# Oil & Gas Bulletin

► *10.07.2015*

# Falling oil prices reflected in Turkey's mkt. in 3 days

Anadolu Agency, *08.07.2015*

**The recent decline in oil prices will be reflected on the market in three days' time, Taner Yildiz said.**

**Noting that crude oil prices have fallen five to six percent compared to last month, Yildiz said this difference will be reflected on Turkey's domestic energy market in three days' time. "We will definitely see the recent decline in oil prices reflected on petroleum products, gasoline, diesel and fuel oil in Turkey. There is an automatic pricing mechanism," he explained. Yildiz stated that if oil prices remain steady at around $50-$55 per barrel, Turkey will pay $13 billion less in energy consumption.**

Yildiz said he talked to Russian Energy Minister Alexander Novak twice in the last two days, while negotiations on the natural gas pipeline project continue. "We haven't reached a conclusion yet. The issues are not completely removed, but we are hopeful. We have to assess the opportunities for the benefit of both countries and come up with a big project. Both sides will try to protect their interests. It is a package deal, which will come into effect once all parts of the package are concluded," he explained. Although there are some drawbacks in the project, Yildiz said feasibility permission was given to Russia in order to avoid any disruptions in the Turkish Stream. Turkey received the coordinates for the planned Turkish Stream pipeline's route on June 15. It was confirmed that the project was not in any territorial conflict with the economic zone of its neighbor, Bulgaria, in the western Black Sea. The proposed Turkish Stream pipeline project plans to carry Russian natural gas under the Black Sea to Turkey's northwestern Thrace region to reach Greece and to further travel on to reach Europe. The offshore part of the Turkish Stream will consist of four pipelines, each with a capacity of 15.75 billion cubic meters, bringing total capacity to 63 billion cubic meters, while around 16 billion cubic meters of that is planned to be allocated for Turkey's domestic use.

Yildiz stated that he hopes Turkey and Russia would not take their gas price case to court of arbitration, and instead their negotiations would be concluded successfully in near future. "Even if a legal path is available for that, I believe the relations between Turkey and Russia will not bring the issue to that point. Both countries have the knowledge and experience to complete the negotiations successfully. Our relationship is set in a mutually non-exploitive way, and both countries abide by this. I believe the next few days will provide some positive outcome about this issue," he said. Yildiz told in early February that Russia agreed to give Turkey a 10.25 percent discount from March onwards, while Turkey insists on increasing this discount.

# Turkish Petroleum: Shale gas operations promising in Thrace

Anadolu Agency, *07.07.2015*

**Exploration operations in Turkey’s northwest Thrace region are promising for the exploration and production of shale gas, Besim Sisman, the general manager of Turkish Petroleum.**

**“We are conducting our operations to explore shale gas rapidly all around the country. But the operations to explore shale gas are very promising in the Thrace region,” Sisman told. “In the next few days, there will be shale gas exploration in three wells in the region,” he added. Noting that shale gas potential is high in Thrace region, Sisman underlined their aim to reach concrete evidence with their operations.**

According to the U.S. Energy Information Administration (EIA), the U.S., Canada, China and Argentina are the only four countries in the world that produce commercially-viable shale oil and gas. Although shale gas and tight oil resources in Turkey are largely unknown, with new unconventional techniques, such as 3D seismic exploration and hydraulic fracturing, it is possible to produce oil and gas from source rocks in shale formations. Sisman said Turkish Petroleum’s oil and natural gas exploration and production projects are ongoing both in onshore and offshore territories, such as the Black Sea in Turkey’s north. He added that the Thrace region is very important for drilling operations and it is where the company conducts offshore operations from. “Meanwhile, we are also planning to increase the capacity of our natural gas storage facilities in Silivri, from 2.6 to 4.3 billion cubic meters, and raise our backward production there from 20 to 75 million cubic meters a day,” Sisman indicated.

# Gazprom seeks new contractor to start Turkish Stream construction

Sputnik, *09.07.2015*

**The energy company announced on Wednesday that it has canceled a contract with Italian contractor Saipem to build the first section of the pipeline under the Black Sea, which had been reached during negotiations to construct the South Stream pipeline in 2014.**

**South Stream Transport, a wholly-owned subsidiary of Russian gas supplier Gazprom, announced on Wednesday that talks will soon begin with new contractors to start construction work on the Turkish Stream gas pipeline from Russia to Turkey, citing a failure to reach an agreement with the Italian engineering company Saipem.**

“Today South Stream Transport B.V informed Saipem S.p.A. of the cancellation of the contract to build the first segment of the gas pipeline’s undersea section, an agreement reached during the realization of the ‘South Stream’ project in 2014,” South Stream Transport announced in a press release on Wednesday. “In the near future South Stream Transport B.V. will enter into negotiations with potential contractors to lay the first segment of the ‘Turkish Stream.’“

According to South Stream Transport, in which Gazprom gained 100 percent ownership in December 2014, after buying shares from minority shareholders (the Italian company Eni, Wintershall of Germany and EDF of France), the decision was reached due to a failure to come to an agreement on a range of working and commercial issues related to the project. Saipem had been due to begin laying the first pipeline, beginning at the Russkaya Compressor Station near Anapa in Russia, at the beginning of June; construction of the line is planned to be finished in December 2016. The contract with Italian energy engineering Saipem, in which Eni has a majority stake, to lay the first length of the gas pipeline was agreed upon in March 2014 as part of negotiations for the construction of the South Stream project, which came to an end in December 2014 after the failure of negotiations with Bulgaria to run the pipeline across its territory. On December 1 2014 it was announced that Gazprom had signed a deal with the Turkish company Botas Petroleum Pipeline Corporation to construct the Turkish Stream pipeline, running across the Black Sea to Kiyikoy on the Turkish coast. The pipeline will have an annual capacity of 63 billion cubic meters of gas, and will have a delivery point at Luleburgaz in Turkey for Turkish customers, and an additional delivery point at the Ipsala border crossing between Turkey and Greece for European customers.

# Future of Turkish Stream

Natural Gas Europe, *06.07.2015*

**After the cancellation of the South Stream natural gas pipeline last December due to the EU's blockage of the project, Russia announced an alternative project called the Turkish Stream which will hit the shore on the European side of Turkey near Kıyıköy.**

**The project is planned to have a gas delivery point at Lüleburgaz in the Kirklareli region of Turkey for Turkish customers, while a delivery point at the border crossing between Turkey and Greece in İpsala will serve European customers. The length of the Turkish onshore section will be 180 kilometers (112 miles).**

The 1,100 kilometer (683 miles) Turkish Stream pipeline will have four lines and an annual capacity of up to 63 billion cubic meters (bcm) of gas. About 16 bcm will be supplied to Turkey while the remaining 47 bcm will go to a hub on the Greek- Turkish border to be transported onwards to Europe. Although Russia determined the project route and pipeline capacity, some obstacles remain. According to the Russian authorities' road map, the project has two main partners: Turkey and Greece. On the Greek side, after the left-wing party, Syriza, came to power in the January 2015 election, Russia welcomed this result. It has been well documented that Russia favored Syriza, similar to the National Front in France and Jobbik in Hungary. This did not arise from these parties' pro-Russian tendency, but their insistence on countering Brussels-led strict policies. Therefore when Greece's Prime Minister Tsipras met with Vladimir Putin in April during Tsipras' Moscow visit, the international community, and the EU in particular, followed the visit with caution.

In addition, the EU and the U.S. began to pressure Greece to withdraw from the Turkish Stream project. Washington discharged their Greek envoy because of his failure to convince Athens to withdraw from the Russian project. While the EU and the U.S. endeavored to prevent Greece from joining the project, Greece and Russia inked a $2.3 billion deal to extend the Turkish Stream pipeline through Greek territory furthering strengthening its hand against the EU. Firstly, while Greece suffers from a deep debt crisis and urgently needs foreign investment, Turkey's economy is in a better position and does not require foreign backing as critically as Greece. Secondly, the Turkish Stream is an important step for Greece in becoming an energy hub, while Turkey already holds other significant projects including the Trans-Anatolian Natural Gas Pipeline (TANAP). Thirdly, Turkey's geostrategic location is more attractive not only for Russia, but also for the Caucuses and Middle Eastern States like Iraq and Iran. Therefore, despite Turkey's willingness to be part of the project, Ankara does not intend to rush into the project. Instead, it is prioritizing the ongoing TANAP project.

Turkish Foreign Minister, Mevlüt Çavuşoğlu, clearly underlined its importance with his statement on Dec. 13, 2014, “We know how important [TANAP] is for Turkey, Georgia and Europe, particularly southeastern Europe. Along with the TAP [Trans Adriatic Pipeline], the TANAP is a project that could carry natural gas to different European countries. We should all exert efforts for the completion of this project, regardless of the decrease in oil and gas prices.” Gazprom had some difficulties in the project process due to Russia’s own economic circumstances and Europe’s imposition of sanctions on Russia after the Ukrainian crisis. Prior to the proposed Turkish Stream, it would have been very difficult, if not impossible; to concurrently finance the Turkish Stream and any other planned energy projects. This was one of the main reasons Gazprom sought international financial partners for its projects. Although the Russian economy is on its way to recovery, it is obvious that neither the Russian government nor Gazprom have the finances in place for the entire Turkish Stream project. As the project will be completed in stages, the first phase of the project plans to end in 2017 for the Turkish Market while the other three phases thereafter plan to be complete by 2019.

Moreover, before the South Stream was aborted, some companies in Europe were granted the rights to take part in the South Stream construction stage but with the project cancelation, these companies suffered in the stock market especially one of Austria’s largest listed industrial companies, OVM. As a result, many energy companies are thinking twice before taking part in Gazprom’s projects, as there are no guarantees that the project will go ahead as previously witnessed. Furthermore, Gazprom unexpectedly signed a set of Memoranda of Intent with the European gas companies, E.ON, Shell and OMV during the St. Petersburg International Economic Forum 2015. With this move, Gazprom aims to construct two additional gas pipeline strings along the Nord Stream pipeline system connecting Russia and Germany through the Baltic Sea. With these memoranda, the aim is to double the current capacity of the Nord Stream from 55 billion cubic meters (bcm) per year to 110 bcm per year. Both the Turkish Stream and an expanded Nord Stream indicate that Russia does not intend to abandon its position in the European market by focusing attention on the Asian market instead. However, both projects will have almost the same capacity after the Nord Stream is extended. This development triggers the progressively urgent question of the necessity of the Turkish Stream especially when considering the European tendency to make every effort possible to develop alternatives to transport natural gas from Turkmenistan to Europe, using either the Trans-Anatolian, the Trans-Adriatic or the Trans-Caspian pipelines.

As a result, Russia and Greece are moving speedily on the Turkish Stream while Turkey prefers to take a sedate pace to thoroughly evaluate the situation. Aside from both sides’ approaches, it is clear there will be economic and political difficulties in the near future for the Turkish Stream. Beyond the exogenous risks, Gazprom’s intention to expand the Nord Stream’s capacity calls into question the future of the Turkish Stream. When taking account Russia’s economic situation and Gazprom’s lack of finance for the project, there are some points which need to be clarified by Russian authorities as to how Russia will finance the project especially after Gazprom aims to expand the Nord Stream. Nevertheless, despite this lack of clarity, it is not easy for Russia and Gazprom to cancel the Turkish Stream. Should Gazprom take such a step, the company’s international reputation and reliability would seriously be wounded. Therefore, although Russia is intent in realizing the project, Russia’s rush for the deal can be interpreted as support for Greece against Brussels’ new economic measures while offering little help to Athens to remain in the Eurozone.

# Source: Gazprom delays gas pipelines to link to Turkish line

Reuters, *06.07.2015*


**Gazprom has told pipeline makers to suspend deliveries of pipes for expanding Russia's network to be connected to the proposed Turkish Stream project, an industry source said.**

**The delay is another snag in Moscow's plans to build a gas pipeline via the Black Sea to Turkey, and on to south Europe in order to bypass Ukraine. "We've got a note to suspend deliveries," the source in the pipeline making industry told Reuters. Russia's RBC daily reported that Gazprom had postponed the network expansion, citing an internal letter. It valued possible losses of Gazprom's contractors at 120 billion roubles if it abandons the expnsion plans.**

Gazprom is building the Southern Corridor, a 2.506-km (1,566 miles) long gas pipeline network on Russian territory, to allow it to boosting supplies to Turkey. The company said in emailed comments that the construction of the network was going according to a plan. Under Gazprom's plans, the Turkish Stream pipeline will be split into four lines with a total capacity of 63 billion cubic metres a year. The first line, due to be launched next year, is to supply just Turkey. However, Russia and Turkey have yet to agree on the price of the gas. Turkish energy company BOTAS has threatened Gazprom with international arbitration if a price deal is not reached.

# Iraq approves $527 million contract for West Qurna-2

Anadolu Agency, *08.07.2015*


**Iraqi government signed a $527 million worth agreement with Russian oil giant Lukoil for a project which will be developed in West Qurna-2 oil field in the south of the country.**

**North Oil Company and Lukoil will develop an oil field in the south of Iraq while Zhongman Petroleum and Natural Gas will be responsible for drilling operation at West Qurna-2. West Qurna-2 is ranked among the world's largest oil fields with recoverable reserves of about 13 billion barrels. Lukoil said that it expected to extract around 20 million tons of crude oil from West Qurna-2 field in 2015. The company aims to reach maximum productiin levels at the field in 2022.**

# Iran increases natural gas output from South Pars field

Anadolu Agency, *04.07.2015*

**Iran's natural gas production from South Pars field increased by 500 million cubic feet (15 million cubic meters) per day on average, the head of Iran's Pars Oil and Gas Company (POGC), Ali-Akbar Shabanpour, said.**

**"The capacity has been provided after four new wells," Shabanpour said, according to Iran's petro energy information network SHANA. "Phase 1 can now produce 1 billion cubic feet (30 million cubic meters) of gas per day," he added. The South Pars field is estimated to hold 14 trillion cubic meters of gas, holding nearly 40 percent of Iran's total gas reserves.**

Mehdi Yousefi, the managing-director of Pars Special Economic Energy Zone, PSEEZ, said June 1 that South Pars gas field is producing 450 million cubic meters of natural gas per day and has 29 phases under development. He informed that development of all phases of Iran's South Pars field is planned to be finished by March 2018. 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 sanctions on Iran are removed.

Currently, Iran and P5+1 countries are in talks in Austrian capital Vienna. Iran hopes the sanctions would be removed if a successful nuclear agreement is reached, so that it can increase its oil and gas exports, and receive foreign investment into its energy sector. Alireza Kameli, managing director of National Iranian Gas Exports Company (NIGEC), said Saturday that Iran is also trying to focus on liquefied natural gas (LNG) projects, and buying LNG vessels. He emphasized that NIGEC is in talks with various companies for their return to Iran once the sanctions are removed. Despite holding the largest proven gas reserves in the world with 34 trillion cubic meters, Iran was the fourth biggest gas producer, after the U.S., Russia and Qatar, with an output of 173 billion cubic meters in 2014, according to BP's Statistical Review of World Energy 2015 published.

# Experts: Syria is not route for KRG oil

Anadolu Agency, *09.07.2015*

**The KRG will not sell its oil bypassing Turkey through Syria as Syrian Kurds are not close allies of the KRG, according to an expert from Dubai-based Manaar Energy.**

**The People's Defense Units (YPG), the PYD's military wing, captured the border city of Tal Abyad assisted by U.S.-led coalition airstrikes from Daesh, the extremist group operating in Syria and Iraq. This enabled them to bridge to what they call 'cantons' under their control. The achievement heated up discussions in local media over a possible pipeline crossing through Syria to the Mediterranean ports for oil exports to the European market.**

"Geographically, KRG oil can get to the Mediterranean via Syrian Kurdish territory and there is certainly no chance of building a pipeline for many years," expert Robin Mill said, adding that some small quantities of oil could be transported by truck and sold locally or transferred to Turkey or other Syrian territories. "But even trucked oil to the Mediterranean could not easily be sold," he said. Jean Seznec, a professor in the international studies department at Georgetown University, said that KRG's options are fairly limited to exporting oil by trucks as they have done previously. "However, the amounts have to be quite limited and the costs are very high. By and large the KRG can use the pipeline they have built to Faysh Khabur, on the Syrian border with the KRG and link up to the Turkish line to Ceyhan," Seznec said. He added that the KRG can also export some of the oil produced in two of the three Kirkuk domes via a small pipeline feeding the larger KRG to the Faysh Khabur pipeline. "There are no other convenient routes. Iran is blocked, the southern route is block by Daesh and it would not be encouraged by Iraq in any event," he said.

Seznec stressed that the security situation in Syria also makes exports for the KRG extremely unlikely. "Again it would have to be by truck, thus small scale and very expensive as well as subject to constant attacks and taxes by Daesh," he said. Erbil, which seats the KRG, exports around 17.1 million barrels of crude oil monthly, or an average of 570,000 barrels per day, through its pipeline network to the port of Ceyhan in southern Turkey where oil is shipped to international markets.

# Yossi Langotsky: Israeli gas export talk is foolish

Globes, *06.07.2015*

**The geologist insists that Israel cannot export Tamar gas until gas is flowing from the Leviathan field. "The challenge we're faced with is maximum of development of the natural gas reservoirs. All those who say that there is gas, that it's flowing, and that we have time - that's simply wrong," Morris Dorfman said.**

**He continued, "The first goal in writing the gas arrangement is developing the reservoirs. Leviathan must be developed, Tamar must be expanded, and Karish and Tanin must also be developed. The second goal, creating competition, comes only after that. We can't create competition tomorrow."**

Dorfman said that this time, competition will be real. "This time, the competition will be between reservoirs, not all sorts of games and stratagems requiring the gas companies to compete with each other within the same reservoir," he declared. Dorfman added, "There's already a problem of supply, compared with demand, and the shortage will only get worse. The arrangement will make possible a relatively quick sale of Karish and Tanin, because the gas companies will prefer selling the reservoirs before they are given to a trustee." Participants in the discussion included geologist Dr. Joseph (Yossi) Langotsky; Idan Wallace and Yossi Abu, representatives of Delek Group Ltd. (TASE: DLEKG) controlling shareholder Yitzhak Tshuva; Delek Energy Systems Ltd. (TASE: DLEN) chairman and Avner Oil and Gas LP (TASE: AVNR.L) CEO Gideon Tadmor; Tshuva's lawyer and media consultant; Antitrust Authority director general Prof. David Gilo; and Noble Energy Israel company manager Binyamin Zomer.

Dorfman also said, "The Tamar reservoir is one of Israel's biggest financial assets. Although many think it's easy to sell it, that's not the case. We're talking here about an asset worth NIS 20 billion, and it's no easy task to sell this within the six-year period given to Delek Group." Answering critics who said that the six-year period allowed for the sale of Tamar was too long, Dorfman said, "I've heard some say that by the time Delek sells it, the gas will run out. That's not true; demand in the Israeli economy is eight billion cubic meters, and the Tamar reservoir has 300 billion cubic meters, so there will be quite a lot of gas left over." Asked by MK Tamar Zandberg (Meretz) why rapid development of the reservoirs was necessary, Dorfman answered, "There's enough gas in the reservoir, but the problem is that there's still only one reservoir and one pipeline." Commenting on the gas price, Dorfman stated, "We decided that until the structural change is completed, there will be a maximum price. We divided it into two: key oil consumers, such as industrial customers, will receive the best gas contract in the Israel economy, and customers less reliant on oil can count on getting the average gas price in the Israeli economy. We decided at as soon as the companies sign export contracts, they will have to offer customers in Israel the same terms.

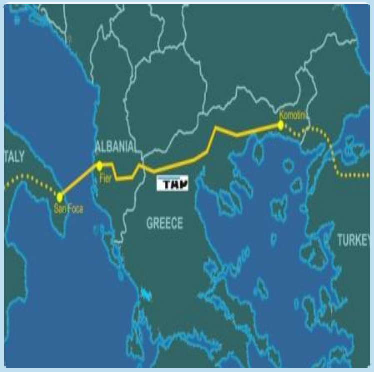
MK Dov Henin (Joint Arab List) argued, “When Noble Energy is in both Tamar and Leviathan, there’s no competition. Noble Energy won’t compete with Noble Energy. Furthermore, the gas companies received their licenses for practically nothing. That’s a scandal that should be investigated.” “We have no other operators for Tamar,” Dorfman answered. Adv. Gilad Barnea, active in human rights and other social issues, claimed that the government should have dealt with the problem of gas redundancy several years ago, and added that he knows of at least one company that could operate the Tamar reservoir beside Noble Energy. “Why not let Edison S.p.A operate the Tamar reservoir? Because the companies want to maintain their monopoly,” Barnea said. Gilo: The biggest problem is Noble Energy’s cross ownership in Tamar and Leviathan. Gilo said that the biggest problem with the gas arrangement was the fact that Noble Energy would continue holding both Tamar and Leviathan. “I understand the concern of the government ministries that if they take unilateral measures, the monopoly will carry out its threat by not developing the Leviathan reservoir. I’m not authorized to weigh considerations other than competition, and I’m not an expert in them. I’m only an expert on competition. At the same time, I haven’t lost sight of other considerations, and that’s why I made an effort to reach an agreed solution. I would accept some damage to competition, but only up to a certain point. “The main problem is cross ownership by Noble Energy, which will continue owning 25% of Tamar and 40% of Leviathan. This will block competition, and there’s no chance of competition. Tamar won’t want to compete with Leviathan, and Leviathan won’t want to compete with Tamar. Therefore, there will be no competition, because Karish and Tanin, which have high costs, won’t be able to complete with the big reservoirs.”

In the discussion, Langotsky said, “There must be no gas exported from Tamar to Egypt before Leviathan is connected. Are you fools? All the security experts decided to export gas to Egypt for security reasons, but that’s foolishness and lack of national responsibility. I could understand financial considerations, but national considerations? Only two weeks ago, the president of Royal Dutch Shell visited Israel and said that Israel shouldn’t export gas.” Langotsky added, “The gas companies are natural bullies. They want to maximize profits; that’s their purpose. But Israel? Are you idiots? If, God forbid, something happens to the Tamar reservoir or to the pipeline, there will be an investigative committee that will single out the guilty parties but how will that help us?” Ministry of National Infrastructure, Energy, and Water Resources Petroleum Commissioner Alexander Varshavsky asserted, “The international companies took no interest in Israel, and those that did take an interest were unsuitable. Development of the Tamar reservoir is a task of great technological and engineering complexity, and not every company can do it. That’s why we didn’t demand that Noble Energy sell off its holdings in Tamar.

Addressing the issue of gas exports, Zomer said, “In the discussions by the Tzemach Committee in 2011, people asked them the same questions that you’re asking now, ‘How did Delek Group and Noble Energy get so many licenses?’ Ori Schwartz answered then, and I’m answering now - it happened because no one wanted to come to Israel. “We didn’t break the law, we didn’t make an agreement in restraint of trade, and we didn’t prevent competition. What we did do was succeed beyond the expectations of the Israeli government. As long as we were unsuccessful in finding gas, Israel was happy about it. The lies we’re heard in recent week are terrible. Zomer further described the course of events that led to Noble Energy owning all the gas licenses: “In 1998, Noble Energy came to Israel and received its rights in Yam Tethys - not from the government, but from Avner Oil and Gas, which found no other company. Eight years later, in 2006, Noble Energy obtained rights in Tamar - again, not from the government, but from British Gas (BG), which gave up on Israel. more than 100 companies in this reservoir, and only Noble Energy agreed to come in.

# TAP announces start of road construction in Albania

Natural Gas Europe, *06.07.2015*




**The TAP announced the start of construction and rehabilitation work on access roads and bridges along the pipeline's route in Albania.**

**According to Albanian officials, TAP will stimulate other foreign investments in the country."TAP aims to build a modern pipeline that will safely deliver Caspian gas to Europe in early 2020. The construction of access roads and bridges in Albania is critical to our project's progress" TAP Managing Director Ian Bradshaw commented. The company confirmed that work is expected to be completed during 2016, while the main construction of the pipeline will start in summer 2016.**

The TAP pipeline will transport natural gas from the giant Shah Deniz II field in Azerbaijan to Europe. The approximately 870 km long pipeline will connect with the Trans Anatolian Pipeline (TANAP) at the Turkish-Greek border at Kipoi, cross Greece and Albania and the Adriatic Sea, before coming ashore in Southern Italy.

# Elements of an optimal fiscal regime for Romania's offshore sector

Natural Gas Europe, *07.07.2015*

**The Energy Policy Group (EPG) organized, with the support of the Romanian Black Sea Titleholders Association (RBSTA), a roundtable on The Romanian Offshore Petroleum Fiscal Regime.**

**Participants included representatives of relevant public institutions, representatives of RBSTA member-companies, fiscal and legal consultants, academia and specialized press. Talks were held in accordance with Chatham House rules. The roundtable was organized in the context of the Romanian Government being in full process of drafting a new oil and natural gas (O&G) fiscal framework.**

Clarifications in this area are necessary and expected by investors and public opinion alike. The fiscal system is a decisive factor for O&G operators. It is the main tool for distributing revenue between state and investors and it must offer a fair, win-win outlook on the long term. The investment cycle of an oil project is long-term – typically 25-30 years, or longer for offshore projects. In addition, offshore projects in particular require large upfront exploration capital investments. Also, the investment risk for offshore exploration activities is high, and the cost recovery timeframe can be over a decade. Therefore, the details of the upstream fiscal framework will be extremely important as companies are hoping to move towards commerciality, since it will generate major long-term effects. This policy paper summarizes the talks at the roundtable and puts forward, based on presented data and arguments, recommendations for political decision-makers in the Government, the National Agency for Mineral Resources (ANRM) and the Romanian Parliament. It also aims to offer the interested public clear and useful information on a topic that frequently raises emotional and disproportionate assessments.

Amid a trend of natural decline of the Romanian hydrocarbon production of about 10% per year, the development of new sources is an economic and energy security imperative. The Black Sea has the prospect of becoming a new natural gas production basin thanks to past years' investments in the deep waters of Romania's exclusive economic zone. Geological explorations by several international oil companies in Romanian offshore perimeters are in full gear and public results are encouraging. Nevertheless, no declaration of commerciality has been submitted as of yet, so the basin's development and production phase is still uncertain, depending on the alignment of various factors, of which the fiscal policy is fundamental. Natural gas production in the Black Sea waters could profoundly transform the Romanian energy security status and generate sustained economic activity, as well as provide additional income to the national budget.

In a geopolitical environment tensed by the Ukrainian crisis and against the background of an oligopolistic Central and Southeast European natural gas market, reducing dependency on imports and raising production above current demand levels will increase the political and economic autonomy of our country. Through interconnections with regional markets, in accordance with the European Union's (EU) energy security strategy, Romania will be able to maximize its domestic gas use and better manage possible regional gas supply crises. Romania must set its strategic priorities and invest in the development of international natural gas transportation projects that will allow the domestic market to develop and increase producers' access to a larger market. It is in Romania's national interest that the Black Sea gas production be taken over into the National Gas Transportation System. The offshore sector represents a strategic priority for the Government, which seeks to offer investors a stable and fair regulatory framework.

A growing part of the world's O&G production comes from offshore development. Technological progress allows for ever deeper offshore drilling, but with a rising level of investments. Production potential is very important given the fact that 70% of estimated offshore resources have not yet been explored. However, the trend is accompanied by ever more significant risks: Major increases in discovery costs. Over the past 10 years, drilling a well grew, on average, four times more expensive. First revenues may not occur until approximately 10-15 years after the investment's start. Increased uncertainty of resource potential. The average success rate of offshore exploration drilling is 20-25%. Necessary infrastructure is more and more complex and expensive. Oil price volatility on international markets is a major commercial risk.

Greater exposure to weather conditions. Geopolitical risks. Political sanctions and/or diplomatic and military tensions may affect the conduct of offshore operations. Fiscal and regulatory risks. With a long investment cycle and high upfront costs, the O&G sector – and especially the offshore one – faces time inconsistency problems: before making major capital investments in the exploration and development phases, the risk factor is higher and the state is willing to offer incentives. After investments are made and higher risk factors have been mitigated, the state has the tendency to revise contractual terms in order to appropriate a larger share of the benefits. In addition, Black Sea activities present a series of specific risks: The Black Sea is less geologically explored having a difficult topography, which in turn makes pipeline construction significantly more difficult. The Black Sea deep waters are highly corrosive, therefore special, expensive technology is needed. Proved Black Sea reserves are mostly of natural gas, with smaller market value than oil, although the required exploration, development and production investments are equally large. Lack of natural gas transportation infrastructure. Limited availability of offshore support services. Increased mobilization costs, because of difficult access through the Bosporus Straits.

At the moment, the oil price drop complicates commercial viability assessments of the Black Sea offshore deposits, despite operators' decision not to decrease exploration budgets. Thus, Black Sea offshore projects' road from discovery to development, production and marketing is still long and fraught with uncertainty. Cooperation between investors and authorities is crucial for reducing regulatory risks, of which fiscal risk is only one type, albeit fundamental. For example, consistent with worldwide offshore oil industry best practices, appropriate Romanian legislation that has an impact on O&G operations must be adjusted and enacted in order to facilitate an optimal working model for the offshore industry. Ambiguities and contradictions concerning authorization and permitting procedures must be addressed and resolved. The authorities are working in consultation with O&G operators' associations on harmonizing the Petroleum Law and clarifying its provisions in order to ensure the required international standards and practices.

For the reasons mentioned above, the Government must acknowledge that offshore projects are in very early stages and there are still considerable challenges to be taken on by investors, not only from a technological point of view, but also from a financial and commercial one. If the fiscal terms set up by the Romanian Government reflect the investors' risk tolerance at the time of the initial investment and the terms do not change unexpectedly over time and are predictable, then the investors can assume a long-term economic return of investments in Romania and the Black Sea. At the same time, the Romanian Government should recognize the unique challenges associated with offshore exploration in a clear, fair and distinct fiscal regime. Through the new O&G fiscal framework, the Government intends to obtain a larger share of the economic rent from the exploitation of hydrocarbons. It is likely that the Parliament will pass the changes this fall.

The authorities want to create a stable and flexible fiscal system, capable of underpinning a sustainable partnership between state and investors. They are familiarized with the ample and diverse risks confronting the offshore hydrocarbons projects. Consequently, the need for distinct regulation of the offshore sector is broadly accepted. Stability clauses, as part of petroleum agreements, are considered as stabilization mechanisms for the upstream fiscal system. They establish that the fiscal terms agreed upon when signing the concession agreement remain in force throughout the agreement's duration. Also, "most favored contractor" clauses can be used, by which titleholders are to receive the better conditions that may result from changes to initial terms.

In this respect, offshore investor’s expectation is that no additional taxes should be added to an emerging industry such as the Black Sea offshore. Changing terms after investments have been madepenalizes early investors and adds another layer of unpredictability about final investment decisions. However, resources offshore Romania would bring additional revenue to the state budget if they are developed. The Government’s credibility to elaborate the new O&G fiscal regime as well as its commitment to build a win-win framework for state-investor relations also depends on following public consultation procedures, both with the business community and the interested public. The Government and the regulator have given assurances that the procedure will be thoroughly followed, with no ad hoc decisions. A draft version of the petroleum fiscal regime is to be made public in July, after consultation with O&G companies, and open for public consultation during the parliamentary break, until the beginning of September. In September and October, the Parliament is to debate the legislative proposal. Finally, the increased efficiency of the Romanian judicial system should offer investors additional assurance when it comes to enforcing the terms stated in the petroleum agreements. Nevertheless, it was noted that the introduction of a special constructions tax on 1 January 2014 also affected the older concessions.

Efficiency, adaptability and sustainability of the new upstream fiscal system will depend on the quality of employed fiscal mechanisms and their parameters’ values. Details have very important long-term consequences in the O&G sector. The petroleum fiscal regime should limit the impact of “regressive” elements (production or revenue-based resource rents), as this will improve the correlation of investor’s profits with capital spending. More technically put, oil companies employ factors of production until the marginal return on each factor equals the marginal economic cost. Nevertheless, a fiscal system based on royalties calculated as percentage of production decreases the marginal return but not the marginal cost, which in turn diminishes incentives for investments. For example, the royalty for gas production is the same, at equal production volumes, regardless of increasing extraction costs over time. This will lead the operator to reduce the level of investment. Hence, taxing production or revenues is equivalent to a regressive oil taxation system – higher cost/lower profit firms end up paying more royalties relative to their profit than low-cost firms. On the other hand, a profit-based taxation system encourages companies to invest until marginal return on the last unit invested just about covers the marginal economic cost. Thus, state and investor’s interests are aligned as both parties are incentivized to increase revenue from a project. For large projects – such as offshore ones, because of their large exploration and operation costs – profit-based taxation is the most efficient,as it will better encourage marginal production and thus allow the state to maximize economic rent capture.

Although profit-based taxation better aligns investor incentives with maximum recovery of the marginal resources, it is also recognized that some fiscal mechanism should be put in place to ensure Government revenues in all years of production (prior to the project as a whole having become profitable). Revenue-based resource rents accomplish this objective. As such, it may be appropriate to have a relatively small revenue-based resource rent in the early years of production that is replaced by a profit-based take once the costs have been recovered and the project generates profits. From a practical viewpoint, it is important that the new fiscal system relies on benchmarking resulting from comparative studies and rigorous quantitative modeling. Romania is competing regionally for attracting offshore investments, so it has to offer competitive fiscal terms. Quantitative modeling of the O&G fiscal system’s functioning, under multiple market scenarios, is an essential tool for fine-tuning fiscal parameters. Both the ANRM and the International Monetary Fund are to perform quantitative modeling of the new fiscal system’s functioning.

As the principles of the new O&G fiscal regime seem to be already decided upon, attention must now be paid to its parameters. This policy paper has presented the characteristics of offshore operations and the particular risks associated with them. In order to stimulate offshore investments, the upstream fiscal system must substantially differentiate the treatment of the offshore sector, and then distinguish between shallow water and deep water operations. Fiscal conditions must be attractive and stable. Stability clauses in the existent petroleum agreements must be properly considered. This is the only way to build a long-term, win-win partnership between state and offshore investors. It may be appropriate for fiscal terms to evolve over time due to changes in risk factors. However, to attract and retain investors, most countries recognize the principle of "grand-fathering", whereby terms of existing contracts are kept consistent with levels agreed upon when the initial investments were made, and the terms of new agreements are adjusted to the changing risk profile. Details of the new fiscal system must not be set without substantive comparative analysis of practices in other producing countries comparable with Romania, and without relevant quantitative modeling of the system's functioning. Romania finds itself in a regional competition for attracting offshore investments. It is in the long-term interest of both investors and the state to encourage investments in exploitation optimization with the continuous use of latest technologies. Lack of such investments will result in suboptimal field operation on the long run, consequently decreasing state revenues.

The public consultation process must be of substance and provide enough time to all interested parties to express their positions. Reasoned proposals and positions must be analyzed carefully. It is in the interest of both the state and investors that the resulting fiscal system be balanced and socially acceptable, as this is the only way to assure long-term political stability, essential in O&G development. The consultation process should be transparently resumed as often as the Government considers changing the regulatory system, and especially the fiscal one. The Romanian Government must strategically coordinate the planning and execution of the needed onshore gas transportation infrastructure in order to be able to take over Black Sea offshore production, with access to European markets.

# Virtual pipelines

Natural Gas Europe, *07.07.2015*

**The TAP and the Turkish Stream pipeline are poised to repeat the same mistakes of their more famous predecessors. Both raise more questions than answers and are tools of foreign policies for different states rather than real objectives.**

**This only increases the chances that both projects may one day be described as "virtual pipelines". Southeast European countries however do not have to be losers in this game because these pipelines are not about gas, but politics. On June 28th 2005, OMV, MOL Group, Bulgargaz, Transgaz and BOTAŞ signed a joint venture, which was destined to pave the way for an ambitious new project.**

The Nabucco was supposed to be the answer to the European Union's energy vulnerability and over-dependence on Russian gas. The aim of the Nabucco was to allow Europe to access gas from the Caspian Sea. Two years later, also in June, representatives of Russian Gazprom and Italian ENI signed a memorandum of understanding for the construction of the South Stream – a pipeline which was meant to respond to the gas needs of southern European countries. It was an open secret that it was primarily conceived as a competing project to the EU-supported Nabucco. This was the beginning of a great virtual pipeline rivalry between Nabucco and South Stream. It ended rapidly and unexpectedly, however. First, in June 2013, Shah Deniz consortium decided to pick the Trans-Atlantic Pipeline (TAP) over Nabucco. Then in December 2014 Russia announced that plans to build South Stream would be dropped. Yet, the competition did not end there. Nabucco was replaced by the TAP, whereas South Stream by Turkish Stream – a new initiative which foresees gas deliveries to Europe via Turkey. In reality, however, everything is at exactly the same point as it was a decade ago. Once again, we are witnessing the competition between two virtual pipelines, which may (or may not) materialise, but which will heavily impact not only the energy discourse in Europe, but also the political dynamics, especially in Central, Eastern and South Eastern Europe.

A virtual pipeline exists only in discourse. Its name appears on memoranda, agreements, official statements and press releases. But it does not materialise. To the contrary, it is used mainly as a tool of domestic or foreign policy, a motivator and a reward but also as a tool of blackmail and extortion. For almost eight years (2007 – 2014) the above factors were present in two competing narratives – a narrative of "energy diversification" epitomised by Nabucco and the narrative of "consolidation of a reliable partnership" represented by South Stream. Some "engineers" were selling a vision of diversified energy supplies, limiting the dependence on Russian gas. Others, at the same time, were undermining the reliability of the biggest gas supplier, marking potential "disruptors" (e.g. Ukraine) and arguing that only a direct route can help to mitigate any disruptions or unforeseen delays. The Trans-Atlantic Pipeline and Turkish Stream so far have followed in the footsteps of their (direct and indirect) predecessors. They both raise many questions and doubts especially at a time of increased tensions between Russia and the West.

What exactly is Turkish Stream? No one really knows much about it apart from two obvious facts. Firstly, that it should transport gas from Russia to Turkey (though Turkey still has not signed an official agreement). Secondly, that it seems to bypass the territorial waters of Crimea (even if the official Gazprom map rather unsurprisingly shows it as part of the Russian Federation). The lack of more specific information does not stop analysts from producing forecasts about its impact on the European Union or the Balkans, thus creating a new augmented energy reality. Greece reportedly has already managed to sign a deal for its part of the pipeline. The Bulgarians ask how it is possible, and what makes it so different from South Stream which was supposed to pass through Bulgaria and was blocked by the European Commission. All of this is caused by a seven-month old virtual project.

The pipeline itself is estimated to cost approximately 3.3 billion euros, which is “tentative” and “based on the cost of the South Stream gas pipeline providing the construction of the pipeline to Bulgaria”. This would imply that what we could really call the “Turkish Stream” is only a pipeline connecting Russian and Turkish shores (previous estimates put the overall cost of the South Stream somewhere between 19-24 billion euros). Any pipeline or interconnector which would run from Turkey to Greece and Bulgaria would be a separate construction. This may be the rationale employed by many actors within the Russian administration (and the EU) to justify how different the Turkish Stream is from its predecessor, the South Stream. Questions remain whether such a Turkey-EU interconnector would be subject to the EU Third Energy Package, one of the nails in the South Stream’s coffin. Lack of clarity on the political scene in Turkey further clouds the picture. An inconsequent result of the recent parliamentary election could in the best-case scenario freeze any progress of the Turkish Stream.

A similar doubt, as in the case of the Turkish Stream, can be raised with the TAP. Where does it start and where does it end? The Trans-Adriatic Pipeline is a natural gas pipeline foreseen to transport gas from the Shah Deniz II field via Greece and Albania and then across the Adriatic Sea to southern Italy. In reality however, what is officially labelled as TAP, is supposed to run only from Kipoli on the Turkish-Greek border to Melendugno in South Italy. Its initial capacity is primarily designed for 10 billion cubic metres per year, which could potentially be doubled. Further to that, Albania plans to establish a national gas grid as well as underground gas storage facilities which could act as an additional source of supply in case of any unforeseen disruptions. “This feature is expected to enhance the gas supply reliability for the EU energy markets and for South Eastern Europe in general and it is argued to be a key advantage of the TAP project.”

TAP is often presented as a more cost-efficient initiative as it seeks connections with other (virtual) pipelines such as the Ionian-Adriatic Pipeline or the Gas Interconnector Greece-Bulgaria. The first would provide gas to countries based along the Adriatic coast from Montenegro to Bosnia and Herzegovina and Croatia, whilst the second would allow to direct supplies to Bulgaria. The myriad of partners and possible scenarios only increases uncertainty. Similar challenges have haunted Nabucco, when some countries were openly flirting with both Nabucco and South Stream, undermining both as a result. In both cases Greece plays the pivotal role. It can also be the spoiler of one (or both) of the pipeline projects. Its complicated and still unresolved situation within the Eurozone cast doubt as to whether any of these two pipeline commitments is an objective in Greek energy policy, or just a tool of its ad hoc European/foreign policy.

Drawing from the history of Nabucco and South Stream, as well as the current debates about TAP and Turkish Stream, one can conclude that in both cases the result (pipeline) is less important than the process (politicisation of the pipeline). In both cases potential recipients, including energy-hungry South East European countries, can only watch and react while decisions are made at the level of great power politics, within the square of Brussels-Moscow-Ankara-Washington. The Kremlin is keenly applying misinformation. Almost every day one can read about memoranda and agreements about increasing Nord Stream’s capacity, building Turkish Stream, keeping both Yamal and GTS (which may also be cancelled) or the newest virtual pipeline – the Eastern Ring. There is not enough demand for so much Russian gas. There is not enough Russian gas to fill all five pipelines. The Kremlin is very consciously playing European countries against each other, exploring their energy needs. Instead of creating energy policy, they only react.

The EU is not able to compete with the same methods. The European Union is not a unitary actor. It has no common energy policy. Security of external energy supplies will remain in the foreseeable future a sole responsibility of national governments. The ambitious agenda set by the Energy Union may reshape the internal energy market, but it will have limited impact on external energy relations. It was already shown when the original idea, put forward by Donald Tusk in his article for Financial Times in April 2014, was watered down by the exclusion of its key argument – the need for the EU to have a mechanism of joint negotiations of contracts with Gazprom. The shock caused by Russia's cancellation of South Stream, despite signed agreements and initial investment (predominantly in Serbia) has shown that nothing can be certain until the pipeline is both built and operational. Signed agreements are no proof of the seriousness of the project. The recent Greek-Russian memorandum is a great PR victory for the Kremlin, but nothing more than that.

Virtual pipelines are here to stay. In Europe they have become tools in the renewed competition between Russia and the West. As it was in the case of Nabucco and South Stream, the term one will most often hear in the debates over TAP and Turkish Stream will be “geopolitics”, or its variation – “geoeconomics”; Not “economic viability”. Why then, will they remain virtual? Firstly, various examples of virtual pipelines show that they are usually short-term and politically driven projects. A change in government can lead to a complete overhaul of an energy policy. Pipelines are a long-term investment. They like stability just like their investors. Uncertainties surrounding Turkish Stream and TAP may in the end decide their fate. Secondly, the European Commission seems to be more inclined to “root out” energy islands in South East Europe. Although the European Commission prioritises energy diversificationit seems that the agenda of Energy Union will be more inward looking.And thirdly (and perhaps most importantly), is because Europe in general and South East Europe in particular do not really need so much gas. The European Commission's 2050 Energy Roadmap projects a decline in natural gas imports. As researchers from South East Europe Energy task force point out, although gas is almost exclusively imported from abroad, it accounts for a relatively low proportion of the energy mix in the region. Countries do not need more gas. They need more energy efficiency, joint investment projects (e.g. in renewable energy), more significant use of hydropower, and most importantly – alignment with EU energy legislation, in particular with the EU Third Energy Package.

The debate between energy diversification versus reliability of supplies, characterised by the Nabucco and South Stream pipelines respectively, has had its impact on the politics of different European countries and on EU recommendations and policies, even though physical pipelines were never built. Nevertheless, Russia will continue to send mixed signals about different pipelines, while South Eastern European countries will continue promoting TAP in the hope that it will increase or speed up the process of their Euro-Atlantic (or only European) integration (apart from, of course, additional gas supplies). In the end the pipelines primarily remain tools of foreign policy. Stories of two virtual “peace pipelines”: the Iran-Pakistan pipeline, or the Armenian-Azerbaijani pipeline (ideas circulating in the mid-1990s) are great examples of that. At this point it seems that both the Trans-Adriatic and the Turkish Stream pipelines will join their more famous predecessors – the Nabucco and South Stream.

# Poroshenko: Only way for Russian gas is Ukraine

Anadolu Agency, *07.07.2015*

**There is no alternative route except through Ukraine for Russian natural gas to European Union member states, Petro Poroshenko, president of Ukraine said.**

**Poroshenko said that he is confident that the transit of Russian gas through Ukraine will continue after 2019, - the deadline date for Russia's Gazprom and Ukraine's Naftogaz's deal to transport Russian gas to Europe, news agency Sputnik reported."I am sure that the transit through Ukraine and the transit agreement between Ukraine and Russia, will be extended beyond 2019 because there is no other alternative," he said in Ukrainian capital Kiev.**

He added that any gas transportation projects, which bypass Ukraine, are meaningless as they will make gas in Europe more expensive.

# President: Ukraine key partner for guaranteeing Bulgaria's energy security

Natural Gas Europe, *08.07.2015*

**"Ukraine is a key partner for guaranteeing Bulgaria's energy security, as well as the energy security of Southeast Europe and the continent as a whole," Bulgarian President Rosen Plevneliev said.**

**He stressed that Ukraine and Bulgaria were Europe's engines in the efforts to make natural gas an ordinary product and not a weapon. "We are convinced that Russian, Azerbaijani and many other companies delivering gas to Europe will take advantage of the environment that Europe offers – environment of rights, competitiveness, clear regulation, the Third Energy Package." he said.**

"It is not directed against anyone but it is Europe's chance to guarantee competitive prices and free market. Let the natural gas b traded freely at the markets instead of serving as an instrument for destabilisation of one or another country," Mr Plevneliev added.

# Ukraine-Russia: Who will cross the debt-race finish-line first?

Reuters, *08.07.2015*

**Sanctions, low energy prices on the Russian side, and a potentially explosive economic context on the Ukrainian side indicate that Kiev and Moscow are running the same race, and it is not a rewarding one.**

**The two countries are, in their own way, running toward increased debt Ukraine is having serious issues as a country with a series of deadlines fast approaching; while Russian companies' situation seems to grow more dangerous day after day. As reported by Moody's, Gazprom, and Rosneft are suffering, with market conditions and a possible slowdown in production further aggravating the situation.**

But there is a caveat to be made. The medium-term risks in Russia are not even vaguely comparable to long-term risks in Ukraine. And Russia's ability to pay off part of the public debt accumulated between the beginning of the 2007 "crisis" and the beginning of 2014 suggest that Moscow has loaded guns - it is missing some opportunities in the LNG segment and it is allegedly misevaluating the situation, but its strategy of waiting Ukraine's economic-depression-led uprising could pay off in case of weak Western support to the country. This is one of the views that emerged during a conference organised by the Centre for European Forum and Carnegie Europe on Tuesday. The same day, Rosneft flexed its muscles signing agreements with Egypt to show that, despite the difficulties, Russian energy sector remains globally appealing.

In the coming 7 months, Kiev is called to (i) implement the conditions of the Minsk agreement by the end of the year, (ii) prepare the country's economy to make the most of a free trade agreement with the European Union to be implemented in January 2016, (iii) meet the conditions for a visa liberalisation program with Brussels, and (iv) proceed with a debt restructuring with the IMF. At the same time, Ukraine could be called to repay the $3bn Russian eurobond at any time, as the contract between Moscow and Kiev gave the Kremlin the power to do so in case Ukraine's public dept to GDP ratio exceeded 60% (it is now over 71%). In other words, as recently written by Adam Swain on the Financial Times, Russia could trigger a Ukrainian sovereign default at any time. Also in case the Kremlin did not ask for immediate repayments, Ukraine will have to pay the debt on December 20, 2015. This will require European and/or American support. The economic condition is so critical that financial problems might emerge even tomorrow, with unforeseeable repercussions. "It can be a very explosive cocktail that could have destabilising effects" an EU Official said during the conference.

Speaking with experts on the sidelines of the conference, it seemed clear that European “let’s make Ukraine a better place and every investor will like to go there” argument is probably over simplistic. There are so many problems in Ukraine that Europe and the US have to take their own responsibilities. Financial support seems inevitable. Last week, Ukraine won preliminary approval for a $1.7 billion emergency loan payout from the International Monetary Fund. The final green light is conditional to the implementation of some economic policies. The thorniest issue is cutting its debt burden. Also in the gas industry, prospects are not that rosy, and Western expertise could come in handy, especially in a moment Ukraine is not pumping much gas in its storage facilities - they just hold 12.2 bcm of natural gas. As argued by Alan Riley, Professor of Law at City University London, Ukraine should also be supported to promote a full liberalisation of the upstream sector, which could make it energy independent in 2-3 years.

Despite the efforts, problems might be too much also for a well-intentioned Europe.  The European Official reiterated European claims that Ukraine will remain key transit country for Russian gas to Europe. The statement had already been made by Maroš Šefčovič, Vice-President of the European Commission (EC) in May. However, both European officials failed at providing a clear explanation of how Brussels intends to achieve such a result. The argument that the Ukrainian Gas Transmission System is the most cost effective is none of Brussels’ business, and it does not depend on European computations. During the conference, Russian experts pointed out that Ukrainian GTS requires modernisation investments that might not be in Russian interest now, also questioning European evaluations on the efficiency of gas transits through Ukraine.

Declining production in Russia due to lack of investments in technology could be a problem for Russia indeed. According to Russia’s former Deputy Energy Minister Vladimir Milov, Russia is failing the LNG challenge, Rosneft is unable to borrow money on the international markets, Gazprom’s projects to China and Turkey are likely to be just regional stories, possibly experiencing downsizing in the coming months. “It could be limited to 30 bcm” Milov said during the conference, referring to the Turkish Stream. Milov’s remarks came a few hours after an article published by Reuters, which reported that Gazprom told pipeline makers to suspend deliveries of pipes for expanding Russia’s network to be connected to the Turkish Stream.  Meanwhile, Western rating companies keep questioning the stability of Russian energy companies. ‘Moody’s research shows that, on a country-by-country basis, Russian companies’ cash holdings diminished in 2014. The decrease was mainly the result of lower new debt issuance and lower oil prices. Russia’s OJSC Gazprom (Ba1 negative) and OJSC Oil Company Rosneft’s (Ba1 negative) cash piles have diminished, meaning that they are no longer among the top 10 cash holders’ reads a note released by Moody’s on Tuesday.

The Russian energy sector might lack some technologies or might fail sizing all opportunities, but it is set to remain a key player. As reported by Sputnik on Tuesday, Gazprom CEO Alexei Miller said on Monday that the average daily supply of Russian gas to Germany in July was 13% higher than in June and 29.7% more compared to the same period of last year. Rosneft signed documents to define key terms of cooperation with Egyptian companies. ‘Rosneft Chairman of the Management Board Igor Sechin and Egyptian General Petroleum Corporation (EGPC) General Director Tarek El-Molla signed a Term Sheet for prospective supplies of oil products and liquefied petroleum gas (LPG) delivered by Rosneft to the Egyptian company’ reads one note. The Russian company also intends to increase LNG cooperation with Egypt.

‘Rosneft Chairman of the Management Board Igor Sechin and Egyptian Natural Gas Holding Company (EGAS) Chairman Khaled Abd El Badee signed a Term Sheet for Rosneft future supplies of liquefied natural gas (LNG) to the Egyptian company’ Rosneft wrote in a separate press release. Gas is meant to stay in Europe’s energy mix, Russia is meant to remain a key player, while Ukraine is probably meant to remain in the doldrums. During Tuesday’s conference, nobody explicitly admitted that Ukraine’s suffering just started, but many vaguely suggested it might be the case. Europe, Russia and Ukraine will keep paying the price of the confrontation, but Brussels and Moscow will go through, in a way or another.  Kiev needs external support, not having enough instruments to meet the coming financial and political deadlines. In case of a superficial understanding of the situation, a new Greece could be around the corner, and Moscow could take advantage of the confusion. Russia could easily demonstrate that European financial support strategy is quite complex, slow and feeble. A change in the Ukrainian political leadership could be then more than likely.

# Why Gazprom became so flexible

RBTH, *06.07.2015*


**Russia’s natural gas giant is planning to put three billion cubic meters of gas up for auction - yielding to pressure from European customers, experts say. It may also scrap plans to stop Ukrainian gas transits, reducing supply risks linked to the construction of a new Turkish route.**

**In September 2015 Gazprom will hold an auction for the supply of three billion cubic meters of gas to the European market, business daily Kommersant reports. Alexey Miller told that it will be a spot bid auction, for the supply of gas “here and now, rather than the traditional take-or-pay model used by Russian companies.**

The Russian energy company also unexpectedly announced the possible continuation of gas transits through Ukraine. Last year Gazprom said it would cut Ukraine out of the transit market after it announced a new line via Turkey. The Turkish Stream will pipe gas under the Black Sea for delivery to southern European countries. “Gazprom is putting up a trial balloon by selling three billion cubic meters of gas on the spot market,” said Ivan Kapitonov, a state economic regulation expert at Moscow’s Presidential Academy of National Economy and Public Administration. If successful, the plan will not only allow Gazprom to sell more volume, but put it in a stronger negotiating position on the Turkish stream, which is not yet finalized. Gazprom is clearly signaling that it is considering alternatives to increase gas supply to Europe, Kapitonov added. Ilya Balakirev, a senior analyst at UFS IC, says Gazprom occasionally sells small volumes of gas on the spot market, but the company is unlikely to abandon the take-or-pay scheme. “Pipeline deliveries have fixed transportation costs, and if the actual supply volumes are significantly reduced, the company incurs losses,” he said. But Gazprom could abandon the take-or-pay scheme if gas transit technology changes. Such schemes are not used for tanker shipments of liquefied natural gas, he noted.

Russian President Vladimir Putin has also told Gazprom to enter talks about extending Ukrainian transits after 2019, Gazprom chief Miller says. The company had said it would stop using that route in 2019, when the current contract expires. In April 2014, Miller said that due to the construction of the Turkish Stream pipeline in 2019 Gazprom would end gas transits through Ukraine. Kapitonov believes Putin's order is designed to tackle a number of objectives. It will increase pressure on the Turkish side in the Turkish Stream discussions and encourage rapprochement with Ukraine. “The abandoning Ukrainian transit was not a constructive position,” says Mikhail Korchemkin, of East European Gas Analysis. “Potential Turkish stream partners may be becoming intractable, and this is a signal for them,” Balakirev says. He believes that the first phase “the Turkish stream, intended only for Turkish market” will be completed in any case. Earlier this month, during the St. Petersburg International Economic Forum, Gazprom announced plans to double the capacity of the Nord Stream pipeline that connects the Russian gas supplier with markets in northern Europe through Germany. The gas company signed a deal memo with Anglo-Dutch petroleum giant Shell, Germany's E.On and Austria's OMV to build two new gas pipelines under the Baltic Sea with a total capacity of 55 billion cubic meters.

# Russia's gas pipeline strategy and Europe's alternatives

ECFR, *07.07.2015*

**There is an immediate threat to gas supplies that the European Commission needs to deal with. The recent break-down in negotiations over gas supplies to Ukraine should be taken very seriously: Europe cannot bet on warm weather to deliver security of gas supplies. Ukraine was lucky to live through the last winter safely with minimal gas purchases.**

**There are no guarantees that every subsequent winter will be warm. And there are few options for Europe to secure gas flows to its citizens this coming winter other than doing its homework and to continue supporting Ukraine in securing finances for filling up its storage capacity.**

Strained relationships between the EU and Russia due to the Ukrainian crisis have forced Gazprom – Russia's state gas monopolist – to abandon the idea of controlling pipelines from ‘wellhead to burner tip’. Gazprom's new grand vision in Europe is to build pipelines to the EU border and from there its clients are expected to take gas to their home markets. As part of this vision, it also commits not to use Ukrainian pipelines after 2019. So if Europeans need Russian gas they should build the missing links connecting to Gazprom's proposed pipelines – the Turkish Stream and the recently-announced expansion of the Nord Stream link – themselves, or so goes the current thinking in Gazprom and the Kremlin. However, neither Turkish nor Western companies are rushing to build these pipelines.

What is left for European energy security is the possibility that Western energy companies may take risks in dealing with Ukraine's transit issues post-2019. Indeed, this may seem unpalatable for risk-averse Western companies; however, recent policy and market developments in Ukraine – aimed at energy reforms following Europe's guidelines – give us some optimism that there might be some degree of 'normalisation' of energy trade on the continent in the next few years. To ensure this normalisation, however, Europe should keep engaging with Ukraine and Turkey – the two most important transit countries for European gas markets – to make sure that energy market liberalisation processes there do not stall due to domestic political dynamics and short-term energy populism. Europe without Russian gas through Ukraine (ca. 70 billion cubic metres per year) is tantamount to Northeast Asia without Japan's entire nuclear power fleet. So, what will happen to European gas markets, should Moscow stop using Ukrainian pipelines after 2019? First, Europe might be left without Russian gas going through Ukraine by the early 2020s. The implications of this scenario may be rather dramatic for Europe, had we not lived through a period of rising energy demand, and by implication prices, post-Fukushima. Europe without Russian gas through Ukraine (ca. 70 billion cubic metres per year) is tantamount to Northeast Asia without Japan's entire nuclear power fleet.

However, such a shock might not impact European prices in the same way as it did in Northeast Asia because we are entering a 'buyers' market'. Indeed, the demand in Asia is lower than anticipated and developments in liquefied natural gas (LNG) capacities globally favour gas consumers. But, the recent slump in oil prices means that some of the LNG production capacities may never materialise, while the low price environment would also encourage more gas demand. Thus, markets are self-correcting the imbalances and eliminating the potential surplus. What could really constrain the long-term upward pressure on prices, should such a supply shock materialise and persist, is Europe's willingness to pay for gas, which is relatively low. This is perhaps thanks to German, Spanish and Italian taxpayers who contributed to financing renewables, making electricity markets in Europe not only 'greener' but also to strategically counterbalance the market power of gas suppliers such as Russia or Qatar. Still, a price increase in relative terms could be rather sharp in the short-term, should we witness the removal of Russian gas volumes through Ukraine.

Even if the commercial side of the transit question is resolved, a 'transit–avoidance' policy is deeply rooted in the minds of Gazprom's masters in Kremlin. Thus, the desired positive development is some sort of reconciliation between Russia and Ukraine, possibly through the containment of the conflict in the Donbas. In principle, Gazprom might continue using Ukrainian pipelines if 'commercial' conditions – such as the transit fee – are attractive. But recent announcements suggest that Ukraine is asking too much and Gazprom is unhappy with the proposed transit price. Furthermore, even if the commercial side of the transit question is resolved, a 'transit–avoidance' policy is deeply rooted in the minds of Gazprom's masters in Kremlin. This policy dates back to the early 1990s and since then Russia's gas policy has been to bypass Ukraine's pipelines at any cost. It remains to be seen whether structural changes in the markets and geopolitics force Gazprom's political masters to 'rationalise' its European strategy, and in particular its strategy vis-à-vis Ukraine. Should this rationalisation happen, then the Russians could 'flood' European markets with cheap gas, fuelling the much sought re-industrialisation of European economies. But this would require more than just a rational business plan – investing political capital to rebuild trust at the highest level between Russia and Europe, and most importantly, between Russia and Ukraine. Russia's pipeline strategy and the threat to gas supplies pose real challenges, but instead of focusing on real diversification, the Commission has to mediate the negotiations and be the 'financial broker'.

# German BASF considers joining Nord Stream-2 project

Anadolu Agency, *08.07.2015*


**Russian energy giant Gazprom discussed German company BASF's participation in the Nord Stream-2 natural gas project in Berlin, according to Gazprom's press release published.**

**The Nord Stream-2 project is laid under the Baltic Sea from Russia to Germany and has a capacity of 55 billion cubic meters. Alexei Miller, the CEO of Gazprom and Kurt Bock, the chairman of the multinational German chemicals company, BASF SE, discussed prospects for expanding bilateral cooperation. "Cooperation was devoted to the participation of BASF in the contruction of the Nord Stream-2 pipeline," Gazprom said.**

Germany is the largest consumer of Russian gas, and last year Gazprom sold 40.3 billion cubic meters of natural gas to Germany. Gazprom holds a 51 percent share of the Nord Stream while Wintershall and E.ON hold a 15.5 percent interest each while Gasunie and Engie each hold a 9 percent share. The Nord Stream-2 project was announced on June 18, when Gazprom, E.ON, Shell and OMV signed a MoU for the construction of the project which will add two additional pipelines. The first two pipelines of the Nord Stream have been operational since 2011 and 2012, with an annual gas capacity of 55 billion cubic meters.

# Gazprom discusses Nord Stream 2 project with Germany's BASF

Natural Gas Europe**,** *08.07.2015*

**Gazprom said that German Vice-Chancellor Sigmar Gabriel supports Russian intentions to build new pipelines to Europe. The Russian company said that Nord Stream 2 would enhance reliability if Russian gas supplies to Europe.**

**'The meeting addressed the reliability of Russian gas supplies to Europe.The parties pointed out the success of construction, high operational efficiency and environmental safety of the Nord Stream I gas pipeline and also highlighted the importance of creating new direct routes for Russian gas supplies to Europe amid the declining domestic production in European countries' Gazprom wrote.**

Sources reported that BASF could take part in the Nord Stream 2. Gazprom confirmed it. 'The parties addressed further cooperation between the companies. The focus of the meeting fell on the BASF participation in the construction of the Nord Stream II gas pipeline' reads a separate press release, reporting the working meeting between Alexey Miller, Chairman of the Gazprom Management Committee and Kurt Bock, Chairman of the BASF Board of Executive Directors. Nord Stream is an export gas pipeline with an annual capacity of 55 billion cubic meters. Nord Stream AG, a joint project company, is the project operator. Gazprom holds 51%, BASF's subsidiary Wintershall and E.ON – 15.5%. ENGIE is the fourth partner with 9%. Austria's OMV is reportedly interested in investing too. 'The parties addressed further actions within the Nord Stream II project, particularly setting up of a joint venture to be responsible for the gas pipeline design, construction and operation. In addition, the meeting touched upon the acquisition of a stake in the joint venture by OMV' Gazprom wrote on Tuesday, referring to a meeting between Alexey Miller, Chairman of the Gazprom Management Committee and Rainer Seele, Chairman of the Executive Board and CEO of OMV. During the first day of the St. Petersburg International Economic Forum, Gazprom signed a Memorandum of Intent with E.ON and OMV for a 55 bcm gas pipeline.

# Saipem receives termination note for black sea pipeline contract

Natural Gas Europe, *09.07.2015*

**After witnessing its shares going up and down over the last days, Saipem received notification of the termination for convenience of the South Stream BV contract. The ENI's subsidiary wrote it, explaining it received the communication.**

**'The termination for convenience is a standard contractual clause which provides for the termination of the agreement in the absence of a contractual breach, with compensation determined in accordance with the terms and conditions of the contract' reads the note released by the leader in the provision of engineering, procurement, project management and construction services.**

The evolution of the share price over the last few hours indicate that it remains unclear what will be the effect of the termination of the $2.2 billion contract on the company's fortune. Gazprom said it canceled the deal because it couldn't agree with Saipem on terms, Sergei Kupriyanov, a spokesman for the Moscow-based company, told Bloomberg. The cancellation comes a week after Russia approved access for Saipem's ships to lay pipes in the Black Sea. 'Saipem confirms that the pipelaying vessel Castoro 6 was in the process of mooring in Russian waters to start pipelaying activities' the Italian company wrote on its website. The cancellation might also have an impact on the Turkish Stream project, and it could be related to divergences between Turkey and Russia about the gas pipeline. What's very likely is that the cancellation of the contract will slow down the construction of the Turkish Stream. In other words, the notification further increases uncertainties.

# Lithuania seeks "more flexibility" in LNG terminal contracts

Natural Gas Europe, *06.07.2015*

**As Lithuania's Energy Minister does not deny the country is in talks with Norway's Statoil over a more flexible LNG supply schedule to a LNG terminal in the seaport of Klaipeda, the Government may also ask for more suppleness from Norway's Höegh LNG.**

**Höegh is the leaseholder of the floating storage and re-gasification unit (FSRU) in its seaport, possibly seeking its earlier buyout or extension of the 10-year lease, which would placate the concerns the project vital for the Baltic state's energy independence is the short-term. Lithuania may want to review key LNG terminal contracts**

"If the talks with the Norwegians turn out to be true, it would not surprise me very much, as Lithuania, struggling to find buyers for the gas on international markets, has to inevitably go over again the contracts with the partners (Statoil and Höegh LNG, too) and see where sides can agree on more flexible terms that better accommodate the terminal's current needs," Juozas Augutis, a Lithuanian energy expert, told Natural Gas Europe. "The strides in that regard have been purposeful lately." Energy Minister Rokas Masiulis says however that reports about the Ministry's talks with Statoil over a more flexible schedule of the gas import are too "premature"- Bloomberg was the first to break out the news, but the Minister, citing some factual discrepancies, called the story "misleading"- but did not deny the talks are ongoing. "Various operating modes at Klaipeda LNG terminal and its possibilities are currently being tried out and the Energy Ministry has asked companies related to the LNG facility to get ready for various possible scenarios," Masiulis was quoted as saying by Lithuanian media. "Even if we do not rule out this (talks) happening for some time, at this stage all is rather about consideration of possibilities. When there is an agreement on these possibilities, then decisions on a model of operations will be made," the Minister explained.

Asked by BNS, a Lithuanian news agency, whether LitGas, the country's gas distributor, is in touch with the Norwegians over the gas issue, Masiulis admitted the company is indeed in talks with the Latvians – the neighbors prefer the Gazprom imports over the Lithuanian LNG for now - on the use of the Incukalns underground storage gas facility. "It is also holding talks with Statoil on increasing the flexibility of supplies, but I wouldn't like to elaborate…But the Ministry has asked the LNG terminal-related companies to look into all possibilities so that we know all the options when we map out a scenario of its operations for next year," the Minister said. Under a long-term gas supply contract Statoil is to supply Lithuania annually with 540 million cubic meters of gas to the Klaipeda LNG facility for five years. The terminal's capacity is nearly six-fold larger, but cannot be used as the country struggles to find buyers for the gas on international markets.

Reportedly, Litgas got hold of Statoil unable to sell some 150-200 million cubic meters of the annual volume this year and around 240 million cubic meters next year. The figures make nearly half the current LNG terminal capacity. “Companies have to be ready for various scenarios” Masiulis hints the situation needs to be addressed and, with “various regimes tried out” the LNG terminal- relevant companies have to be “ready” for various scenarios. “As far as the operations of the facility are concerned, all actions have to do in one or another with the flexibility of the terminal and ratcheting up its potential so that we can know the possibilities of the infrastructure, which would allow is get ready for the most optimal scenario,” Masiulis told. Among the “try-outs,” he pointed out, is testing the gas reservoirs, pumps and the quality of gas. “With the gas being stored in the reservoir longer, or pumping it faster, we might have a discussion on alteration of the gas quality parameters just because it (gas) is changing with the time elapsing. If that were the case, then the gas could possibly be used elsewhere, but this is not envisioned in any legislative norms now,” the Government member pointed out.

To the observation that the LNG terminal experiences gas surplus especially during summer, when the local power generators barely use the gas and the exports are tepid, Masiulis responded that the “issue” is being underlined “too much.” “Therefore the Ministry is on a lookout for various forms of flexibility,” he reiterated. The striving, he says, includes “hypothetical” possibilities on the extension of the terminal’s lease or its buyout from Höegh LNG. According to the Minister, such developments are “plausible” just because they would allow reduce the terminal operation costs. “(When it comes to the financing) it is an integral part of the question and we’d tackle it in one way or another. “Klaipedos Nafta” (Klaipeda Oil, the terminal managing company) has got quite a few options, among them getting a loan from the European Investment Bank or some other banks. Options are out there, but they can be concretized when we take on one thing, or another. Until then all is in the initial stage - it’s too early to talk about what scenario will be chosen,” Masiulis noted. He underscored that the liquefied natural gas terminal has already played its big role in forcing Gazprom to offer the gas discount of nearly 20 percent to Lithuania and the terminal gas price, the Minister insists, will not go up anymore.

Lithuania has called on recently Poland, the partner in building GIPL, gas interconnector between the countries, to tackle the issue of the pipeline’s financing. “GIPL implementation will secure the establishment of EU Energy Union and will erase the bloc’s energy islands,” Butkevicius, the Lithuanian Prime Minister, told his Polish counterpart Ewa Kopacz in a meeting in Brussels. Many experts believe the gas link could open up whole new opportunities for the Klaipeda LNG terminal. But with the two neighbors looking forward to the inauguration of LitPol project, the electricity grid interconnector, Lithuania and Poland have been struggling with the gas pipeline. Back in April the Prime Ministers of Latvia, Lithuania and Estonia addressed the European Commission (EC), asking to say a word on the GIPL financing – Poland reportedly wants the EC to allot more funding for the project, as well as for the other Polish gas connector, with Slovakia. The EU top priority-marked 534-kilometer €558 million project is due at the end of 2019, but experts fear the deadline might be missed if the countries do not meet their financial obligations.

Once in operation, GIPL is thought to considerably boost the attractiveness of Klaipeda LNG terminal and lift it status to regional. “It won’t happen, however, right away with the launch. This will be possible if liquefied natural gas replaces gradually conventional fuels used for maritime logistics, heat production and by the industry. To make it happen, Lithuania has to clearly stick with gas, but it won’t be easy as bio-fuels also see much support. With the preponderance of gas we’d be able to supply it from the terminal to medium-size marine vessels and industry that is not connected to the main gas mains,” several Lithuanian experts told Natural Gas Europe. One of them, the aforementioned Augutis, also counts on Ukraine’s potential. “With the gas link we’d come close to Ukraine and, with the political will out there, the terminal, though small for a country size of Ukraine, could get a decent job there,” the expert believes. With the gas supply in the market, he says, Lithuania cannot relinquish Gazprom gas if it is cheaper on the market, but it cannot compromise Lithuania’s energy security, Augutis emphasized to Natural Gas Europe. Another energy expert, Zilvinas Silenas, president of Lithuania’s Free Market Institute, says “the more possibilities the better for the end consumer” and reminds that Lithuania itself has not earmarked money for the Lithuanian-Polish gas link “for many years.” “I reckon Poland has questions over profitability of the project, especially with the other gas projects being pursued in the region,” the expert said. “The geopolitics is tense, but many countries though, like Germany, for example, first seek to make sure their gas supply contracts are long-term. From the point, the Germans’ late accord with Gazprom over the construction of a new pipeline through the Baltic Sea should not surprise anyone.”

Richard Schroder, the Commercial Dirctor at Bomin Linde LNG, a Hamburg-based full-service provider of liquefied natural gas (LNG), believes that the future of the Lithuanian gas terminal is hinged on the ships’ adaptability to LNG as the fuel. “Klaipeda should become the main supplier of liquefied natural gas in the Baltic region. I envision it servicing three types of consumers: first of all, marine vessels, then small LNG terminal and, finally, supply industrial enterprises directly from the gas stations,” Schroder predicted. He believes that due to the more stringent environmental requirements around 10 percent of all vessel owners will have the conventional gas replaced with LNG over the next five years. But there is not many that type of ships yet in the offing of the Baltic Sea yet, he says, just 16 (are out there), however nearly two dozen of them are under the way or in the pipeline. If all pans out in favor of liquefied natural gas, 11 Baltic ports, including Klaipeda, would serve as hubs of their fuel supplying through specially designed stations.

The aforementioned Klaipedos Nafta considers construction of such a station over the next few years, which, when built, is expected to provide around 200 thousand cubic meters of gas for the Baltic ships over the next couple of years. This amounts to nearly half the Klaiped terminal’s yearly capacity now. Mantas Bartuska, Klaipedos Nafta Director General, says the company will follow into the footsteps of Poland which is successfully launching on-water ship-refueling LNG stations. “Therefore we expect that the gas distribution station we will build in Klaipeda will contribute to the potential of the market growth. i.e. the consumers in the Baltic region will be able to use more liquefied natural gas. Besides, it could be delivered to Finland, Sweden, environment-conscious countries already using clean fuels,” the Director said.

# Iran's gas in EU by 2016?

Natural Gas Europe, *06.07.2015*

**While general discussion focuses on the prospects of Iran starting natural gas exports to Europe via pipeline or LNG shipment by 2020, a senior Iranian gas official says the country is in talks for the use of floating LNG vessel serving to liquefy and transit Iranian gas to Europe sooner.**

**In its fourth 5-Year National Develop Plan (2005-2009), Iran set targets to produce 70 million tons of LNG from iran's gas fields by launching six LNG production facilities, but all of them was cancelled due to sanctions. Recently Iran's Oil Minister Bijan Namdar Zanganeh discussed resuming a 10-million ton LNG production project with Germany's Linde AG.**

Iran also has negotiated building mini LNG plants with Russian Gazprom. However, Alireza Kameli, managing director of National Iranian Gas Exports Company told Shana on July 4th that Iran has been negotiating with the "world's biggest company in FLNG shipping serving to transfer Iranian gas to Europe in 7 to 12 months." Floating LNG can take natural gas in coast, liquefy, store and transfer that to markets overseas. Kameli didn't name any company, but it seems he refers as saying "the biggest FLNG shipping server" to Royal Dutch Shell Plc, which its CEO Ben van Beurden travelled to Tehran in June. This company which has a $2.3 billion debts to Iran also owns the biggest FLNG ship in the world. Shell's Prelude FLNG facility able to produce at least 5.3 million tons per annum (mtpa) of liquids: 3.6 mtpa of LNG – enough to easily satisfy Hong Kong's annual natural gas needs – 0.4 mtpa of liquefied petroleum gas and 1.3 mtpa of condensate (equivalent to 35,000 bbl/d), the company's official website says. Previously, the deputy head of National Iranian Gas Company Monouchehr Davoudi, mentioned Shell company's capacity to serve Iran with FLNG facilities during an article, published on Oil Ministry's official website.

Responding to Iran's FLNG shipping needs, Nureddin Wefati, the head of media relations, MENA, at Shell EP International Ltd. told Natural Gas Europe that "There is no possibility for Shell to move forward with new business in Iran until there has been significant change in the sanctions environment. Shell is committed to complying with all the relevant international sanctions. Meanwhile, we are closely monitoring the political and legal developments and their implications on restrictions imposed on IOCs". Iran and P5+1 reached a political nuclear agreement in early April and attempt to reach a comprehensive nuclear deal by July 7th to pave the way for lifting western sanctions imposed on Iran. Kameli also said that NIGEC is seeking LNG projects in the country as well while keeping an eye on FLNG projects. He said NIGEC is in talks with more than 170 foreign companies which have repeatedly aired their willingness to return to Iran once the sanctions are lifted.

# Statoil awards Baker Hughes services contract for Johan Sverdrup

Natural Gas Europe, *06.07.2015*

**Statoil awarded Baker Hughes the onshore contract for drilling services for Johan Sverdrup. The 6-year contract is valued at an estimated NOK 1.5 billion.**

**'Baker Hughes will therefore provide the whole range of services within: Cementing and pumping; Completion; Drilling and completion fluids, as well as offshore handling of drill cuttings; Integrated drilling services' reads the note released by Statoil. "We are pleased to award this contract to Baker Hughes and believe that this will help achieve Johan Sverdrup's objectives of safe operations and efficient well deliveries" Margareth Øvrum commented.**

Drilling is expected to commence in 2016. According to Statoil, recoverable resources are projected at between 1.4 and 2.4 billion barrels of oil equivalent in phase one. Last month, Statoil signed a contract with a joint venture consisting of Kvaerner and KBR for construction of the topside for the utility and living quarters platform. The contract was valued at NOK 6.7 billion (€760 million).

# Cedigaz: NBP prices expected on 2014 levels in coming months

Natural Gas Europe, *08.07.2015*

**NBP price for 2015 is expected to be on 2014 levels, said Cedigaz on its blog, adding that tensions between Russia and Ukraine, and the drop in Dutch production will be determinant factors in the price definition.**

**'Based on market anticipations, the NBP price for 2015 is expected to be in the €20.3-22.4/MWh range. For the end of the year, current forecasts call for levels ranging from €20/MWh to nearly €23/MWh the organisation wrote. The increase in carbon tax support in the UK, 'fixed since April 2015 at £18/TCO2 as opposed to £9.5/TCO2 in 2014', will support gas consumption in the electricity sector.**

‘The story is different on the European continent, where natural gas continues to be doubly penalized by the excessively low prices not only of CO2 but also, in some countries, of electricity (the effect of renewable energies). Overly low prices of CO2 benefit coal while those of electricity reduce or wipe out operator margins’ Guy Maisonnier, Senior Economist at IFPEN, wrote in the blog. In April, the British government released its latest energy statistics. Provisional data pointed at an increase in gas exports (+16.8%) and a decrease in gas imports (-10.8%) in 2014 with respect to the previous year. Despite the lower wholesale gas prices, though, gas used for electricity generation increased only by 1.5%.

# European Investment Bank to increase gas loans in Poland from €520mln to €869mln

Natural Gas Europe, *08.07.2015*


**European policy-driven banks continue in their commitment to increase energy security in South-Eastern Europe, confirming there are several institutions that can help Brussels speed up the implementation of the EU project.**

**The EIB is one of these institutions that are taking the lead in the energy sectors from Bulgaria to Poland. It could soon increase its support to “gas projects” from €520 million, already lent in the last 5 years, to €869 million. Indeed, the EIB confirmed it has appraised and has negotiated two projects with PGE. The first one, ‘with the proposed EIB financing of PLN 1.465 billion, concerns three gas-fired.**

According to EIB, the new units will replace ‘obsolete coal-fired installations.’ Secondly, EIB has also proposed a PLN 1.5 billion (EUR 359 million) financing plan for a second project concerning the extension and modernisation of Central and Eastern Poland’s electricity distribution networks operated by PGE Dystrybucja. “The EIB, the bank of the EU, strongly promotes the diversification and security of the energy supply. We are glad to support projects in Poland that add capacity and robustness to the existing Polish gas transmission system and allow better connectivity to new gas supplies. We believe that projects financed by the Bank in the energy sector in Poland contribute to the modernisation of this sector, which is necessary for the successful economic development of the country,” László Baranyay, EIB Vice-President responsible for lending in Poland, told Natural Gas Europe. According to a EIB’s spokesperson, EIB’s efforts are meant to increase efficiency and sustainability of Poland’s energy infrastructure. Gas seems to play a major role.  ‘As far as the “gas projects” (energy projects with a gas component) in Poland are concerned, in the last 5 years EIB signed loans for EUR 520m supporting such projects, which included gas transmission, an LNG terminal and gas-fired combined heat and power plant’ the spokesperson wrote Natural Gas Europe in an email, mentioning some of these “gas projects.”

EIB granted a €140 million loan for the construction of a combined cycle gas turbine (CCGT) power station with an electric capacity of 450 MWe and heating capacity of 240 MWth in 2013. In 2014, the EIB also supported the extension of Poland's gas transmission network with a PLN 410m (EUR 98m) loan to the national gas transmission operator GAZ-SYSTEM S.A. 'This expansion of a gas pipeline in western Poland from Lwówek to Odolanów will reinforce the EU North-South gas corridor and the connection to alternative sources of gas supply, thus further improving Poland's security of supply and terms for the acquisition of such energy' the EIB wrote Natural Gas Europe, adding that the Lwówek - Odolanów gas pipeline could lead to an increase in gas transportation from the LNG terminal in Świnoujście, through the Polish transmission system to the borders with the Czech Republic, Slovakia and Ukraine. According to EIB, the Lwówek - Odolanów gas pipeline should be completed by 2017. In general, the current negotiations between EIB and PGE are a sign of European banks' increased focus on interconnections and energy projects. At the same time, they hint at a renewed interest in Eastern Europe and the Balkans, which could be of key importance in case of a GRexit. Last week, the European Bank for Reconstruction and Development (EBRD) took part in a €20 million loan to energy distributor Bulmarket DM to support the development of liquefied natural gas (LNG) to Bulgaria. EBRD also said it could invest up to $1 billion in Ukraine this year, including in the gas sector, conditionally to the implementation of reforms.

# Dutch government bans shale gas drilling for 5 years

Reuters, *10.07.2015*

**The Dutch government said it would ban shale gas drilling for five years and not renew existing exploration licences due to uncertainties about the environmental impact.**

**The decision comes as the Netherlands steps up its search for alternative energy sources in the wake of shrinking domestic natural gas supplies and strains in its relationship. "There will be no shale gas drilling during this government period," a statement said. At the end of 2015 the government will decide on the role of shale gas in the country's long-term energy mix. "It is still unclear how much shale gas there is and if its extraction would be financially feasible," it said.**

# Europe calls for ‘realistic’ natural gas projects

UPI, *10.07.2015*

**European energy security depends in part on “realistic and feasible” infrastructure through central and southern European countries, a commissioner said. The Commission announced the signing of a memorandum of understanding in Croatia with central and southern European countries that calls in part for more momentum behind the construction of what the commission said were “missing” gas links.**

**Lingering economic and geopolitical issues in Ukraine pose a threat to European natural gas supplies. Europe gets about a quarter of its gas needs met by Gazprom and the majority of that volume runs through Soviet-era pipelines in Ukraine.**

For Gazprom, its twin Nord Stream gas pipeline through the Baltic Sea and the planned Turkish Stream project, a scaled down version of the South Stream pipeline, offer means for diversification. “The improvement of infrastructure through realistic and feasible projects is crucial to diversify energy resources and strengthen the region’s resilience to supply shocks,” European Energy Commissioner Maros Sefcovic said in a statement. “Cooperation among the countries of the region is key in this regard.” Bulgaria’s decision in August to back away from South Stream led in part to a derailment of the project. The country’s prime minister told European leaders in January that Bulgaria could become a common gas distribution center for EU member states in the region. Gas links through Bulgaria, and pipelines stemming from Azerbaijan, are among the projects included in the European energy diversification strategy. British energy company BP leads a project consortium tapping into natural gas off the coast of Azerbaijan. The company has awarded more than $1 billion in development contracts since selecting the Trans-Adriatic pipeline as its option for Azeri gas in 2013. The European Commission said that, “ultimately, each member state in the region should have access to at least three different sources of gas.”

# GE, Statoil join forces for unconventional oil, gas

Natural Gas Europe, *08.07.2015*

**GE and Statoil are joining forces to increase efficiency and sustainability of onshore unconventional projects. 'GE and Statoil's Sustainability Collaboration has launched the call for entries for its second Open Innovation Challenge focusing on water usage in the development of onshore unconventional oil and gas reservoirs' reads a note released by Statoil. The initiative is aimed at reducing water usage, treating.**

**"This collaboration with Statoil is centered on both our companies' commitment to continued investment in technology and innovation to help develop low-cost and more efficient energy solutions." Eric Gebhardt commented.**

In this second challenge, up to five winning entries will win a prize of $25,000 USD each and the opportunity to be eligible to receive additional funding from an available discretionary prize pool of $375,000 USD in development funds. Over the last weeks, several companies announced common initiatives to cut costs and promote technology. The main focus of the European industry remains on LNG.

# European states agree to boost gas links, reduce reliance on Russia

Reuters, *10.07.2015*

**Fifteen countries from central, eastern and southeast Europe signed a deal on Friday to speed up the building of gas links, improve security of supply, reduce their reliance on Russia and develop a fully integrated energy market.**

**"The improvement of infrastructure through realistic and feasible projects is crucial to diversify energy resources and strengthen the region's resilience to supply shocks," European Commission Vice President Maros Sefcovic said in a statement. The document was signed on the sidelines of a conference in Croatia's coastal city of Dubrovnik, attended by Sefcovic.**

Russia’s annexation of Ukraine’s Crimea region last year underscored the need for Brussels to do more to safeguard energy supply to Europe, which relies on Russia for about a third of its gas, almost half of which is piped via Ukraine. Under the European Commission initiative on Central, Eastern and South-Eastern European Gas Connectivity (CESEC), the countries will also focus on making the best use of existing infrastructure by allowing reverse flows. Projects, such as the Trans-Adriatic Pipeline (TAP), which is set to bring gas from Azerbaijan to Europe, an LNG terminal in Croatia and system reinforcement in Bulgaria and Romania, have been identified as top priorities. They also include gas interconnectors between Greece and Bulgaria and between Serbia and Bulgaria.

EU Commissioner for Climate Action and Energy, Miguel Arias Canete, said that each country has to face specific energy issues but addressing them together could offer cheaper and more effective solutions. The projects will help diversify supply sources and allow at least three different sources of gas to each state, the European Commission said. All projects should be financed by the market participants, but the countries may also consider help from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the Commission said.

# Egypt and Russia sign LNG, petroleum deals

Anadolu Agency, *07.07.2015*

**Egypt and Russia signed agreements for the supply of petroleum products and liquefied natural gas to Egypt, according to Egypt’s Ministry of Petroleum.**

**Egyptian Natural Gas Holding EGAS and Russian oil giant Rosneft said the signing of two agreements is a joint cooperation between the two state-owned companies, and is conducive to support aspects of cooperation between Moscow and Cairo in oil and natural gas fields. EGAS noted that the agreements include the supply of 24 LNG shipments for a period of two years starting from the last quarter of 2015 to meet its domestic market needs of natural gas.**

According to Rosneft, the agreement will let Russian company to have access into the high growing Egyptian gas market. Currently, the Russian company doesn’t produce its own LNG, but it is planning to in three years, after cooperation with the U.S. energy giant ExxonMobil.

# Russia, India agree on 100 million tons oil supply

Anadolu Agency, *08.07.2015*

**Russian energy giant Rosneft and India's Essar Group signed a long-term contract for oil supplies for the purpose of refining at the Vadinar refinery in India, Rosneft announced.**

**Rosneft's chairman Igor Sechin and Shashi Ruia, the founder of India's Essar Group, signed the contract that envisages total supplies of 100 million tons of crude oil over a period of ten years, according to Rosneft's press release. The document was signed in Ufa within the BRICS summit, in continuation of the agreements reached in 2014 during the visit of the Russian President Vladimir Putin to India, press release said.**

Vadinar is the second biggest refinery in India and one of the world's top-20 refineries with a refining capacity of 20 million tons of oil per year. It is also one of the ten most complex refineries in the world, Rosneft noted. Rosneft said, with the agreement, it grants itself a secure market outlet of crude oil. Moreover, Rosneft and Essar shareholders signed a Term Sheet with regard to Rosneft participation in the Vadinar refinery equity capital with a share of up to 49 percent. The principles laid down in the Term Sheet will be reflected in final documents, which will be subject to corporate approval, press release said. Rosneft said this will allow it to obtain a share in one of the biggest refineries in India and the Asia-Pacific region. The parties intend to significantly increase the refinery's capacity to 45 million tons per annum by the year 2020.

# Turkmen gas to reach India after 2020

Anadolu Agency, *10.07.2015*

**India will not receive gas before 2020 from energy-rich Central Asia's Turkmenistan through the proposed TAPI pipeline, according to a statement by India Ratings and Research, a Fitch Group company.**

**The Turkmenistan–Afghanistan–Pakistan–India (TAPI) natural gas pipeline project was dubbed the Peace Pipeline because it allows for two arch rivals, Pakistan and India, to uncharacteristically agree on a joint project. It was first proposed in the early 1990s with the purpose of transporting natural gas from Turkmenistan to India through Afghanistan and Pakistan.**

However, ongoing security problems and a lack of upstream development opportunities have seen investors' interests wane in recent years. The agency sees four key issues associated with the successful commissioning of the pipeline: the gas price, volume off-take assurance by end-consumers, funding of the pipeline and geopolitical risks associated with the construction and operation of the 1,735 kilometer-long pipeline. "Turkmenistan is a net exporter of natural gas and its economy depends on such exports and hence may keep prices high," the statement read. The agency stated that the country will continue to rely on domestic gas and imported LNG. The pipeline will thus be a boost for energy-starved India. However, its start-up faces multiple challenges which are unlikely to be addressed quickly and will make it a long gestation project. The pipeline will include 735 kilometers across Afghanistan and another 800 kilometers through Pakistan. It will be designed to carry 33 billion cubic meters of Turkmen gas annually to project-partner countries.

# Eni starts offshore gas field production in Venezuela

Anadolu Agency, *06.07.2015*

**Italian energy giant Eni started production at the giant Perla gas field offshore Venezuela, the company announced.**

**According to the announcement, Eni will operate in the largest offshore gas field in Latin America which will be the first gas field to be brought to production in offshore Venezuela. The field is located in the Cardon IV Block and operated by "Cardon IV S.A.", a company jointly owned by Eni and Repsol, with each having a 50 percent share interest. The company plans to produce 450 million cubic feet (13.5 million cubic meters) of gas per day in 2015 and 1,200 million cubic feet (36 million cubic meters) by 2020.**

Eni's net gas production is expected to reach 40,000 barrels of oil equivalent per day in 2015 and 110,000 in 2020. According to the announcement, Perla currently holds 17 trillion cubic feet (48 trillion cubic meters) of gas in place, which corresponds to 3.1 billion of barrels of oil equivalent with additional potential.

# US oil stocks and production continues to recover

Anadolu Agency, *09.07.2015*

**Crude oil stocks and oil production in the U.S. continue to recover by rising modestly for the second week in a row, the U.S. Energy Information Administration (EIA) said.**

**EIA's information shows that commercial crude oil inventories in the U.S. rose by a modest 0.4 million barrels, compared to the week before, to reach 465.8 million barrels for the week ending July 3, from 465.4 million barrels.Strategic petroleum reserves also increased by 0.5 million barrels to reach 694.2 million barrels for the week ending July 3, from 693.7 million barrels, according to EIA.**

This is the second week in a row the crude oil stocks in the U.S. are on the rise, recovering from a slump of eight consecutive weeks. In addition, oil production in the country has also risen, climbing just above 9.6 million barrels a day and domestic oil production in the country increased by a modest 9,000 barrels a day during the week ending July 3, EIA data shows. U.S. oil imports decreased by 197,000 barrels a day in the same period. Imports in the country fell to 7.3 million barrels a day for the week ending July 3, from 7.5 million barrels per day for the week ending June 26, the administration's report shows.

# Brent oil price jumps on Greek bailout, China stocks

Anadolu Agency, *10.07.2015*


**The Brent crude oil price climbed 8.3 percent in the last three days, as the Chinese stock market rebounded from a massive selloff, and Greek bailout talks saw progress. The price of the global benchmark increased to $59.66 per barrel, bouncing back from $55.10 per barrel its lowest level.**

**The sudden rise came as the Chinese stock market rebounded after falling 31 percent in less than a month. Chinese regulators took steps to limit the sale of shares by stockholders with more than 5 percent of a company. The Index plunged 3,585 points on June 12; however it bounced back to 3,958 points marking a 10 percent recovery.**

“The Chineses stock market rebound has calmed the oil market,” Thomas Pugh, a commodities economist at Capital Economics, a London-based independent research firm, told Anadolu Agency. “Greece is still up in the air. Talks on Sunday would bring more certainty into the oil market,” he added. Dominic Haywood, a crude oil analyst for the London-based energy market consultancy Energy Aspects, said that the Chinese stock market rebound and Greece-EU talks are very important, while the oil market is also significant. “Physical oil market factors are playing a significant role on oil prices as well,” he said. “Demand is improving overall in the oil market.” According to the International Energy Agency’s report published on Friday, global oil demand is forecast to increase to 94.2 million barrels per day in the third quarter, and to reach 95 million barrels a day in the fourth quarter of the year. Crude oil demand wordwide totalled 93.5 million barrels per day and 93.1 million barrels per day on average in the first two quarters of the year respectively.

# Global oil glut rise to slow down in 2nd half of 2015

Anadolu Agency, *09.07.2015*

**Global oil glut is expected to increase less in the second half of 2015, compared to the first half of the year, the EIA said. In its Short-Term Energy Outlook for July 2015, the EIA said global liquids production continues to exceed consumption, resulting in inventory build-ups.**

**“Global oil inventory builds are estimated to have averaged 2.2 million barrels a day through the first half of 2015, and are projected to average 1.5 million barrels per day during the second half of the year,” the EIA said. The global oil supply averaged 95.1 million barrels a day in the first half of 2015, while EIA expects this to be 95.8 million barrels a day.**

In the first half of 2015, total world oil consumption averaged 92.9 million barrels a day, while EIA projects this to be 94.3 million barrels a day in the second half of 2015.

# Announcements & Reports

### ► *The Impact of Lower Gas and Oil Prices on Global Gas and LNG Markets*

**Source** : OIES
**Weblink** : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/07/NG-99.pdf

### ► *Monthly Oil Market Report*

**Source** : OPEC
**Weblink** : http://www.opec.org/opec_web/en/publications/338.htm

### ► *Natural Gas Weekly Update*

**Source** : EIA
**Weblink** : http://www.eia.gov/naturalgas/weekly/

### ► *This Week in Petroleum*

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

# Upcoming Events

### ► *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

## ► 3$^{rd}$ East Mediterranean Gas Conference

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

## ► LNG Global Congress

**Date** : 23 - 24 September 2015
**Place** : London - UK
**Website** : http://www.lnggc.com/?xtssot=0

## ► 23$^{rd}$ Kazakhstan International Oil & Gas Exhibition and Conference

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

## ► Shale Gas Environmental Summit

**Date** : 26 - 27 October 2015
**Place** : London - UK
**Website** : http://www.smi-online.co.uk/energy/uk/shale-gas-environmental-summit

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## ► Abu Dhabi International Petroleum Exhibition & Conference

**Date** : 10 – 13 November 2015
**Place** : Abu Dhabi - United Arab Emirates
**Website** : http://www.adipec.com/

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## ► CIS Oil and Gas Transportation Congress *(in Turkey)*

**Date** : 11 – 12 November 2015
**Place** : Istanbul - Turkey
**Website** : http://www.theenergyexchange.co.uk/event/cis-oil-and-gas-transportation-congress-2014/attend

17 th Annual
CIS OIL AND GAS TRANSPORTATION CONGRESS

## ► 20th Turkmenistan Oil and Gas Conference

**Date** : 17 - 19 November 2015
**Place** : Ashgabat – Turkmenistan
**Website** : http://www.oilgasturkmenistan.com/

## ► Israel’s 2nd Annual International Oil & Gas Conference

**Date** : 17 - 19 November 2015
**Place** : Tel Aviv - Israel
**Website** : http://www.universaloilgas.com/

## ► European Autumn Gas Conference

**Date** : 17 - 19 November 2015
**Place** : Geneva - Switzerland
**Website** : http://www.theeagc.com/

## ► Project Financing in Oil and Gas Conference

**Date** : 23 - 24 November 2015
**Place** : London - UK
**Website** : http://www.smi-online.co.uk/