news agency.

The Iranian official visited Turkey to discuss the further potential of the Iran-Turkey gas pipeline and NIGEC held talks with Turkish companies to build electricity power plants. Turkey imports 10 bcm of gas from Iran, while the empty gas pipeline capacity from Iran to Turkey is 11.2 bcm. “ By installing compressors on their own soil, the Turks could raise this empty capacity to 12 bcm a year,” NIGEC Director Ali Riza Kameli said.

Iran has the world's second largest reserves after Russia. It has natural gas reserves of approximately 29.6 trillion cubic meters or about 15.8 percent of the world's total reserves. Iran sits on top of the second largest natural gas reserves worldwide, according to the Energy Information Administration. The country has limited gas exports and falls short of its potential due to the Western-imposed sanctions that have hit the energy sector. The EIA shows that Turkey is the biggest customer of Iran's natural gas and imports more than 90 percent of its gas needs from Iran.

Iran: South Pars field phases to be finished by 2018

Anadolu Agency, *02.06.2015*

Development of all phases of Iran's South Pars field is planned to be finished by March 2018, Mehdi Yousefi, the managing-director of Pars Special Economic Energy Zone, PSEEZ.

Yousefi said the South Pars gas field is producing 450 million cubic meters of natural gas at the moment and has 29 phases under development. He noted that Iran increased its gas output by 120 million cubic meters a day on average recently, according to Iran's official news agency IRNA. According to Yousefi, half of Iran's gas reserves come from the South Pars field; home to 14 trillion cubic meters of gas.

He also highlighted that 8 percent of the world's total gas reserves lies in the South Pars field. According to the U.S.' Energy Information Administration, the South Pars field is estimated to have 17 million barrels of condensate, and holds nearly 40 percent of the country's total gas reserves. Iranian Deputy Oil Minister Hamid Reza Araqi announced on May 8 that Iran will export five to seven million cubic meters of natural gas a day to Iraq this year, which is expected to generate $3.7 billion in revenue every year. Moreover, Iran's Oil Minister Bijan Zangeneh said on May 6 that natural gas production capacity from the South Pars field is planned to reach 700 million cubic meters a day in three years' time, and perhaps even shorter if Western sanctions on the country are removed with the successful conclusion of nuclear negotiations with P5+1 countries.

Iran may use Turkish Stream for gas to Europe

Anadolu Agency, *03.06.2015*

Iran is considering the use of the Turkish Stream natural gas pipeline to deliver its gas to Europe, said the director of the National Iranian Gas Company's Liaison Office.

According to Russian news agency, Ria Novosti, Iran can have five or six different routes to deliver gas to Europe after European-imposed sanctions on Iran are lifted. "Iran has plans to send its gas via Turkey, the Black Sea, Syria, Iraq and the Mediterranean Sea," said director Azizollah Ramezani. "According to normal procedure, these routes need to be studied. The best route will be the most economically efficient route," he said.

"Europe is expecting sanctions to be lifted and then they will start negotiations. After that they can sign an agreement with Iran," Ramezani stressed, adding that Iran will consider the possibility of using the Turkish Stream. "There haven't been any negotiations on this yet, but it would be a good idea to begin talks because the point where the Russian pipeline and the Turkish pipeline goes to Europe, may also be a point where Iranian gas pipelines may be reached by Europe," he said. Early December last year, Russian President Vladimir Putin scrapped the South Stream pipeline that would have carried the Russian gas to Europe via Bulgaria. Instead, Putin proposed a new project; the Turkish Stream. The Turkish Stream project plans to carry Russian natural gas through the Black Sea to reach Turkey's Thrace region in its northwest and take the gas to Turkish-Greek border. Yet, it is not certain which southeastern European countries will join the Turkish Stream. Macedonia, Serbia, Albania, Montenegro, Bosnia and Herzegovina, Croatia, Slovenia and Slovakia are possible countries en route to reach central Europe.

Delek interested in buying 19.9% share in Aphrodite field from Noble Energy

Natural Gas Europe, *01.06.2015*

Israel's Delek Group reportedly said it is interested in buying an additional 19.9% stake in Aphrodite field from Noble Energy for about $155 million.

Following the transaction, Noble would keep a 50.1% interest, and it is likely to remain operator of the field off the coasts of Cyprus island. Delek would control the rest. 'Israeli conglomerate Delek Group said it is in talks to buy an additional 19.9 percent stake of the offshore Cyprus island gas field Aphrodite from its partner, Texas-based Noble Energy,' Reuters wrote, adding that the negotiations are at an early stage. The deal would require regulatory approvals.

On its website, Noble said that, along with its partner, it is studying options for the development discovery offshore Cyprus island, estimated at around 5 Tcf. In April, Natural Gas Europe wrote that Noble Energy is conducting various meetings with the Government of Greek Cyprus to submit a draft proposal in the near future that would then open the door to declaring Aphrodite commercial. The field was discovered in 2011 in Block 12 of Greek Cyprus' Exclusive Economic Zone (EEZ).

Azerbaijan invites Iran to join TANAP gas pipeline project

Sputnik, *04.06.2015*

Natig Aliyev made the remarks during the Caspian Oil and Gas Conference in Baku. Iran with its rich energy resources is seriously interested in cooperation with Azerbaijan and can play an important role in providing energy security in Europe, Aliyev said.

Turkish Energy Minister Taner Yildiz said Iran might purchase shares in the Trans-Anatolian Natural Gas Pipeline (TANAP) project. So, Iran would be able join Trans-Anatolian Gas Pipeline project implemented by Azerbaijan, the minister added. Azerbaijan produced 42 million tons of oil and 29 billion cubic meters of gas last year.

Aliyev said that his country plans to maintain oil production at the level of up to 45 million tons annually, while the volume of gas production is to be doubled. He predicted that demand for gas in the European Union will grow before 2035. Iran's Ambassador to Baku also said Tehran was considering joining to the Trans-Anatolian pipeline. Mohsen Pakaein told Trend News Agency that presence on the global gas market was among Iran's main policies. He said that Iran has the world's second largest reserves of gas after Russia and confirmed that Iran had been invited to participate in the Trans-Adriatic gas project as well as Trans-Anatolian gas project (TANAP), the Irna report said.

Greece and Bulgaria: Clashing gas hub ambitions

Natural Gas Europe, *01.06.2015*

Greece and Bulgaria over the past few years have placed importance on combining forces and viewing themselves as integral parts of a wider interconnecting gas transit system.

Firstly, Greece is seriously promoting both TAP and the newly conceived Turkish Stream. Regarding the latter, although it is too soon to have a detailed assessment if it as a viable project to begin with, already the Greek Administration is propping up the idea of resurrecting the Italy-Greece Interconnector (ITGI) which originally was to transfer Azeri sourced gas from Western Greece to Southern Italy via the Adriatic Sea.

Due to the existence of the TAP route which will follow more or less the same path, going into Albania and then Italy, Greek authorities are pressing forward for the following plan. Turkish Stream will traverse the Greek territory as 'Greek Stream' and then it will spread itself into two routes. A main line towards the North via FYROM and Serbia and one towards Italy, merging itself with the ITGI plan. It is of interest to note that ITGI is already eligible under the EU's Projects of Common Interest (PCI) and it is already owned by 50% by the Italian Company Edison which is a subsidiary of the French EDF. That detail is of great importance regarding the EU Commission's clauses of the Third Energy Package that will prohibit an involvement of Gazprom in that sector. Thus Greek Stream is envisaged as a 50-50 project between the Greek DEPA (and DESFA) and Gazprom and the remainder would be a DEPA and Edison partnership. It is supposed that the Italian market would also be used as a stage point for the introduction of some quantities of Russian gas into France as well. Of course the bulk of the Turk-Greek stream would still be directed towards the Austrian gas hub of Baumagarten and supply also the traversing counties of the Balkans plus Hungary, as well as, the Northern Italian market.

Greek Energy Minister Panayiotis Lafazanis assumes that this will boost the ambition for a Greek gas hub in the Northern parts of the country, due to the simultaneous introduction of Azeri gas via TAP, along with LNG sourced quantities. The proposed location for the hub is the city of Thessaloniki where also the Greek Stream would be divided into the two aforementioned routes. US Diplomacy is alarmed by the new developments that occur in the triangle between Russia-Greece-Turkey with the notable inclusion in it of European companies. Amos Hochstein, Special Envoy and Coordinator for International Energy Affairs leading the Bureau of Energy Resources (ENR) of the State Department, has already visited Athens and expressed the negative stance of Washington regarding the Turk Stream in general. On the other hand the US needs both Greece and Turkey for a variety of geopolitical fronts in the wider MENA region and in particular it eyes closely Greek stance towards the EU lenders and Germany in particular where it seems that US is content having Greece as a “rebel youth” within the Eurozone for reasons relating to the wider Euro-Atlantic relationships and in particular that between Washington and Berlin.

Bulgaria now has its own priorities which are of contrast to that of Greece. A new Nabucco is envisaged that would bring Iranian gas into Europe. This could be a viable option once and if the embargo in that country is lifted and should the so-called “Iranian Gorbachev” the President Hassan Rouhani, is able to persuade the Iranian establishment to export gas into Europe. Already the Bulgarian Embassy in Iran has become a hotbed of dialogue between the two countries and the central Administration in Sofia seems eager to get in touch with Rouhani’s political environment, assuming that the plan will successful, and quantities of gas up to 50 bcm per annum could be heading towards Bulgaria after 2020. Concurrently Sofia is aiming to create the necessary gas hub infrastructure that requires underground storage facilities and new transmission networks, basing its aims in the so-called “Juncker package” a pan-European proposed €315 billion capital stimulus. Requests from Sofia towards Brussels to give the green light for a formal announcement of Bulgaria as the preferred gas hub in the Balkans have already been made.

Despite diverging aims of both counties, there is increasing activity to push forward the Interconnector Greece-Bulgaria (IGB) that is scheduled to commence construction in spring 2016 and be completed by 2019. Furthermore, the Vertical Gas Corridor has also been agreed upon, along with the governments of Romania and Hungary. For that reason the Interconnector Bulgaria-Romania will be operational by early 2016 and the interconnectors Bulgaria-Serbia by 2018, while Turkey will also have a new link with Bulgaria approximately the same period. As a concluding remark, it can be said that based on the current highly uncertain international climate across Eurasia and the clashes amongst global energy system, both countries are speeding up their efforts to attain a primal position in the gas hub race within the EU. Nevertheless, they both fail to recognize that all of their trials have a common denominator and that is the further strengthening of Turkey as the unquestionable gas hub. In that sense and bearing in mind the traditional rivalry between Greece-Bulgaria from one side and Turkey on the other, may bring about more upturns and surprises for all sides involved.

Šefčovič: “In terms of gas transportation to Europe, Azerbaijan-Turkmenistan cooperation will have positive impact on the atmosphere in the region”

APA, *01.06.2015*

The EU will provide full support to transportation Turkmenistan’s natural gas to Europe through the Caspian Sea, Maros Sefcovic told.

“Though there are controversial points between Azerbaijan and Turkmenistan on several fields, this will cause no problem for transportation of Turkmen gas to Europe, but will help some problem to be solved”, he said. “In terms of gas transportation to Europe, Azerbaijan-Turkmenistan cooperation will have positive impact on the atmosphere in the region. As the EU, we also support these processes”, Sefcovic said.

Azerbaijani gas: Only real alternative for Europe in coming years

Trend, 03.06.*2015*

Azerbaijani gas will be the only real alternative to Russian gas supplies for Europe in the coming years, Andrew Neff told.

Neff said that Europe extremely requires new gas sources both for political/diversification reasons and commercial/economic reasons (Europe’s declining production). It means that even if the demand growth is relatively flat in Europe, the need for imports will increase, he said. “Increased Azerbaijani gas from Shah Deniz-2 (and other fields in the future, like Absheron and Umid) will be key sources of new gas imports for Europe,” he said.

Neff said that it is unlikely for other countries to start supplying gas to Europe in the coming years. In particular, he said that Iranian gas is unlikely to enter the Southern Gas Corridor in the short term even if the sanctions are lifted, since there are many problems to solve. “Iranian gas exports to Europe are further off, and at this point I don’t see much likelihood in the near term for Iran to play much role in the Southern Gas Corridor – several years down the road, if sanctions are lifted and if there is investment in gas production and if there is space in the new pipeline infrastructure across Turkey to carry Iranian gas supplies as well…that’s a lot of “ifs”,” Neff said.

The Southern Gas Corridor is one of the priority energy projects for the EU. It envisages the transportation of gas from the Caspian Sea region to the European countries through Georgia and Turkey. At the initial stage, the gas to be produced as part of the Stage 2 of development of Azerbaijan’s Shah Deniz field is considered as the main source for the Southern Gas Corridor projects. Other sources can also connect to this project at a later stage. As part of the Stage 2 of the Shah Deniz development, gas will be exported to Turkey and European markets by expanding the South Caucasus Pipeline and the construction of Trans-Anatolian Natural Gas Pipeline and Trans-Adriatic Pipeline. Moreover, Neff believes that it is a bit too speculative to think that the West will lift sanctions on Iran in the near term. He also does not envision any Turkmen gas reaching Europe by 2020, or any time soon after that in spite of recent optimistic statements of EU high officials. Neff noted that even if completion of construction of the East-West pipeline across Turkmenistan gives it the ability to export gas to the west, it still requires construction of a trans-Caspian interconnector. The construction work seems to be several years off still, the expert believes.

Meanwhile, according to the expert, even then, eventual Turkmen gas exports being sent west across the Caspian and via Azerbaijan are unlikely to go any further west than Turkey, as Turkey’s own rising gas demand will likely absorb those Turkmen gas exports before they reach continental Europe. Neff believes that a transit agreement to send Turkmen gas via Azerbaijan to Turkey would likely have the Azerbaijani government seeking to ensure that more of Azerbaijan’s own gas is sent onward from Turkey to Europe as part of that deal. “Azerbaijan will thus become more important to Europe as a gas supplier,” Neff said. Meanwhile Russian gas supplies will remain very important for Europe considering its volumes and percentage, he said. The Southern Gas Corridor is one of the priority energy projects for the EU. It envisages the transportation of gas from the Caspian Sea region to the European countries through Georgia and Turkey. At the initial stage, the gas to be produced as part of the Stage 2 of development of Azerbaijan’s Shah Deniz field is considered as the main source for the Southern Gas Corridor projects. Other sources can also connect to this project at a later stage. As part of the Stage 2 of the Shah Deniz development, gas will be exported to Turkey and European markets by expanding the South Caucasus Pipeline and the construction of Trans-Anatolian Natural Gas Pipeline and Trans-Adriatic Pipeline.

Eastring: The most logical solution for South-Eastern Europe

Natural Gas Europe, *01.06.2015*

The Eastring pipeline project makes sense in a multitude of ways that coalesce with the aims of the Energy Union, Chairman of Eustream Tomáš Mareček has said.

Mr. Mareček described the precarious state of affairs south-eastern Europe was in to make his point. "If your region is physically dependent only on one route, you are too dependent [on that route]," he said. "That's the situation in south-eastern Europe. Many countries there rely on only a single pipeline, so the risk of interruption is huge for them. They don't have any alternative if there is a disruption upstream."

The issue the region faces isn't just with having one transit route for gas either, he said, a fact that further emphasised the usefulness of the Energy Union for the area. "South-eastern Europe is not only dependent on only one single pipeline, they are also dependent on only one single source of gas. That's why, I believe, if there is a place in Europe where it should work, it is right here [in south-eastern Europe]." In fact, the vulnerabilities that led to the formation of the Energy Union were keenly felt in south-eastern Europe, Mr. Mareček said: Those two factors were the troubles in Ukraine, which brought with them the risk of transit disruption, and the announcement by Gazprom of the cancellation of the South Stream pipeline project. "That [cancellation] meant south-eastern Europe was in a bad situation," he said. Given that Ukraine plays an important transit role for many south-eastern countries, any additional issues in the country could spell trouble for many. Right now, a number of those countries are served by Ukraine through two corridors—one the Northern Ukrainian Corridor and the second the Southern Ukrainian Corridor. "The Northern one, which then continues to Slovakia, Czech Republic and Austria, and then westwards to Germany and down to Italy, has a capacity of 90 billion cubic metres (bcm) in the direction from east to west," Mr. Mareček explained.

The second corridor sends gas to northern Romania, Bulgaria and down to Turkey. But the security of those two corridors is now being threatened because of the tensions between Ukraine and Russia. "Russia is desperately trying to bypass Ukraine. First it proposed South Stream—cancelled. Now they are proposing Turkish Stream and I'm convinced that for Turkish Stream, definitely one pipeline will be built—maybe two of them. First a stream of capacity of 60 bcm will be built and most probably a second stream will be built as well." If (or when, as Mr. Mareček asserts) Gazprom achieves that aim, it will be able to bypass Ukraine—at least by 60bcm—a move that makes commercial sense for the Russian gas giant but which will put great strain on south-eastern Europe. "It poses an additional threat for the Balkans countries because they will lose their gas transit," the Eustream official said. "They will end up with empty pipelines in Romania and Bulgaria."

This is why the Eastring project is so important, he believes, especially when it comes to security of supply for the region. “Because it will have an initial stage capacity of 20bcm—it will be connected to the Slovak system and then westwards—it will provide the whole of south-eastern Europe with the additional capacity of 20bcm. In terms of security of supply, since the whole of south-eastern Europe needs to import 12bcm, then one criteria will be fulfilled with a huge reserve margin. “This pipeline will provide all Balkan countries together with their interconnectors with an alternative route. They will not be dependent on a single pipeline. They will have the option to access the Western market. They will have the opportunity to link with western hubs.” But that was only the beginning of what the project could hope to achieve, he said. Though often, infrastructure projects that would benefit a large number of countries often struggled to make commercial sense, the Eastring pipeline could be extremely commercially viable, especially when it came to Turkey. “If you look at Turkish gas prices, they are €2, €3, €4 above Austrian prices,” he said. “The majority of Turkish gas consumption is situated around Istanbul. Turkey has almost no winter flexibility; they have no underground storages. So, ironically, the Eastring pipeline could serve both the big western shippers, maybe even Norway, and also Turkish consumers and send the gas from Western Europe to Turkey for some time.”

And it wasn’t just existing suppliers and producers who could avail of the pipeline: in the future, and after the Iran sanctions are lifted, that could represent a whole new arena for gas from not just Iran but Azerbaijan, Turkmenistan, Iraq, and Kazakhstan, too. “Once this pipeline is in place, it will represent the highway for the Caspian gas to Europe because it will be built bi-directional.” Though an exact route has not been decided on for the Eastring pipeline project, there are a couple of routes that are currently being considered. Option A, which passes the storage areas and production facilities of Transylvania and continues to the existing interconnection point of Isaccea, would then connect to the existing Western pipeline, which runs through the Romanian-Bulgarian border at Negru Voda and then onwards from north-east to south-east along the existing Bulgarian gas transit assets to tie into Turkish gas transit network at Malkoclar.

Alternatively, option B would pass storage areas and production facilities in Bucharest and then continue on to the Romanian-Bulgarian border, then head straight to the Turkish border at Malkoclar. Neither option is certain at present, nor is funding or partnership from all relevant parties, but Tomáš Mareček is sure that the Eastring makes perfect sense as a project. “When you combine it with providing security of supply to the Balkan countries with an alternative source for gas to the Balkan countries, theoretically routing and supplying to Turkey, and at the same having the possibility of a highway in the future sending gas from the Caspian to western Europe, we believe this is the most logical solution,” he said.

Serbia: In search of gas

Natural Gas Europe, *02.06.2015*

Serbian Prime Minister Aleksandar Vucic said that Serbia would accept the US suggestions to reduce the country's dependence on Russian gas and join the US-backed gas pipeline, which will carry gas from Azerbaijan to Europe.

While some analysts see this statement as a U-turn in Serbia's foreign and energy policy, Vucic says this is only an attempt to diversify gas supply routes and to increase the state's energy security. In an interview with the AP, Vucic also said that Serbia, with regard to the issue of energy security, was ready to use gas from several sources, which, he said, is "very important for our American friends, too."

According to the AP, the US has been encouraging Balkan countries for some time to turn to alternative sources of gas, rather than setting their hopes on the construction of the Turkish Stream gas pipeline which would carry Russian gas from the east to the Balkans. The AP also concluded that Vucic's stance on the support for the US-backed gas pipeline was a major policy shift for Serbia, a traditional ally of Russia and a country deeply dependant on Moscow in the energy sector. Commenting on his statement Prime Minister Vucic said that it did not mean Serbia was "turning its back on Russia" in the energy sector, but just trying to increase its own energy security. He also said Serbia had to obtain gas from several directions, because in 2019 Russia would stop sending gas via Ukraine which is now the only direction Serbia receives this energy source. "That is why I have to do everything now in order to find secure gas supply for Serbia in future. It has nothing to do with geostrategic decisions, nor with our foreign policy, but with the survival of the state," Vucic said.

Belgrade Economics Institute associate Mahmud Busatlija said experts should first determine whether there was a technical possibility for Serbia to join the gas pipeline from Azerbaijan. He added that its capacity would be much smaller than the one previously planned for the Russian gas pipeline South Stream, abandoned at the end of 2014. "I do not know whether we can expect some serious quantities of gas from Azerbaijan, and I am not sure how the Americans can help us with that," Busatlija told Natural Gas Europe. He added that Serbia should first make "serious economic studies on whether it should join such a project." On the other hand, economist Milan Kovacevic thinks that the main problem is "the lack of an energy strategy" in Serbia. He also believes Serbia is not trying to distance itself from Russia, since Moscow will stop the gas supply via Ukraine in 2019, and then easily find new buyers in the Asian market. "The Turkish Stream pipeline is far away from Serbia and there is no way to receive gas through it. The only alternative is LNG," Kovacevic told Belgrade daily Politika. He suggests Serbia should ask the West and Russia to ship LNG to Serbia. "Even if Serbia makes new connections to the TAP and TANAP gas pipelines, it would have nowhere to store the gas because its only warehouse is controlled by Russia," Kovacevic said.

Dusan Bajatovic, the head of Serbia's state-owned gas distributor Srbijagas, said Serbia and the rest of the region "suffer because of poor relations between the West and Russia." "It's not fair to leave Southeast Europe without a secure gas supply due to the geopolitical games of the US, Russia and the EU," Bajatovic told reporters. He also added TAP would not have enough gas for Southeast Europe. Bajatovic believes that shale gas is also not an alternative because it is not "cost-effective and competitive." "There is still no real replacement for natural gas, primarily from Russia, in the European market," Bajatovic said. Serbian Energy Minister Aleksandar Antic said the gas supply issue should not be "politicized" and that Serbia must be interested in all projects "that could bring gas to the region." "We are most interested in the pipelines in which Serbia would be a transit country. Our priority are gas interconnections with Bulgaria, which should allow us to have access to the TANAP and TAP pipelines, coming from Azerbaijan," the Minister said. Antic also said that pipeline's capacity should not be a problem. "I was with the Prime Minister in Azerbaijan where we had meetings with SOCAR officials on possible gas supply to Serbia. They told us the pipeline's capacity was based on the number of potential buyers. So, if Serbia and other countries from the region want Azerbaijani gas, we can discuss capacity again. That is why I do not think capacity will be a problem," Antic told reporters.

It is interesting that the head of Russian Gazprom, Alexey Miller, visited Serbia on the very same day the AP published Vucic's statement on decreasing Serbia's energy dependence on Moscow. Miller commented on that briefly, saying that Serbia and the rest of the region "could wait a long time" for gas from Azerbaijan. "Four years ago, it was planned that pipeline should start working in 2017 and now the deadline is 2021 and that delay can continue indefinitely," Miller added. Serbian officials have talked with Miller about reducing the gas price for Serbia, especially for the companies that use gas as a raw material. Serbian media reported that nitrogen plant Azotara had reached a deal with Russian Gazprom on reducing gas prices to under $300 per 1,000 cubic meters, ensuring profitable operation of the factory. The majority owner of the factory, which is important for the entire Serbian industry, is Srbijagas.

Russia & Greece pipeline

Wog News, *03.06.2015*

The Greek section of the Turkish Stream pipeline will cost USD 2 billion, Minister of Energy Lafazanis has said.

He told that there is "enormous interest" among Greek companies to build and use the gas pipeline. "We already know that it will be a Greek public company which would be in charge and furthermore, the question of financing is already resolved: the infrastructure costs are estimated at around two billion dollars," said Lafazanis. The project's implementation will create about 20,000 new jobs in Greece, which will affect not only the country's economic development, but also that of the whole region, reports TASS.

“This is a very important moment for the Greek economy, which is going through a difficult period. The Greek people will benefit from it all,” the minister is convinced. Greece expected to sign a memorandum on Turkish Stream during the St. Petersburg International Economic Forum, which will be held June 18-20. “As far as the Economic Forum will try to sign the agreement, a so-called memorandum of political support for the pipeline, between Greece and Russia,” added Lafazanis. The negotiations have so far been unsuccessful, despite a series of visits of delegations and statements about the imminent conclusion of an agreement already in mid-April. On Friday, the Russian company Gazprom announced, after meeting between CEO Alexei Miller and Lafazanis, that it was “ready to explore opportunities related to its participation in the construction of gas pipeline in Greece.”

Russia has yet to sign a final agreement with Turkey on the first section of the pipeline to the Turkish territory, hoping that the pipeline will start operation in late 2016. The Beta news agency is quoting the Russian press as saying that “several European countries through which the pipeline might be extended after Greece seem restrained, fearing the hostility of the European Union, which has already led to the sudden abandonment of the Russian gas pipeline project South Stream, which is now being replaced by South Stream.”

Slovak PM: reverse gas supplies to Ukraine must not violate deals with Gazprom

TASS, *01.06.2015*

Reverse gas supplies to Ukraine should not be at variance with the agreements Slovakia signed with Gazprom, Slovak Prime Minister Robert Fico said.

“We are first of all responsible for compliance with our contracts with Gazprom,” the prime minister said. Focusing on current supplies of gas from Slovakia to Ukraine, Fico said Bratislava had found a scheme that suited all parties and did not contravene agreements with Gazprom. “We were looking for a solution that would not violate these agreements, but on the other side would make it possible to supply certain amounts of gas from Slovakia to Ukraine,” he said.

“A technical solution was found, namely a disused pipeline between the Slovak Vojany and Ukraine’s Uzhgorod. We can supply certain amounts of gas via this pipeline,” Fico said. He reminded the interlocutor that back in 2009 Slovakia found itself in a similar situation, when gas supplies were stopped amid a trade row between Russia and Ukraine. “At that time we for the first time launched reverse flows of Russian gas via the Czech Republic to Slovakia. Huge pressure was placed on us at that time so that we switch over the main pipeline to reverse gas flows,” he continued. “Simply put, the demand was that we reverse all gas supplied to the border between Ukraine and Slovakia and send it back to Ukraine. We categorically refused to do that as this was at variance with the agreements signed between Slovakia and Gazprom,” the prime minister said.

Russia ready to sign agreement on gas with Ukraine, with conditions

Prensa Latina, *25.05.2015*

Alexander Novak said that Russia would sign a new agreement on gas supplies only if Ukraine and the EU assume shared responsibilities. We will not sign any document at the end of the negotiations, said Novak.

The minister argued that it was pointless to sign if the text includes again only the obligations of the Russian side, as happened in the second semester. The parties reconciled in a recent tripartite meeting at the expert level, some points that are the subject of disagreement between Moscow and Kiev regarding the terms of Russian gas supplies to the neighboring former Soviet republic.

As stated by Novak to the national press, Russia intends to include in the text Ukraine's commitments on purchases, storage and pumping of the fuel, and secondly, the obligations of the EU with funding to Kiev to ensure these activities. The minister said there are problems with funding sources on Europe's part for the payment of the gas for deposits, from where shipments to the rest of the continent are supplied through the pipeline system on Ukrainian territory. The next ministerial meeting between Russia, Ukraine and the EU is scheduled for late June, said Novak, without remarks. On the other hand, the Russian government has no ruled so far did the granting to Kiev of another reduction in the rate of gas for the third quarter. For the period from April to June Russia set the cost at $247.18 per thousand cubic meters of gas, with a discount of $100 per unit, established in the so-called winter package adopted in October 2014, in order to avoid another conflict and disruptions of supplies to Europe.

Miller: Russia's western route could ship 100 bcm to China

Natural Gas Europe, *03.06.2015*

Russia could export up to 100 bcm of gas through the "Western Route" and the gas could be paid in yuans and rubles, Gazprom's Alexey Miller told.

"The parties outlined the schedule and expressed their willingness to speed up the project preparation activities" Miller said, adding that the Heads of Agreement for gas via the western route signed by China and Russia on May 8 laid a stable ground for future negotiations. In that occasions, the parties outlined provisions of the future contract for the so-called Altai gas pipeline, envisioning 30 billion cubic meters of gas to be supplied within 30 years.

"We regard it as the first phase, the first string, as presently it is being discussed that in the near future the volume of gas supply via the western route might be boosted to 60 and to 100 billion cubic meters of gas a year" Miller commented. In other news, Gazprom said that the pipeline via the eastern route created better conditions for the Altai pipeline. The so-called Power of Siberia is reportedly running as of schedule. "The inked contract on the eastern route has created a solid foundation. Our talks on the western route are advancing at a good pace" Miller said in another note released after his meeting with Zhang Gaoli, First Vice Premier of the State Council of the People's Republic of China, and Wang Yilin, Chairman of the Board of Directors of China National Petroleum Corporation (CNPC).

Russian gas: Europe or China?

Natural Gas Europe, *04.06.2015*

In tackling the question of where Russian gas might go in the future, Vladimir Drebentsov, Head of Russia and CIS Economics, BP, contends that it's impossible to understand Russia's position on external markets without looking at Gazprom's own domestic market and how it is evolving.

He says the institutional structure of Gazprom's market has changed for good. "Many people think that Gazprom and Russia's government are the same," he comments. "That used to be the case, but it's not the case anymore." The rate of taxation is higher for Gazprom than for others, and the company's prices are regulated by the government.

Finally, and perhaps most importantly, he says, 3rd party access to Gazprom-owned pipelines is what's behind the changes, a change happening since 2013. Furthermore, Gazprom's production has been declining while all others' are increasing. "That is possible only because the government allowed these companies to access Gazprom-owned pipelines." More transparency and access to storage, he adds, are not minor issues in the mix, either. Mr. Drebentsov points out that Gazprom has been losing a lot on the domestic market and will continue losing because Russia's market accounted for about half of sales in 2014. He offers, "I think we will see Gazprom accounting for like 25-30% of Russia's domestic market in the foreseeable future. Which means, for Gazprom as a company, that its main hope is not at home, it's abroad."

This means the company needs to locate new markets, he says. He shows that Gazprom's gas production will increasingly outpace consumption headed towards 2035. "Gazprom says it will account for 32% in Europe; 33% in the former Soviet Union; 13% in Asia; and 14% of global LNG trade," he reports, saying this is "doable." As to whether South Stream is truly cancelled, Mr. Drebentsov says "yes and no." He comments, "Russia's strategy changes quite fast, so at the moment it looks like at least some strings of Turkish Stream will be built." One thing is for sure, he says, Russia needs to sell these volumes in Europe, because it cannot likely sell them anywhere else. Because of this, he contends, Gazprom has changed its pricing policy: "It is likely to be much more flexible than we're used to." In 2013, he reports, Gazprom was selling gas in Germany at prices that were competitive; it also sells a lot of gas on hubs. "In 2013, it sold, at least at minimum, 12 bcm in European hubs and hence at spot prices.; last year, it sold 10 bcm."

Moreover, he says Gazprom is becoming more adaptable to European realities. He recalls that last winter when European gas storage reached a 5-year minimum, Gazprom had increased gas flows to Europe. In BP's Outlook 2035, he reports, Russia is still likely to be Europe's biggest supplier of gas. "Volume-wise, no one will be able to compete with Russia in Europe, at least for the next two decades," he explains. More LNG will be seen, but pipeline gas to Europe will dominate. While the Gazprom share of that will go down, it will retain its importance. He notes that China has been able to buy cheaper volumes from Central Asia (Turkmenistan and Uzbekistan) than the price at which Gazprom would like to sell the gas. Central Asian exports to China are likely to grow to 85 bcm/a by 2020, according to Mr. Drebentsov's presentation. He says that some in Russia believe that Chinese demand for Russian gas will reach the stars, because it may absorb all of the gas supplied to it, even to the tune of 73 bcm/a, but not in BP's estimation. "We, so far, don't see that. If Russia were to sell over 70 bcm of gas to China, I think the price would be much cheaper than what has been discussed so far between the two sides," he comments.

Mr. Drebentsov's final diagram showing the share of Europe in Russian export above 80 bcm in 2015, but sliding downward to 50-60 bcm by 2020-25 and largely plateauing until 2035. While Europe will depend upon Russian gas for around 33% of its consumption; Russia will depend on Europe for around 25% of its production, accounting for about 60% of Russian flows abroad. Offering more insights on the domestic Russian gas market,Tatiana Mitrova, Head of Oil & Gas Department, Energy Research Institute RAS, argues that Russia's export opportunities to Europe and the CIS countries are "quite limited." She comments, "If we are talking about diversification of exports, first of all to Asia, the Power of Siberia pipeline project construction has started, but it will take 5 years before it will come onstream in the most optimistic scenario, which means that for the next 5 years we are not expecting any serious increase in Russian gas export supplies."

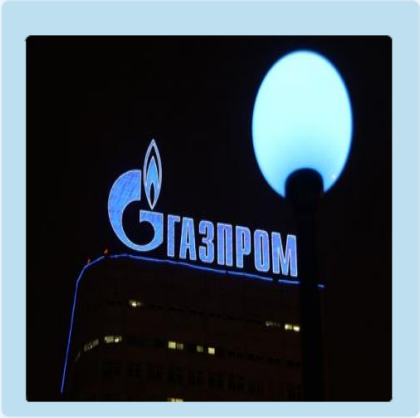
On the Russian domestic market, she reports stagnation in demand, which is understandable because of a weak economy, industrial output contraction and negatve GDP growth, and all the problems the Russian economy is facing. “It’s not strange,” she quips. In the long-term perspective, Ms. Mitrova says that there are no drivers in the next 5 years visible that would bring domestic gas demand up; this lack of development for the next few years, she explains, also applies to pipelines, and power generation, as demand is down. “All in all we cannot expect any significant gas demand growth domestically, though I wouldn’t say that there could be any sharp decline in domestic gas consumption, because gas is still the cheapest fuel and the fuel of last choice.” That means, that only a tiny increase in gas demand can be expected in the future. On the supply side, however, she says we are entering the “era of over production.” She explains, “After years of complaining that Russia is not investing enough in the upstream, that there’s not enough gas in the old production fields which are depleting, now we’ve gone into the next phase of the cycle.” Ms. Mitrova lists the Bovanenkovo gas field, which has been commissioned and which could provide up to 70-80 bcm/annum of gas production. “All the infrastructure is already created,” she says, “so there is no need in the future for additional investments.”

Meanwhile, she says Novatek will be able to provide an additional 60 bcm/annum by 2020; Rosneft plans to increase its production by 40 bcm by 2020; and associated gas production will be produced by vertically integrated oil companies. Of the latter, she says, “It’s at least 15 bcm, or even more.” All of this additional gas production in Russia, she says, is sinking the markets, while export markets are limited. “All this gas bubble is competing for sales in the domestic market, and the pressure is really intensifying,” she observes. Developments by independents Rosneft and Novatek, according to her, have led to the growth of competition for Gazprom. “These non Gazprom producers are already delivering 30% of total Russian gas production for 2013; for 2014, they are providing nearly 50% of domestic gas supplies,” she says, explaining that the market varies a lot from Gazprom’s previous dominant position, even if the company retains exclusive rights to the domestic market. The process of independents gaining market share, she recalls, began in 2009, and now those companies are cornering regional markets by providing huge price discounts, sometimes 5-10% of the regulated price, while Gazprom is obliged to sell gas at the regulated price. Another result from this competition, she says, is a freeze in gas prices, following year-on-year growth for many years. “Actually, in dollar terms, domestic prices have actually halved,” she explains, “which means that the domestic market is becoming less attractive, while exports are more and more interesting for independents.” Rosneft and Novatek, she says, succeeded in lobbying to liberalize LNG exports; following that, Rosneft argued it needs access to the Power of Siberia to export pipeline gas to China. According to Ms. Mitrova, there are numerous conflicts and imbalances on Russia’s domestic market, regarding independents’ access to pipelines, storage, etc., while Gazprom faces supplying socially sensitive groups, pays higher taxes and sells at regulated prices, also having to make huge investments.

Domestically, she reports that there is discussion of major gas market reform, and a document on this is under preparation. “But, more importantly, the current framework of the Russian gas market is designed in such a way that the major stakeholder is the state, which has a long list of requirements for the criteria of acceptability of the market model.” Options for market liberalization, she says, in light of domestic security of supply to consumers, look unattractive and risky. “Either you increase efficiency via complete gas industry nationalization, or by creation of competition in the upstream while having a national, state-owned transportation system, supply and export company – nationalizing the midstream; or, alternatively, if you are speaking of any version of unbundling, either as it happened in the oil industry, then you face the situation of supply security. “The first priority of the state is to obtain security of supply to the domestic consumers, including socially sensitive groups and regions,” continues Ms. Mitrova, who asks “Who is going, under liberalized markets, to supply Chechnya, for example?” This means Russia’s gas market will stay with the status quo and make minor adjustments, like more transparency regarding transportation tariff regulation. Future natural gas production, she concludes, is demand constrained, while the role of independents is likely to be tempered after 2020.

Gazprom to buy Meghri-Kajaran section of the Iran-Armenia gas pipeline

Natural Gas Asia, *03.06.2015*



Gazprom is expected to buy the Meghri-Kajaran section of the Iran-Armenia natural gas pipeline.

The 41-kilometer section runs from the Iranian border to the southeastern Armenian town of Kajaran. The rest of the pipeline, completed in 2008, is already owned by Gazprom Armenia. Deputy Energy Minister Ara Simonian told RFE’s Armenian service that the Armenian government and Gazprom have already signed a tentative agreement on the sale of the Meghri-Kajaran section. He did not give details of the financial terms or specify when a final deal could be signed.

The state-run High Voltage Electric Networks Closed Joint-Stock Company is the current proprietor of the 41-km section of this pipeline. Gazprom Armenia, on the other hand, is leasing that section. “The entire [natural] gas supply system of Armenia was under the jurisdiction of Gazprom company,” Simonyan said. “[So,] it was pointless to keep this tiny 40-km section under the responsibility of a non-specialized state-run company.” A spokeswoman for Gazprom Armenia, Shushan Sardarian, confirmed this information, RFE reported. Sardarian revealed that the tentative accord was finalized in 2007 with a $30 million prepayment made by the company at the time. She said that Gazprom Armenia will likely pay another $9 million to complete the takeover.

Gazprom has no plans for gas pipeline to Japan

Natural Gas Asia, *25.05.2015*

Gazprom currently has no plans to deliver gas to Japan via pipeline, CEO Alexey Miller said. Miller was reacting to the question whether the proposal by Tokyo Gas to come back to negotiations on Russia's pipeline to Japan is topical.

"If the issue is about pipeline supplies of natural gas for export from Russia's Far East no doubt China is our top priority among biggest gas consumers. We're not studying other variants at the present moment," he said."Premium to the European market is now already $53 per tonne of LNG" Miller added. Tokyo Gas proposed coming back to negotiations on a gas pipeline.

Wintershall continues focus on Russia, commits to €500 million investment plan

Natural Gas Europe, *02.06.2015*

Wintershall will continue investing in its core regions, with Russia remaining the most important area for the company.

"Europe will only have energy security with Russia. These aren't geopolitical but geological facts, and that's why Russia will remain an important part of the energy provision for Western Europe" CEO Mario Mehren said. Wintershall is working with Gazprom in the joint Achimgaz project in Siberia. "Achimgaz is a prime example of efficiency, performance and innovative strength," he said, explaining that in the 2014 the project registered a 40% year-on-year increase in production to 3.4 bcm of natural gas.

"Our Russian joint ventures produce a total of 28 billion cubic meters of natural gas each year. To put that in clear terms: that corresponds to one third of the annual requirement in Germany" Mehren added, unveiling a 500 million euros investment in the existing Achimgaz, Yuzhno Russkoye and Volgodeminoil projects in Russia until 2018. Tuesday's announcement is nothing new. Similarly, in March, the company said it would have increased its exposure in Russia. According to the German company, its production increase by an average of four percent over the last decade, which is reportedly more than double the average growth in the industry. Wintershall also confirmed its commitment to the Norwegian continental shelf. "We are transferring the Maria Field into production as our first self-operated discovery in Norway" Mehren said. Statoil said it sees some signs of recovery in Europe's gas demand.

Russia's Novatek concludes 23-year LNG deal with France's Engie

Natural Gas Europe, *02.06.2015*

Russia's Novatek announced that its subsidiary Novatek Gas & Power concluded a long-term contract with France's ENGIE (formerly GDF Suez) for the supply of LNG from the Yamal LNG project.

"Signing another long-term binding agreement on LNG supply from the Yamal LNG Project ensures well balanced LNG sales portfolio and contributes to closing the Project's external financing. ENGIE is a reliable partner, and we expect that this cooperation will enable us to gain additional expertise in LNG marketing" Chairman of the Management Board of Novatek, Leonid Mikhelson commented in a note.

ENGIE welcomed the deal, arguing that the 23-year contract for one million tons of LNG a year will help diversifying its portfolio. The LNG will be supplied to FOB Montoir-de-Bretagne terminal. "These volumes will complement and diversify ENGIE long term supply portfolio. They will allow us to address the growing LNG demand, as well as our customers concern for a reliable, environmental-friendly energy" Gerard Mestrallet, Chief Executive Officer of ENGIE. The parts did not disclose the price of the deal. Gennady Timchenko, co-owner of Russia's second gas producer, said that the Yamal LNG project would be finished. Novatek has been hit by sanctions, and it has limited access to global capital markets. Last week, Total's Chief Executive Patrick Pouyanne said he expected lenders to unblock funds for the $27 billion Yamal LNG project by the end of the year. Novatek (60%), Total (20%) and China's CNPC (20%) are the three partners in the terminal, which is the largest industrial project in the Arctic. The start of LNG production is planned for 2017.

Mediterranean region set for sharp rise in energy demand

Forbes, *31.05.2015*

Mediterranean states are on track to increase energy demand by 50 percent over the next 25 years, according to regional researchers, with the brunt of the growth falling on the southern part of the region.

According to Sohbet Karbuz, energy demand will rise by varying degrees across the region over the next two decades, forcing a reassessment of current potential and energy investment. Karbuz suggested that the region's demand will continue to climb, demanding an array of different new production options and requirements to avoid a sharp increase in emissions.

According to Karbuz, the brunt of the growth will fall on Southern Mediterranean states, many of which are already exploring new energy options, including shale gas, renewables, nuclear and new offshore exploration. This growth could see greater demand for coal across the region, putting many countries at odds with growing pressure to reduce emissions from power generation from global actors. While Northern European countries could find some obstacles with environmental pressure coming from Brussels – in accordance with European Union climate change goals – southern countries may not have as much trouble approving new coal projects.

Still, they may find some resistance when it comes to financing new coal projects, as a number of international lenders and financial institutions have moved to reduce their exposure to coal investments in recent months. That will leave many to boost existing and potential hydrocarbon options, as well as – as in the case of Morocco – move significant resources towards renewable energy efforts. For much of the Eastern Mediterranean, this will mean building on ongoing efforts to increase offshore natural gas exploration, including significant efforts by Cyprus and Israel and more modest efforts from Lebanon, Greece, Turkey and Egypt. European actors could be the key to bringing many of these projects to fruition, especially if new offshore efforts could be sold as a step towards providing the northern Mediterranean with a gas option that does not come from Russia. Meanwhile, countries like Algeria have recently started to explore the potential of unconventional exploration efforts, like shale projects. However, the country faces significant challenges to shale success, including high initial costs and access to the millions of gallons of water it will take to operate each well. For now, countries with no or minimal production capacity face the largest obstacles if Karbuz's prediction comes to be.

Total plans to boost gas shipments, exit coal mining

Bloomberg, *01.06.2015*

Total SA plans to raise production and trading of liquified natural gas by 2020 and pull out of coal mining as part of a new policy on fossil fuels and climate change.

The company plans to produce and trade about 32.5 million metric tons of LNG. Total also intends to charter a dozen LNG tankers for future trading, two of them currently under construction. The targets could be achieved by completing projects in Australia, Russia and elsewhere while trading shale gas exports from the U.S., where prices are expected to stay relatively low for the coming years, Pouyanne said at a news conference.

Pouyanne made his remarks ahead of the World Gas Conference this week when promoters are expected to highlight the energy as the cleanest burning fossil-fuel compared with coal and oil. Gas production is expected to grow almost everywhere but Europe by 2040, the International Energy Agency said in November. LNG exports will almost double, taking market share from pipelines, according to the Paris-based adviser to 29 developed countries. “There will be a profound change in the world energy mix,” Pouyanne said Monday. Total will produce more natural gas than crude in the future compared with a 50-50 ratio this year. Total’s gas projects under development include Yamal LNG in the Russian Arctic and in Papua New Guinea. “I still have a coal business and I have to get out of it,” he said. “I can’t say that coal is the enemy of gas and then continue to produce coal like some of my colleagues. I will get out of coal.” Total marketed 8.5 million metric tons of coal on the international market last year, at least 70 percent of it from South Africa, according to its latest annual report. Almost three-quarters of the coal was sold in Asia, the rest to Europe. Total last year agreed to sell its Total Coal South Africa unit, which produced 3.3 million tons in 2014, to Exxaro Resources Ltd. and is waiting for regulators in that country to approve the deal, according to Total’s head of gas, Laurent Vivier.

SSE signs gas deal with Statoil of Norway

BBC, *01.06.2015*

Perth-based energy giant SSE has signed a deal for the supply of 2.5 billion cubic metres of gas per year from Norway's oil fields.

The five-year deal will start in October. Statoil already supplies SSE with gas for domestic customers and its power stations. It has an even larger supply contract with Centrica - which trades as Scottish Gas and British Gas - which will rise to 7.3 billion cubic metres per year by 2025. Last year, SSE signed a deal with Statoil to supply 500 million standard cubic metres per year, in a six-year deal. That represented 6% of SSE's average needs.

This week's deal between the two companies supersedes that and increases the quantity five-fold. In addition Statoil has a contract with SSE for the supply of 0.5 billion cubic metres of gas per year to the St Fergus terminal for the period October 2012 - October 2022. Britain's total demand for gas is about 70 billion cubic metres per year. Tor Martin Anfinnsen, senior vice president of marketing and trading at Statoil, said: "We are very happy to have made this agreement with SSE. "Being the second largest supplier of gas and electricity in the UK, SSE is a significant player in a market that is very important to Statoil. "The agreement takes our already established relations to the next level. The agreement with SSE is another confirmation of Statoil's position as a long term reliable supplier of gas to the UK."

Exxon CEO calls on Europe to open access to fracking

Natural Gas Europe, *02.06.2015*

Exxon Mobil Chief Executive Rex Tillerson called on European governments to open up access for companies to use hydraulic fracturing to extract natural gas resources.

Exxon said that the large number of wells already drilled using hydraulic fracturing techniques in the U.S. and Canada have proven that the technology can be used safely to extract large volumes of gas. Mr. Tillerson said that demand for natural gas is expected to grow substantially over the coming decades, and allowing energy companies to use hydraulic fracturing to drill would bring benefits to both Europe and global markets.

‘No shale gas revolution in Europe’

BBC, *03.06.2015*

There will be no US-style shale gas revolution in Europe, the president of the International Gas Union (IGU) has told.

“You cannot duplicate [the US experience] in Europe,” said Jerome Ferrier. “Politicians are hesitating to accept shale development.” Abundant shale gas in the US has helped domestic energy prices fall. As a result some European governments are keen to develop their own shale resources. The IGU president, talking to the BBC at the World Gas Conference in Paris (WGC), said there was resistance to shale development in the UK and Poland, while there was “no way” it would take place in France.

Other countries, including Germany, Romania and Bulgaria, have placed moratoriums on fracking. He added that it was “a pity” not to explore the possibility of shale development, but said “the future of gas does not depend on shale gas - there is enough conventional gas [to meet demand] for more than a century”. Mr Ferrier also stressed the need for a carbon price to reduce coal use, which emits huge amounts of CO2 linked with global warming. “Without carbon pricing, countries will maintain coal power generation due to the low price of coal,” he said. Putting a price on carbon means big polluters are forced to pay for the CO2 they emit, giving them a strong incentive to reduce emissions. There has been an Emissions Trading System in Europe for a number of years but it has been ineffective in cutting emissions, largely because the price of carbon is too low.

Earlier this week, a number of leading energy companies jointly called for global carbon pricing, including Statoil, Total, BP, Shell, ENI and BG. Tellingly, major US energy firms did not sign up to the initiative. Speaking at the WGC, Exxon Mobil chief Rex Tillerson pointed to the fact that CO2 emissions were falling in the US despite the fact there is no carbon price there. This fall in emissions is due to cleaner shale gas replacing coal. Mr Ferrier said this was not going to happen in Europe, hence the need for a carbon price. Oil and gas company chiefs have been championing the environmental benefits of natural gas this week, arguing that it provides a cleaner source of power than coal, which currently dominates global energy production. They say it complements perfectly the push for renewable energy, which is variable due to fluctuations in the strength of the wind and sun. Many environmentalists argue that efforts should be concentrated on truly clean renewable energy rather than gas, which is a fossil fuel that emits CO2.

Statoil CEO sees signs of gas demand recovery in Europe

Reuters, *02.06.2015*

Norwegian energy firm Statoil sees some signs of gas demand in Europe recovering after years of decline, particularly in Britain, its chief executive told.

Norway overtook Russia as Western Europe's main gas supplier in the last quarter of 2014 and was also ahead in the first quarter of this year, industry data showed. "For some years we have seen a reduction in the European gas consumption starting with the financial crisis, with coal substituting gas in the power generation segment and that has been a very disappointing development for us," Statoil CEO Eldar Saetre said.

"There are some positive signs that hopefully will at some point be a turning point for gas," he added, referring to carbon tax introduction in Britain, which has led to gas demand rising in the power sector last year after three years of decline. Saetre was speaking during a visit to Statoil's Troll A platform in the North Sea with Miguel Arias Canete, European commissioner for climate and energy. The platform, standing firmly on four huge concrete legs extending some 300 metres to the seabed, is the tallest such structure ever transported. Norway's biggest gas field Troll alone produces about 30 percent of gas output from the Norwegian continental shelf, enough to meet Spain's annual demand. Gas demand for power generation in Britain rose last year for the first time since 2010, data from UK's Department of Energy and Climate Change showed. "I can't comment on whether a shift has happened for Norwegian gas, but... we see growing interest for more longer-term commitments on gas in many parts of Europe," Saetre said. Statoil expanded the scope of its long-term gas supply contract with Britain's SSE on Monday, after agreeing to supply more gas to rival Centrica in May. Norway's exports to the EU totalled 29.2 bcm in the first three months of the year against 27.2 bcm Russian supplies, Reuters calculations showed.

Russia remained EU's main gas supplier for 2014 as a whole. European buyers held off purchases of Russian gas during the last two quarters, expecting its oil-indexed prices to catch up with last year's fall in crude oil. Canete said that while Russia and Norway were to remain the EU's main gas suppliers, the Commission wants to increase competition from other sources, including imports of liquefied natural gas (LNG). "We will launch an LNG strategy in December and in that framework we will make our forecast for gas consumption," Canete said. Currently about 80 percent of the EU's LNG import capacity is idle. Norway could explore for more gas, but needed a more predictable long-term climate policy, which would favour gas over coal, Statoil officials said. "We need signals from Europe that gas remains important in the future energy mix," said Oeivind Dahl-Stamnes, Statoil's vice president for Troll operations.

Norway to supply more gas to UK

Anadolu Agency, *02.06.2015*

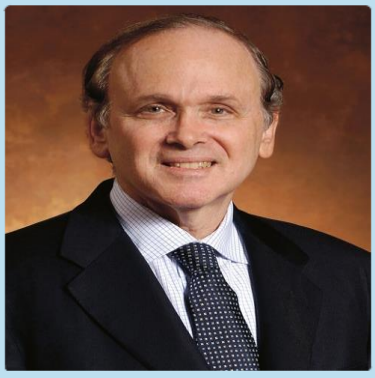
Norwegian oil and gas giant Statoil agreed a long-term natural gas supply with the U.K.'s energy company SSE.

A deal was originally announced in October 2014 for the supply of 500 million cubic meters of gas. In the new five-year deal starting from Oct. 1 2015, Statoil will supply 2.5 billion cubic meters (bcm) of natural gas to the U.K. increasing the quantity five-fold. Statoil already supplies SSE from a contract signed in October 2011 for 0.5 bcm of natural gas between October 2012 and October 2022. Britain needs 70 bcm of natural gas annually to heat homes and businesses and to generate electricity.

"Being the second largest supplier of gas and electricity in the U.K., SSE is a significant player in a market that is very important to Statoil," said Tor Martin Anfinnsen, senior vice president of Marketing and Trading in Statoil. "The agreement takes our already established relations to the next level. The agreement with SSE is another confirmation of Statoil's position as a long-term reliable supplier of gas to the U.K.," he added.

Energy industry in Turmoil: Daniel Yergin cites the challenges

Natural Gas Europe, *05.06.2015*



In a session entitled "Energy Industry in Turmoil," Dr. Daniel Yergin, Vice Chairman, IHS, recalled that the day before he'd been asked whether now was the "Golden Age of Gas" as coined by the International Energy Agency about 3 years ago.

He replied, "And I said, 'no, it's certainly not the golden age, but it is the global age of gas.' We're seeing markets increasingly integrated into a single market, and when we look out into the future in the scenarios we do at IHS, we see this continuing even more." Dr. Yergin went on to describe the forthcoming challenges to be faced by the energy industry, and, specifically, natural gas.

“If you look out 20-25 years we’re going to have 20% more people on this planet. Despite mediocre economic performance right now, we could have almost a doubling of the world economy. We’re going to have 1-1.5 billion people who don’t have access to commercial energy having access to commercial energy – all of that means growth in energy demand, and despite all of the pictures people have, we think in a quarter century from now 75% of energy will come from oil, gas and coal.” Regarding the energy mix, he said one could see a very interesting situation: no dominant source of energy, something unusual in history. “But we’ll have a horserace between coal, gas and oil, and it’s our conviction that the horse that will move ahead, take the leadership, is indeed natural gas.”Still, he added that one saw different perspectives in different regions, and noted the depressive attitudes surrounding the European energy market. He commented, “Gas in Europe is clearly on the defensive. Right now, gas is struggling very hard against economic distortions that are a result of economic policy.”

In contrast, he explained that the US gas industry showed continuing growth and is seeing the impact of formations like the Marcellus shale or the Utica. Dr. Yergin said he had also observed things like well performance there, which has demonstrated both learning and greater efficiency. He reported, “Sixty-five percent of the wells that are drilled in 2014 are economic at $65/barrel, and by the end of this year we think that a dollar invested in oil and gas production in the US will be 65% more efficient than it would’ve been in 2014 – in other words, part of the continuous learning that goes on in the industry.” Meanwhile, he said, intense competitive pressures exist. “Companies, in order to go forward, with new projects have to bring down, manage costs and that means moving towards standardization. Major projects simply will not go forward unless the costs can be brought down.” Regarding the new markets for gas, Dr. Yergin said that a study by his organization on natural gas in transportation concluded that the sector would be one of the major new avenues for natural gas demand: transportation, trucks, ships powered by gas. He opined, “But Europe needs a new concept about gas demand. If it’s thought that it’s just going to compete in electricity, we think it’s too limited.”

IHS, he said, is developing a new study looking at how to transform Europe’s heat sector, which could assist Europe out of its despondency. Growth of gas production in recent years has created new demand and been an impulse, has created new demand for gas in parts of the world – a positive case for the gas industry, according to international consultant Marcel Kramer. The application of new technologies, he added, had also facilitated smaller gas projects for smaller markets that now need gas. Mr. Kramer offered, “We used to live in times that you could really only get LNG if you were ready to build a really large project. The bottom line was that somewhere around 5-6 bcm it is very difficult to get the economics off the ground – that is changing thanks to industry efforts, thanks to creativity. Another positive development.” Finally, he cited the growing recognition that natural gas is indeed a cost efficient and practical way to enable renewables. “And it is also clear,” he added, “that natural gas is a very cost effective way to reduce emissions. “In practice, of course, we do not see that applied everywhere – that understanding. There are large regional differences in the position of gas and in the outlook.”

According to Mr. Kramer, the geopolitical climate is creating frustrations for the industry, “and, sometimes, real obstacles.” Other frustrations, he added, come from competition from coal, and the high cost of gas, in parallel with complex projects needing to be implemented, in difficult parts of the world and difficult environments. While, he said he still sees a silver lining, one challenge remains: “That is, that we together have to make sure that the world around us, and especially the key decision makers, are equally convinced of the benefits that our industry brings, and of the need for ensuring enduring good relations between key suppliers and their customers around the world.” In a clear reference to Gazprom, he stated: “Creating diversification in supplies and outlets can be a very logical, commercial and strategic step for business, but in doing so we must be cautious not to alienate those who have been strong, valuable and loyal partners in a very difficult time in the past, for many many years. While he said he is a believer in increasing trade and investment as a key to stability, security and progress, sometimes replacing that with “a more adversarial approach” brings pressure to bear upon neighbors and important players in the global energy market is a questionable approach. “It may impose new challenges upon us, which we are probably very ill-equipped to deal with. When there’s real turmoil in energy, its effects will be global. Next generations may suffer from that, particularly the poor without access to energy,” said Marcel Kramer, who opined that policymakers should work together to avoid such a scenario from becoming reality.

ENI finalises deal with Egypt for operations in Sinai, Nile Delta, Gulf of Suez, Mediterranean

Natural Gas Europe, *01.06.2015*

While Igor Sechin was holding talks in Egypt, ENI was finalising its multi-billion energy exploration deal with Cairo. The Egyptian oil ministry wrote that Egyptian General Petroleum Corp (EGPC) and the Italian major inked an agreement which includes concession areas in five different regions of the country.

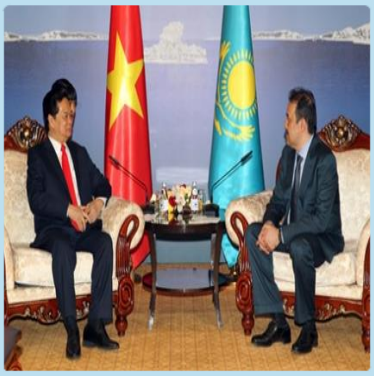
‘The agreement includes the implementation of exploration and development activities at Belayim concession areas at Sinai, Abu Madi at Nile Delta, Ashrafi at Gulf of Suez, North Port Said in the Mediterranean and Baltim at offshore Nile Delta’ reads the note released.

The agreement will translate into a $2 billion investment from Eni and its partners. 'The deal stipulates providing unrecoverable signature bonuses totalling $10 million, in addition to recoverable signature bonuses years of about $505 million for a period of 5 years. The parties agreed to use both bonuses in reducing ENI's dues to EGPC' reads the note. The parties decided to modify the gas price in some agreements, following in the footsteps of the Memorandum of Agreement signed last March in Sharm El-Sheikh. The deal proves the intention of the current government to accelerate the energy cooperation promoted by the former Oil Minister Osama Kamal, who called on foreign companies to increase investments in the region in 2013. At the moment, BP, BG Group, Shell and ENI are the most active companies in the country led by Abdel Fattah el-Sisi.

Last week, ENI made a gas discovery off the coasts of Libya, while Shell confirmed its commitment to tap into shale gas resources in Egypt. Earlier this month, BP increased its stake in the West Nile Delta (WND) project in Egypt, buying 17.75% of in the ongoing Phase 1 from DEA. Despite many commentators are focusing on the resources in the East Mediterranean, majors are increasingly going back to North Africa, also as a result of the international endeavours to augment security in the region. In April, Cyprus, Egypt and Greece agreed to join forces to tackle terrorism in the Eastern Mediterranean and in the Middle East. A few days ago, Algeria's Prime Minister Abdelmalek Sellal confirmed the country's strategic partnership with Italy to trigger new energy ties and support regional security. In 2014, BP Statistical Review estimated Egypt's proved reserved at 65.2 trillion cubic feet, listing it at the third place in Africa after Nigeria (179.4 tcf) and Algeria (159.1 tcf). Egypt is indeed expected to have more gas than Libya (54.7 tcf). It comes as little surprise that Russian companies are interested in increasing their clout in the region. 'In May 31, as part of his business trip, Rosneft Board Chairman Igor Sechin met Sherif Ismail, Egyptian Minister of Petroleum and Mineral Resources, and Tarek El Molla, Board Chairman of Egyptian General Petroleum Corporation (EGPC)' Rosneft wrote, adding that it is interested in expanding cooperation with Cairo. Meanwhile, the main European companies are trying to revive the prospect of gas demand in Europe and more generally in the world, asking for a concerted cooperation to create a global framework to reduce carbon emissions. 'Major oil and gas companies, BG Group plc, BP plc, Eni S.p.A., Royal Dutch Shell plc, Statoil ASA and Total SA, today announced their call to governments around the world and to the United Nations Framework Convention on Climate Change (UNFCCC) to introduce carbon pricing systems and create clear, stable, ambitious policy frameworks that could eventually connect national systems' ENI wrote.

Vietnam, Kazakhstan to boost cooperation in oil, gas sector

Natural Gas Asia, *31.05.2015*



Vietnam wants to boost cooperation with Kazakhstan in the field of oil and gas, country's Prime Minister Nguyen Tan Dung said. The Prime Minister said the Vietnamese government would create optimal conditions for Kazakhstan businesses to operate in Vietnam, highlighting the potential in oil and gas exploration.

Dung met with officials from KazMunaiGaz in the Kazakh capital of Astana. He hoped the group would further co-operation with PetroVietnam in exploring and exploiting oil and gas resources, and providing technical services for these activities.

During the meeting, Dung witnessed the signing of a co-operation agreement on the exploration, exploitation and provision of oil and gas services between PetroVietnam and KazMunaiGaz, Vietnam News reported. The two companies could consider collaboration projects in the respective countries as well as other locations.

India talks gas pipeline with Russia, Iran

Natural Gas Asia, *04.06.2015*

India has revived gas pipeline talks with Russia and Iran. Dharmendra Pradhan, India's energy minister, met with Russian counterpart Alexander Novak on the margins of the 6th OPEC International Seminar to discuss possibility of a natural gas and oil pipeline.

The two countries agreed to conduct a joint study at an early date for exploring feasibility of crude and gas pipelines from Russia to India, according to a statement by Indian government. Russia too has been looking to diversify its energy export market away from Europe. Last year, Russia and China signed two major gas deals.

On May 21, 2014 Gazprom and CNPC signed the purchase and sale agreement for gas supply via the eastern route. The 30-year contract provides for Russian gas supplies to China in the amount of 38 billion cubic meters per year. On November 10, 2014 Gazprom and CNPC signed the framework agreement on Russian natural gas supply to China via the western route. India is also keen on importing natural gas from Russia and working together in exploration and production sector. During his meeting with Iranian petroleum minister Bijan Namdar Zangenah, Pradhan discussed about Indian involvement in exploration and production projects in Iran and possibility of building gas pipeline from Iran to India through various alternate routes. Originally, India was supposed to import Iranian gas via the Iran-Pakistan-India (IPI) pipeline, but in 2009 Delhi pulled out from the project due to pricing and security issues. Another option that has been proposed is that of an undersea pipeline from Iran to India bypassing Pakistan.

Indian Oil Corp to buy LNG from US

Natural Gas Asia, *29.05.2015*

Indian Oil Corp (IOC) has signed an interim deal with Mitsubishi Corp to buy 0.7 million tonnes (MT) a year of LNG from US on a long-term contract beginning 2018.

"To secure LNG supplies, IOC has forayed into independent LNG purchase," IOC Chairman B Ashok told reporters. The LNG will be supplied by the Japanese firm for 20 years from Cameron LNG project in US, Press Trust quoted Ashok as saying. Indian Oil signed a deal with Progress Energy for the acquisition of a 10 percent interest in Progress Energy Canada's shale gas assets in northeast British Columbia and in the proposed Pacific NorthWest LNG project.

As part of the deal, IOC shall also offtake 1.2 million tons per annum (MTPA) of LNG, which represents 10 percent of the LNG facility's production, for a minimum period of 20 years, LNG from US will be imported at IOC's proposed Ennore import terminal in Tamil Nadu. The 5 MTPA terminal is expected to come online in 2017-2018.

US oil stocks fall for fifth week in row, imports rise

Anadolu Agency, *04.06.2015*

Oil stocks in the U.S. fell for the fifth consecutive week, while the country's crude oil imports continued to increase and production remained almost unchanged, the U.S.' Energy Information Administration, EIA, data revealed.

Commercial crude oil inventories in the country fell by 1.9 million barrels, or 0.4 percent, to reach 477.4 million barrels for the week ending May 29, from 479.4 million barrels for the week ending May 22, the EIA said. This is the fifth week in a row that oil stocks have fallen in the U.S., after the country experienced 16 consecutive weeks of increases in inventories.

Meanwhile, strategic petroleum reserves in the country rose by 0.5 million barrels a day to reach 692.3 million barrels per day for the week ending May 29, from 691.8 million barrels per day the previous week. Domestic oil production in the U.S. remained almost unchanged, increasing by a modest 20,000 barrels a day on average in the same period to reach 9.59 million barrels per day. Crude oil imports of the world's biggest economy and oil consumer rose by an average of 677,000 barrels a day to reach 7.37 million barrels per day for the week ending May 29, from 6.69 million barrels a day the week before.

US natural gas production rose 5% in Q1 of 2015

Anadolu Agency, *03.06.2015*

The U.S.' total natural gas production increased by 5 percent in the first quarter of 2015, compared to the first quarter of 2014, the EIA, data shows.

According to the EIA's Natural Gas Monthly report of May, gross withdrawals of natural gas totaled 8.1 tcf in the first three months of the year, compared to 7.7 tcf in the same period last year. Natural gas production levels for the month of March were close to the highest monthly output of last year, in December 2014. In March 2015, the U.S. produced 2.8 tcf of natural gas, while this amount was 2.9 trillion cubic feet (82 billion cubic meters) in Dec. 2014.

In addition, the EIA reported that the total natural gas production in the U.S. rose by 6 percent year-on-year, to reach 31.9 trillion cubic feet (900 billion cubic meters) in 2014, compared to 30 trillion cubic feet (850 billion cubic meters) in 2013. Gross natural gas withdrawals were 29.5 trillion cubic feet (835 billion cubic meters) in 2012, 28.5 trillion cubic feet (806 billion cubic meters) in 2011 and 26.8 trillion cubic feet (758 billion cubic meters) in 2010, according to the EIA.

Will US shale gas bring global energy prices tumbling down?

BBC, *03.06.2015*

The second US shale gas revolution is about to begin. Vast quantities of fracked gas have already seen domestic energy prices tumble, providing not only US manufacturers but the wider economy with a hefty shot in the arm.

In fact, by the end of this decade, the country plans to challenge Qatar, the undisputed king of LNG. Considering the US currently exports virtually no LNG, the scale of its ambition is staggering. Indeed, if all proposed projects went ahead, it would produce about 190 million metric tonnes (mmt) a year, equivalent to 80% of today's total global LNG market.

US shale gas could, then, have a profound impact not just domestically, but on the rest of the world. Or so the common narrative goes. The reality will be somewhat different. No-one ever expected all 20-plus proposed export terminal sites to go ahead, particularly with all that that entails - not least regulatory approval and billions of dollars of financing. But recent falls in the price of natural gas have played havoc with developers' plans. With US gas prices, known as Henry Hub, hovering around the $3 mark, the economics of gas liquefaction and export depend entirely on getting a higher LNG price in the export market. Last year, with gas prices in Asia, for instance, up above $15, exporting LNG was a no-brainer. Now the price is about $7.5, as most gas contracts are linked to the price of oil that has plummeted more than 40% in the past year. Take the basic cost of the gas at $3, add in a small mark up, liquefaction costs of $3 and transport costs of $2, and suddenly, as Luis Barallet at Boston Consulting Group says, "the economics don't work that well".

A similar story is true for Europe, where cheaper transport costs are offset by a lower gas price of about $6.5. For this simple reason, export projections have had to be scaled back significantly. There are currently five licensed export terminals under construction in Texas, Louisiana and Maryland, and with long-term supply contracts signed, they will export huge quantities of LNG in the coming years. Even if the numbers do not seem to add up, companies buying the gas, such as BG or Gas Natural, may still decide to export - selling the gas in Europe at a $1 loss can represent a better deal than spending $3 on liquefaction and just sitting on the LNG. Of the remaining proposed terminals, some have customers but no regulatory approval, while the rest have neither. For now, most of these are unlikely to go ahead. As Anastasios Giamouridis at Poyry Managing Consultants says: “Without long-term contracts signed with buyers, there is no guarantee of revenue stream, so it’s very difficult to get financing.”

Political opposition could be another constraining factor. If producers get a higher price for their gas on the export market, there is little incentive to sell domestically. US buyers would, therefore, be forced to pay more, pushing up domestic prices and reversing a trend that has benefited US manufacturers enormously. “There is a very strong and well-organised lobby arguing that low prices are a huge advantage for US industry,” says Mark Lewis at Kepler Chevreux. “If the US really were able to export as much gas as it wanted, it would be a very significant political issue.” Another constricting, if rather more contentious, factor could be the impact of falling gas prices on US shale producers themselves, particularly those wet gas drillers producing gas and oil.

These companies relied heavily on debt financing, partly due to low interest rates, predicated on high oil prices. They are now struggling to repay debts in the face of oil prices that have slumped, in many cases, well below break even point. There are, for example, almost 700 fewer shale oil and gas rigs operating in the US than there were a year ago, with around 800 still drilling. “I’m surprised the show has run as long as it has,” says Mr Lewis. If interest rates rise, as they must, or oil prices remain low, many shale firms will not survive, he argues, raising questions about whether the US can maintain its gas production levels. The 190mmt a year from all the proposed export terminals was never, then, a realistic figure, but the recent slump in the price of gas has undermined LNG production significantly. Poyry expects capacity to hit about 65mmt a year by 2020, a similar figure to that forecast by BCG.

But this is still a huge influx of new gas to a global market that currently stands at 240mmt. It would make the US the third largest producer of LNG in the world, behind Qatar and Australia, which is also set to increase massively its capacity, from about 45mmt to more than 80mmt by 2020, according to Poyry. With Henry Hub so much lower than gas prices in the rest of the world, many have assumed this influx will flood the global market with cheap US gas. But with the total cost of exported US LNG roughly the same as the local gas price in both Asia and Europe, this is clearly not the case. As John Williams at Poyry says: “The US supplying cheap LNG to Europe is a myth. It will be competitive, but nothing more.” If oil prices pick up, pushing gas prices in the rest of the world with them, then US LNG, which is not indexed to the price of oil, could well become relatively attractive. But with the oil price set to remain relatively low for the foreseeable future, this is unlikely to happen. What US LNG will do is introduce a major new supply of gas that is far more resilient to fluctuations in the oil price. More importantly, it will boost overall supply significantly, and this will inevitably push prices lower. But the impact is likely to be short lived, for the very simple reason that demand for LNG is set to rise to meet supply.

“There will be a glut [of LNG] for a while, as demand cannot pick up so fast, but prices will eventually rise,” says Mr Giamouridis. Demand for LNG in Europe is currently half what is was just five years ago, and falling prices would see it pick up quickly. There are also a number of new markets buying LNG for the first time, such as Poland, Lithuania, Egypt and Jordan. But the biggest surge will come from China, where demand for energy is expected to triple by 2050, and where pollution is forcing the government to reduce its reliance on dirty coal. Despite the deluge of new supply, then, global gas prices are unlikely to be affected in the long-term by the US exporting its abundant gas. The American shale revolution may have seen gas prices tumble at home, but exporting its spoils will have nothing like as dramatic an impact on the rest of the world.

Global gas demand expected to slow up to 2020

Anadolu Agency, *04.06.2015*

Global natural gas demand is to slightly slow down up to 2020, compared to the past 10 years’ growth, according to the International Energy Agency’s (IEA) latest report published.

Annual growth rate from 2014 to 2020 is anticipated to be 2 percent, which is slightly slower than the past 10 years at 2.3 percent, according to IEA’s medium-term gas market report. Global natural gas demand is to be 3.9 trillion cubic meters in 2020, up from 3.5 trillion cubic meters in 2014. The total increase in demand is forecast as 431 bcm with the power sector making up 48 percent. The fastest demand is to come from the transport sector with 47 bcm.

The most demand growth is to come from China with an annual rise of 10 percent while European countries, excluding the Organization for Economic Co-operation and Development (OECD) members, is to account for the least demand with 0.1 percent a year between 2014 and 2020. Natural gas demand growth is expected to be 1.9 percent a year, during the same period. In the past 10 years the annual growth rate was 2.4 percent. The 3.5 trillion cubic meters of global supply in 2014 is predicted to reach 3.6 trillion cubic meters by 2016 and 3.9 trillion cubic meters in 2020. Supply is expected to be the highest in OECD Asia Oceania region with an annual rise of 12.6 percent while Latin American supply is to rise the slowest with 0.1 percent a year. Supply in OECD Europe is to decrease to 227 bcm in 2020, from 254 bcm in 2014.

“Gas, through its direct and indirect linkages to oil, is not immune to the tremors shaking the oil industry,” the IEA said. Brent prices dropped from an average price per barrel of above $110 in June 2014 to below $50 per barrel in January 2015. This “steep and sudden oil price” drop isn’t without impact, IEA stressed. Oil and gas companies are cutting capital expenditure programs while 2015 budgets have already shrunk, meaning that “companies are refocusing on core assets while putting large investments through a much tougher vetting process. Amid squeezed cash flows, more costly low-return projects will be cancelled,” the IEA said. “As a result, growth in global gas production is set to slow,” IEA added.

Announcements & Reports

► *The Outlook for Azerbaijani Gas Supplies to Europe: Challenges and Perspectives*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/06/NG-97.pdf

► *Natural Gas Monthly*

Source : EIA
Weblink : http://www.eia.gov/naturalgas/monthly/

► *This Week in Petroleum*

Source : EIA
Weblink : http://www.eia.gov/petroleum/weekly/

Upcoming Events

Supported by PETFORM

► *The Eurasian Natural Gas Infrastructure Conference* ***(in Turkey)***

Date : 09 – 10 June 2015
Place : Istanbul - Turkey
Website : www.engi-conference.com

► *FLNG*

Date : 11 - 12 June 2015
Place : London – United Kingdom
Website : http://www.mioge.com/RPGC-Congress/About-the-Conference.aspx

► *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