Iran: Turkish investors to build $6 bln petchem project

AA Energy Terminal, *02.12.2015*

Turkish investors are planning to build a $6 billion petrochemical project in Iran's northwest, according to Iranian media.

"Turkish investors have voiced their preparedness to fully construct the project which is estimated to cost $6 billion dollars," said Hussein Forouzan, Managing Director of Maku Free Trade Zone, according to Iran's petro energy information network Shana. Forouzan added that the zone has a major advantage of having low transportation costs due to its close proximity to Turkey. Maku is located in Iran's West Azerbaijan province, around 20 kilometers away from the Turkish border.

While the project could help Turkey to meet its rising demand of petrochemicals, it could also serve Iran's aims to concentrate on producing oil products in order to diversify its source of revenues that heavily depend on crude exports.

Abbas Shari-Moqaddam, head of Iran's National Petrochemical Company, said that Tehran is planning to strengthen its petrochemical sector once the sanctions on Iran are removed. "The petrochemical industry is an advantage for Iran's economy with its vast potentialities. Given the variety of items it can produce, it can play a significant role by generating massive added-value for the country," he was quoted saying by Shana.

Turkey can become full member of pan-European energy market

AA Energy Terminal, *27.11.2015*

A report on energy governance in Turkey published by the Energy Community Secretariat, the international organization, concluded that Turkey could become a fully-fledged member of the pan-European energy market.

"The conclusions of this report are clear. Turkey, if it wished to do so, could become a fully-fledged member of the pan-European energy market with limited efforts via membership of the Energy Community," Janez Kopac, director of the Energy Community Secretariat said. ''In essence, Turkey could achieve a functional EU membership in the energy sector with all its benefits.

This is due to Turkey's existing high level of compliance with the Energy Community Treaty," he asserted. The report covers Turkey's legal framework for key aspects in EU energy legislation in accordance with the EU's Energy Community Treaty in chapters on natural gas, oil, electricity, renewable energy, energy efficiency, the environment, regulations, competition and statistics.

''The present report confirms that Turkey, if its compliance was assessed together with the existing Energy Community Contracting Parties, would rank rather high, especially in the electricity sector, the status and performance of its regulatory authority, oil stocks as well as environment and energy efficiency," according to the Deputy Director of Energy Community Dirk Buschle during the press release.

Buschle also added, ''Only the governance of the gas sector would require major interventions. This could be tackled through adaptations and deadline extensions in the course of potential accession negotiations."

The Energy Community is a Vienna-based international organization that seeks to apply EU energy policies in non-EU countries. It was founded in 2005 and its current members are Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia, Kosovo and Ukraine. Armenia, Georgia, Norway while Turkey holds an observer status in the organization. With Turkey's observer status, it has no legal rights or obligations under the Energy Community legal framework.

Ukraine ready to support Turkey in Russian induced crisis

AA Energy Terminal, *19.11.2015*

Ukraine is ready to help Turkey, if Russia attempts to disrupt natural gas flow to Turkey during winter times, Ambassador of Ukraine to Turkey, Sergey Korsunsky said.

‘‘There is a huge opportunity in energy cooperation. If Turkey needs a kind of balance for its supply of gas, Turkey can use our storages in western Ukraine to pump gas into the our storages in good times and to use it in crisis times,’’ Korsunsky told. ‘‘We have lines through Ukraine-Bulgaria and Ukraine-Romania to Turkey. We can help increase volume of gas flowing from these lines if Gazprom tries to intimidate Turkey with gas disruptions,’’ the ambassador said.

‘‘We were buying huge volumes of Russian gas two-three years ago. We are still buying some amount of gas from Russia but mostly we switched to reverse gas flows from Europe. Turkey may use our recent experiences with EU,’’ added Korsunsky.

The military conflict between Russia and Ukraine pushed Kiev for a quest for new supply routes and strongly reducing its natural gas imports from Russia. Following the downing of the Russian fighter jet, Russian officials declared some economic sanctions on Turkey, creating concerns for supply disruptions of Turkish gas imports from Russia.

Two Turkish F-16 fighter jets on an aerial patrol intercepted a Russian warplane within engagement rules when it intruded into Turkish airspace on the Turkey-Syria border. The intruding aircraft was warned about the violation 10 times within five minutes before it was shot down.

The Russian Defense Ministry confirmed that its Russian SU-24 fighter jet had been shot down. It crashed in the Syrian region of Bayirbucak close to Yayladagi district of Turkey’s southern Hatay province.

NATO confirmed the accuracy of information shared by Turkey about the violation. It was not the first time Russian fighter jets had violated Turkish airspace. In early October, Russian warplanes breached Turkish airspace. Russian officials apologized and pledged that no such incident would be repeated. Turkey had also renewed its warning on engagement rules, including a military response against violations of Turkish airspace.

TANAP construction on schedule, Turkish FM says

AA Energy Terminal, *27.11.2015*

The construction of the TANAP to carry gas from Azerbaijan to Europe via Turkey is on schedule for its 2018 completion, Turkish FM Cavusoglu said during his visit to Azerbaijan.

Cavusoglu met with his Azeri counterpart Elmar Mammadyarov in the capital Baku where he said during a joint press conference that energy relations between Turkey and Azerbaijan are excellent, and that both countries will continue to cooperate on mutual projects including TANAP. TANAP is an integral part of the larger SGC, which plans to carry 16 bcm of gas from Azerbaijan to Europe via Turkey, beginning from 2018.

The project's capacity is planned to reach 23 bcm by 2023 and 31 bcm by 2026. As Turkey is an energy dependent country and meets about 92 percent of its oil and 98 percent of its natural gas demand through imports, Azerbaijan with its vast hydrocarbon reserves in the Caspian region, is strategically important.

Turkey is also key for Azerbaijan to transport its resources to Europe. Other important projects between the two countries include the Baku-Tbilisi-Ceyhan (BTC) Oil Pipeline and the Baku-Tbilisi-Erzurum (BTE) Natural Gas Pipeline.

The BTC pipeline has a capacity of 1.2 million barrels per day and delivers Azeri light crude through Georgia to Turkey's Mediterranean port of Ceyhan for further export via tankers. Since 2006, when the pipeline became operational, it delivered around 2.3 billion barrels of oil from the Ceyhan port in Turkey, located in the south of the country, to the international market, according to BOTAS International Limited, the pipeline company that operates the BTC (Baku-Tbilisi–Ceyhan) Crude Oil Pipeline.

The Baku-Tbilisi-Erzurum (BTE) gas pipeline, known as the South Caucuses Pipeline, carries around 6.6 billion cubic meters of Shah Deniz natural gas per year gas from Azerbaijan through Georgia to Turkey. It carried 20.34 million cubic meters (mcm) of gas per day in the first half of 2015, a 14.3 percent increase compared to the same period a year ago when 17.8 mcm of gas was carried, according to BP data from August.

Turkey's crude oil imports rise in September

AA Energy Terminal, *23.11.2015*

Turkey's crude oil imports increased to 2.3 million tonnes in September, according to the country's energy watchdog's report. Oil imports increased by 33.6 percent in September compared to the same month last year, EMRA says.

In January-September period, oil imports rose by 45.2 percent to 18.9 million tonnes. Diesel imports reached 1.4 million tonnes in September, 6.9 percent more than last year, while it rose to 8.9 million tonnes in January-September. Production of oil refinery products increased by 31.7 percent to 2.4 million tonnes in September and rose by 39.4 percent to 20.2 million tonnes in the first nine months.

Diesel production increased to 6.4 million tonnes in the nine-month period. In September, total fuel sales rose by 2.1 percent to 1.9 million tonnes and increased to 16.6 million tonnes, up by 13.5 percent in nine-month period compared to the same month of last year.

The Turkish Stream mystery

Natural Gas Europe, *02.12.2015*

The shooting down of a Russian SU-24 bomber by a Turkish F-16 fighter jet last week may well have put an end to the design of the Turkish Stream pipeline project as Moscow prepares a set of sanctions against Ankara.

But the event may only have an effect on Turkish Stream in its originally proposed incarnation: Greece, Italy and France are boosting efforts to revive Turkish Stream, albeit in a different route. The latest dramatic downturn of Russian-Turkish relations has in effect stopped or at least delayed any final investment decision regarding the Turkish Stream project.

As diplomatic relations and bilateral visits between the two countries have been cancelled, it's not certain whether talks could be revived soon, judging by both sides' mutual animosity and the geopolitical antagonism in Syria. At the same time, there are certain initiatives of interest that could play a positive role in the future of TurkStream.

France’s EDF and Italy’s Edison have, since early November, expressed an unofficial but strong interest in supporting a route of the pipeline from Turkey to Greece and then via a revived ITGI to Italy with gas flow up to France.

Recently a Russian deputy Prime Minister Arkady Dvorkovich paid a visit to Athens where he reportedly gave a positive nod to the revised and unofficial plan. Nevertheless, the deputy prime minister invited Greek energy minister Panos Skourletis to Moscow in early December for discussions that will challenge the EDF-Edison plans.

At that meeting, both officials will discuss the project’s development with the stakeholders of TurkStream project. Those stakeholders, namely Gazprom’s executives, are opposing such a route, betting their investment focus on the Tesla route, a Project of Common Interest (PCI), as recently selected by the EU’s Commission.

Back in October, head of Gazprom Alexey Miller met with the CEO of Edison, Bruno Lescoeur, to discuss the possibility of a new Turkish Stream route. However, some reports say that Gazprom considers the Greek government the “weak link” in a complicated project that needs to include the materialisation of ITGI, a project that will have a significant cost and which will run in parallel with the more mature TAP project.

Gazprom is very much afraid that this new Turkish Stream route will cost time and money and will clash eventually with the EU’s policies. On the other hand, Edison may have its own reasons for favouring a new route for Turkish Stream. Edison is a subsidiary of France’s EDF , one of the pillars of the French economy and a company that is supported wholeheartedly by Francois Hollande’s Presidency. So Edison looks likely to have strong backers for its Turkish Stream vision in Paris; France does not want to be sidelined by the new “Ostpolitik” of Berlin which now promotes stronger energy ties with Gazprom via its Nord Stream-2 project.

Also in October, Turkish Stream got backing from another influential source, Gertjan Lankhorst,President of Eurogas. Eurogas is an association representing the European gas wholesale, retail and distribution, and sectors. Mr. Lankhorst is also CEO of the Dutch GasTerra Company which owns 9% of Nord Stream AG, and whose major shareholder is Shell Plc, one of the stakeholders in the Nord Stream 2 project.

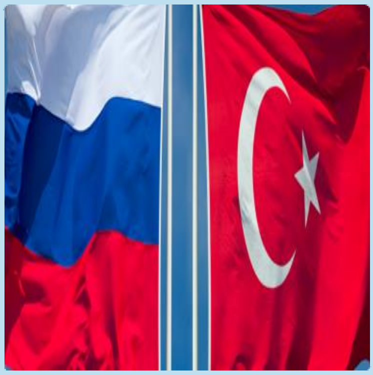
“If it [Turkish Stream] brings gas into Europe, you have to look at whether the partners in that project comply to European regulations, and if that is the case, then be happy with that project as well,” Sputnik reported Mr. Lankhorst as saying at the time.

He also said Europe should welcome any added source of the gas commodity in every form, whether via LNG or pipeline. He also commented that the EU regulations should not favour one project against another but welcome all private initiatives and support infrastructure.

It looks like, right now, Germany and France are vying on who is going to take the bulk of Russian gas supply, thus raising either country’s position as the main re-distributor of gas to the rest of Europe. TurkStream, coupled with additional sources such as TANAP-TAP and LNG imports, plays a major part in each country’s aim. Greece’s role as a transit space has its importance. But the key to the future of Turkish Stream lies in the outcome of the Russian-Turkish brinkmanship.

Turkey-Russia stand-off: Energy and a difficult neighbourhood

Natural Gas Europe, *24.11.2015*



Exactly a year ago Russia and Turkey hailed the launch of a joint project – TurkStream – a pipeline that was expected to carry 63 bcm of natural gas across the Black Sea into Turkey and further to Europe.

A year on, Moscow threatens Ankara with economic sanctions and even military escalation after Turkey downed a Russian fighter jet for allegedly breaching the Turkish airspace. Since the incident, journalists and academics have been hoping to guess well in advance whether Russia would leave Turkey out in the cold this winter by cutting vital gas supplies, or order its army of tourists back home.

Some even wonder how things could have taken such a dramatic turn only from a year ago. But are events truly that surprising? Turkey's relation with Russia since the end of the Cold War has been neither one of committed friendship nor one of open hostility, even if the memory of the Bolsheviks' or Stalin's expansionist plans in eastern Anatolia or desired control over the Turkish Straits remains stamped in the Turkish psyche.

With the fall of communism and the Soviet Union a 500-year history of arch-rivalry came to an apparent end as the two countries identified common economic goals and geopolitical interests.

Aktürk shows how in the early 1990s, Turkish officials including the prime minister and later president Süleyman Demirel visited Moscow on numerous occasions, signing 15 agreements and protocols spanning a multitude of areas – science, technology, culture, education, economic cooperation and the exchange of armed forces (Aktürk, 2006).

The rapprochement culminated in the signing of the "Treaty on the Principles of Relations between the Republic of Turkey and the Russian Federation" in 1992, which, Aktürk notes, resembled the 1925 "Treaty of Friendship" between Turkey and the then Soviet Union.

However, just as the 1925 treaty failed to materialise into a strategic alliance as Turkey and the Soviet Union became Cold War enemies, the displays of friendship and mutual affection of the early 1990s faded once Ankara and Moscow re-emerged as rivals in Russia's Turkic hinterland of Central Asia and the Caucasus.

This led Suat Bilge, an ambassador and academic, to claim that Turkey and Russia were locked in a "difficult neighbourhood" but one, nonetheless, where inherent challenges could be smoothed out by upholding a balance of capabilities complemented by growing trade links. Conversely, Aktürk argued, any imbalances in capabilities could lead to a re-emergence of the Russian threat.

Bilge shows that although from a geographic, demographic and resource point of view, the balance has always tilted in Russia's favour, the Turkish economy may have had an edge over Russia's, which remained "an underdeveloped superpower".

Russia, Bilge argued, was the sort of power that would send satellites in space and build nuclear weapons, but was incapable of harvesting its potato crops. Since the end of the Cold War the Turkish economy had proved comparatively more resilient. Aktürk notes that the Turkish GDP doubled in relative terms vis-à-vis the Russian GDP in the latter half of the 1990s.

This meant that both Turkey and Russia found themselves in a relationship of equilibrium that allowed the two to rein in historical rivalries. The development of economic relations starting with the so-called suitcase trading of the early 1990s when Russian and Turkish tourists began to visit each other's country, engaging in cross-border commerce, and ending with complex investment project such as Russia's planned Akkuyu nuclear power plant in Turkey contributed to the softening of those rivalries.

However, even as the two countries appeared to cultivate a congenial relation based on shared economic interests, mutual suspicions remained a permanent feature of that relationship. In examining Turkey's political relations with Russia, Bilge says, it is important to make a careful distinction between official and covert Russian policies. Here is what the diplomat wrote in the 1990s:

"Russia's official policy is expressed by its government, and more often by its Ministry of Foreign Affairs. Russia's covert policy was formerly administered by the Communist Party and the KGB. Now FSK (Federal Counterintelligence Service, the successor of KGB, nowadays FSB) has replaced these. Official and covert policies can sometimes be the same and sometimes very different. Therefore while the government preached friendship, and particularly the friendship founded by Lenin and Atatürk, the Communist Party could have been engaged in destructive activities.

We witnessed various instances of this dual policy during our War of Independence and World War II. A coup d'état against Atatürk was staged at the outset of the War of Independence. Recently, when the Turkish prime minister, Tansu Çiller, visited Moscow, Russian authorities talked about friendship and said she resembled Atatürk. Soon afterwards, the FSK stepped up its covert activities against the security of Turkey in Georgia and Azerbaijan.

Russia makes official shows of friendship towards Turkey for the sake of propaganda. In reality, it continues to pursue the covert policy of trying to turn Turkey into a satellite, keep it under control or at least to influence it."

Since the Soviet Union's repeated attempts to wield political power over Ankara failed, whether those attempts related to the spread of Bolshevism in Turkey, an intention to block it from becoming a NATO member, or threatening it with war after Turkey was the only country to deploy troops on the Syrian-Turkish border amid suspicions of a communist takeover in Damascus in August 1957, Moscow sought to influence Turkey with pledges of economic exchanges. This strategy is also seen nowadays.

In 2013, the Russian Federal Customs Service estimated Turkish-Russian trade relations at $32.7bn and the two countries had argued that the figure may triple to $100bn within a decade. In this context, Turkey’s energy dependence on Russia appears as the riskiest factor in the Turkish-Russian relation, not only because Turkey’s energy security relies principally on Russian gas imports, but also because energy straddles both the economic and the political spheres, creating a double vulnerability for Turkey.

Since Turkey has proved to be a skilled actor, staving off Russian attempts to control or at least influence it politically, Moscow’s option is to play the economic card, and in particular its energy card.

Russia is currently supplying 55% of Turkey’s natural gas imports, it is expected to build a 4.8GW nuclear power plant, it has expressed an interest in buying the Istanbul gas distribution system – the largest in the country – and wants to build gas storage.

Its offer to build the 63bcm TurkStream pipeline and help turn Turkey into a gas hub, an ambition that the country has been pursuing, was arguably driven not only by commercial interest, but may also be consistent with a desire to control Turkey economically, if politically it has not been possible, as argued by Bilge.

But it would be a mistake to think that Russia’s control over Turkey, its second largest gas market after Germany, would translate into turning off the gas taps. Such a measure may be too crude and could backfire, jeopardising Russia’s interests at a time when it is losing market share in Europe and has been hit by falling revenues because of plunging oil prices.

At the same time Russia is fully aware of Turkey’s vulnerability to Russian gas supplies, since alternative pipeline imports from Iran and Azerbaijan cannot be pumped westwards because of constraints in the transmission system, while LNG supplies received at its only two terminals – Aliaga and Marmara – in the west of the country are insufficient to cover demand. This means that the northwestern region, which has the highest industrialisation level and demand concentration in the country is nearly entirely dependent on Russian gas. Ironically, Russia would stand to gain much more by simply exploiting Turkey’s failure to reform its natural gas sector.

Turkey has been unable to build interconnection capacity with neighbouring Greece and Bulgaria and establish reverse gas flows that could plug supply shortages. Such interconnections would help Turkey and its southeast European countries, but not Russia, which needs to keep a grip on each and ensure that they do not have freedom of action.

Turkey has failed to build additional LNG receiving terminals, locking itself out of an emerging global market that promises not only security of supply, but also cheaper prices as vast volumes of liquefied natural gas are set to reach customers within the next five years. It is also upholding a punishing cross-subsidies system that had made it impossible for private companies to source LNG as the price of the former had been significantly more expensive than the regulated tariffs they could have sold volumes at domestically. Turkey has pledged under its Natural Gas Market Law 4646 of 2001 to reduce the share of the natural gas incumbent BOTAS to 20% by transferring its volumes of natural gas to the private sector, but it has so far failed to do so.

Despite two contract releases amounting to 10bcm on BOTAS' 30bcm Russian contracts, BOTAS has been unable to transfer further volumes. Russia had been reluctant to deal with companies other than BOTAS, and firms that had taken part in the two tenders organized since 2005 pointed out that it was difficult to bid given that the terms of the contracts were confidential and very few had access to such information. (World Bank, 2004).

Any further contract releases would require bidders to have intimate knowledge of contractual terms, which may be gained by giving Russia further stakes in the Turkish private gas sector.

Finally, Turkey had endured arduous negotiations for its gas prices, which left it paying some of the highest gas bills in Europe, even at a time when other European countries had managed to clinch discounts from Russia. Turkey has recently taken Russia to arbitration over its failure to grant a discount on BOTAS's import prices. However, it is uncertain what the outcome will be and whether it would set a precedent that Turkey could use in its further negotiations with Russia or indeed other gas suppliers such as Iran.

Turkey's inability to secure cheaper gas imports and to break the indexation of gas prices to oil prices as it has happened in Western Europe has left it short of levers in its negotiations with Russia. The fact that Turkey is also geographically remote from any liquid gas hubs that would permit greater flexibility in price negotiations is also a drawback.

Turkey's BOTAS loses millions of dollars every year by supporting a wasteful subsidies system that creates widespread inefficiencies in the energy sector and the economy as a whole.

Unlike other gas incumbents such as France's GDF, nowadays Engie, BOTAS is not only unable to compete on the international scene and to position itself as the worthy representative of a regional power, but it is also seen as the junior partner in its relations with Russia's Gazprom.

Awkwardly for Turkey at a time when its economy is slowing down, the inefficiencies in the gas sector have also started to contaminate the electricity sector where gas-fired generators are teetering on the verge of bankruptcies.

Estimates by Turkish banks show that the equity to debt ratio for gas-fired generation is as low as 20 to 80% or in some cases even 10 to 90%. Average equity to debt ratios for European power plants (including thermal and renewables) is 40 to 60%.

Of course, Turkey is not a unique example. Gas-fired generation has been badly hit all over Europe. However, in Turkey the problems are also linked to the fact that gas had been purchased at prices that were often higher than the regulated tariffs and have been set politically, rather than by the market.

According to Turkey's Banking Regulation and Supervision Agency (BRSA) the level of debt that cannot be serviced in the Turkish energy and water sectors has increased 400 times to just over TL10 billion between September 2005 and 2015, being one of the highest in the economy. A sharp depreciation of the Turkish lira between September 2013 and September 2015 has no doubt contributed to the problems confronting the sector now.

As a new government takes over following the snap elections of November 2015, it will have to reconsider its options, particularly as far as reform in its natural gas sector is concerned. The previous administration had taken a tough interventionist approach, denying the private sector the chance to take a more active part and contribute to strengthening an important area of the economy. It mistakenly viewed its energy interests as a political lever that could not only close up its vulnerabilities, but also help to expand Turkish influence in the region.

Aktürk and Bilge successfully show that Turkey will be able to balance against a resurgent Russian threat by offering a reliable economic counterweight. In this context, a solid energy sector that reflects market realities and not political interests and which sits at the heart of Turkey's economic prosperity is key to the regional balance of capabilities. This is the message that the new Turkish energy minister, Berat Albayrak, needs to take to his father-in-law, president Recep Tayyip Erdogan.

Turkish Stream set to fall victim to Putin-Erdogan confrontation

Natural Gas Europe, *03.12.2015*

Russia's ambitious project for its Turkish Stream gas pipeline across the Black Sea looks set to become the next casualty of the war of words between Russian President Vladimir Putin and Turkish President Recep Tayyip Erdogan.

And it will likely cost Gazprom billions of dollars or euros, whilst prompting Turkey to look to new suppliers, notably northern Iraq. A Reuters report from Moscow cited sources in Gazprom as saying that Russia may freeze work on Turkish Stream for several years as part of its retaliation against Ankara for last month's downing of a Russian air force jet over the Turkish-Syrian borderlands.

In practice, any announcement that the project was being postponed - or even cancelled outright - would do little more than confirm that Russia has already concluded that its priority in developing new gas connections to Europe is the planned Nordstream 2 pipeline.

But what any significant delay or outright cancellation would mean is the writing off of considerable expenditures to date on developing both Turkish Stream and its ill-fated predecessor, South Stream.

Gazprom has already spent €1.8bn on purchasing physical pipe for the first and second "strings" - or lines, of pipe to be laid under the Black Sea. Pipe, delivered by Germany's Europipe and Russia's United Metallurgical Company (OMK) under the first string contract, signed in January 2014, is now largely stashed on the wharves of the Bulgarian port of Varna. The fate of pipe ordered for the second string, under contracts placed in March 2014, is not known.

Secondly, Gazprom will have to swallow the fact that it paid out around €400m to keep the Saipem 7000 pipelaying vessel and a sister ship on standby for seven months from December 2014 to July 2015 before it decided it would not undertake pipelaying this year.

But the biggest cost of all concerns Gazprom expenditures within Russia itself. Since 2010 the Russian gas giant has been developing an ambitious project capable of delivering 63 billion cubic metres (bcm) of gas from central Russia to a terminal at the Black Sea port of Anapa, the planned jumping off point for both South Stream and Turkish Stream. This project, which it calls the 'Southern Corridor', involved laying 2,506 kms of new pipeline and equipping them with 10 compressor stations to move the gas southwards.

By July 2015, Southern Corridor development had clearly run into problems, with work on the 880.6-km western route from Voronezh completed but with delays on the 1,625.6-km eastern route from Nizhny Novgorod.

In December 2013, Gazprom estimated the cost of the Southern Corridor project at 738.5bn roubles, then worth $22.5bn but now equivalent to around $10.5bn as a result of the collapse of the Russian currency. How much has actually been spent, and how much it will cost either to tidy up work that needs to be completed or that needs to be abandoned as a result of any delay to Turkish Stream is not known. But it would likely run to billions of dollars or euros.

The prime purpose of this system, which was due for completion in 2017, was to deliver gas to Anapa so that it could then be exported to Europe, initially via the South Stream project, subsequently via Turkish Stream.

So if Turkish Stream is abandoned, then there is little point in continuing with the original Southern Corridor project. There will be some gains, since cities and communities in southern Russia will benefit from improved access to natural gas, but not to the extent that they would need to be served by a brand new 63 bcm/y system.

For Turkey, the issue is not so much financial as practical. If Russia is no longer in a position to provide extra volumes of gas to meet the anticipated needs of a growing Turkish economy, it will have to look elsewhere for fresh supplies. There will therefore be a much greater focus on getting gas from Northern Iraq as quickly as possible.

In November 2013, the Government of Turkey signed a General Sales Agreement with the Kurdistan Regional Government covering gas exports from northern Iraq to Turkey. The agreement set initial delivery volumes at 4 bcm/y in 2017 with annual two bcm/y increments envisaged until they reached a plateau level of 10 bcm/y in 2020.

Just two weeks ago, both the Kurdish authorities and Genel Enerji, the Anglo-Turkish company developing Miran and Bina Bawi, the two principal fields that would provide the gas, told the Atlantic Council conference in Istanbul that they now considered 10 bcm/y to be just an initial level, and that exports could reach 20 bcm/y in the early 2020s. However, they did acknowledge that the start of Kurdish gas exports to Turkey was still three or four years away.

Russia halts work on TurkStream gas pipeline project

Reuters, *03.12.2015*

Russia has suspended preparatory work on the TurkStream pipeline project, Russian Energy Minister Alexander Novak told reporters.

"Currently work on Turkish Stream has been halted," Russian Energy Minister Alexander Novak said reporters. Energy Minister Novak said though talks on building a nuclear power plant in Turkey remained open. Russian Energy Minister Novak also said he saw no need for Russia to decrease oil production, and did not anticipate the oil exporters' club OPEC would change its output quotas at its forthcoming meeting.

Russian jet penetration into Israel's air space may signal new East-Med coalition

Natural Gas Europe, *03.12.2015*

Israel's Defence Minister, Moshe Ya'alon, was informed that a Russian jet fighter entered Israel's airspace. According to Mr. Ya'alon, the jet fighter intruded one to two miles into Israeli territory.

Mr. Ya'alon was told about the incident during a radio interview and said that, due to open communication channels between Israel and Russia, a confrontation was averted and the Russian jet fighter left Israel air space. Russia is conducting an air campaign in Syria against rebel groups in the north and north-east of the country, but sometimes also bombs targets close to the Israeli border.

The incident came on the heels of a statement made by Amos Gilad, a former general and a top official at the Defence Ministry at the weekend, who indicated that relations were strong between Israel and Russia. "Russian pilots cross sometimes into Israel's airspace," he said. "However, excellent military coordination was kickstarted during a Netanyahu-Putin meeting [Israel's Prime Minister and the Russian President met in Moscow in order to facilitate military coordination], in which boundaries were set and the IDF and the Russian army concluded a security arrangement."

The cooperation between Israel and Russia is part of a broader coalition in the Middle East. Its members are Israel, Greek Cyprus, Greece, Egypt, Jordan and Russia. The leaders of Israel, Greek Cyprus and Greece met in the last few weeks and yesterday Mr. Netanyahu, the Israeli PM, conducted a meeting with the Russian President Vladimir Putin, in Paris, during the climate talks.

Prime Minister Netanyahu pointed to the fact that this was his and President Putin’s second meeting and that they had spoken on the phone often. “I think that, as you say, the events of recent days prove the importance of our coordination, our de-confliction mechanisms, our attempts to cooperate with each other to prevent unnecessary accidents and tragedies and I believe that we’ve been successful,” he told President Putin, according a press release published on the official Israel Prime Minister website.

“I’m very satisfied by the fact that our militaries have been very careful to coordinate with one another and will continue to do so. I think this is an indication of the openness and the success of the relationship between Israel and Russia, our relationship.”

The regional coalition members are in diplomatic confrontation with Turkey. Turkey remains isolated with no allies in the Middle East, as was evident following the incident in which a Turkish jet fighter shot down a Russia jet fighter.

That situation has implications on the natural gas environment in the region, since Russia is the main gas supplier to Turkey and Israeli natural gas investors would love to sell natural gas to Turkey, the biggest customer in the region. However, that will decrease Russia’s domination over the Turkish market, an effect that President Putin isn’t going to be in a hurry to witness.

Meanwhile Israel, Greek Cyprus and Greece are entertaining the idea of creating an interconnection to mainland Greece and from there to south Europe, another option that might irritate Russia, who is Greek Cyprus’s and Greece’s best ally (despite the fact that both of those countries are EU members). Another option on the cards is exporting electricity from Greek Cyprus to Europe, generated from Cypriot and Israeli natural gas.

Bank of Israel: State revenues from Tamar, Leviathan half previous forecast

Natural Gas Europe, *02.12.2015*

The fight over the approval of the natural gas regulatory framework in Israel is getting hotter. Former and current top government and regulatory bodies' officials gave testimonies in front of the Knesset's (Parliament's) economic committee.

And while former officials claimed the framework is flawed, officials that are still in office, supported the framework even if sometimes hesitant to do so. Karnit Flug, the Governess of the Bank of Israel, supported the framework. She warned that gas from Tamar field will be in short supply; hence the central bank was supporting the implementation of the framework as a way to increase gas supply and energy security.

She also warned that, even if the framework is approved, it will be at least four years before natural gas from Leviathan will flow to Israeli shores. Therefore, she said, the energy security of the country will be compromised for a least another four years. In order to shorten that period, she said the government has to find a solution by laying a second pipeline from Tamar gas field to Israel's shores.

Despite Mrs. Flug support for framework, she supplied ammunition to its opponents, particularly in financial and fiscal aspects of the framework. She said that during the lifetime of the gas fields their taxation will be 47%-54% less than what proponents of the framework claim at more than 60%, and according to various calculations above 70%. Mrs.

Flug estimated the state's revenues from the natural gas industry for the next few decades will be in the region of $70 billion, according to calculations based of gas prices of $4.5-$6.7 million British Thermal Units (MMbtu), though the actual amount is dependent on actual prices. In the past, the Bank of Israel estimated government revenue from those projects at $126 billion.

Mrs. Flug also said if the framework will not create competition in the natural gas market and the entrepreneurs won't fulfil their obligations, then the framework will be aborted and the state will have to look at other solutions, including price control. When she was told by one of the MPs that in the framework there are no sanctions against entrepreneurs who don't (or won't) fulfill their part in the bargain, she responded by saying that in such a case, the state will be legally better positioned.

The governess also said that if the gas producers concerned can't find enough customers to secure financing for the gas fields' development, the government will have to step in and provide financial guarantees. In another testimony, the former Chief Economist at the Finance Ministry claimed that extensive gas exports will be a huge mistake that will cause damages in billions of dollars to the public coffers. "If we are to export 400 bcm [billion cubic metres], as is proposed in the framework, we will lose," said Dr. Michael Sarel.

“The future damage to the public will amount to many billions of dollars, in comparison to an alternative scenario in which exports either will be banned or limited to 200 bcm.” Israel has estimated natural gas reserves of less than 1,000 bcm. However Dr. Sarel is still supporting the framework but in a less extreme version.

The current Budget Director at the Financial Ministry, Amir Levi, estimated in his testimony that the damage to the state if the reservoirs aren’t developed at $1.8 billion in 3 years. He said that during the lifetime of the Leviathan field, the government revenues will amount to $70 billion. He also said that if the energy companies do not fulfil their commitments, the government will be able to impose price controls.

The economic committee will end its hearings on 10 December and is supposed to publish its findings, conclusions and decisions a few days later. The committee’s opinion has no binding legal status, and therefore, cannot stop the Economy Minister, currently also the Prime Minister, Benjamin Netanyahu, from signing article 52 into the antitrust law, which will bring the saga to a close.

Official: Israel exposed to legal claims by gas investors

Natural Gas Europe, *01.12.2015*

Israel is exposed to legal claims by investors, whether the regulatory framework for natural gas industry is approved by the Israeli government. That was the message delivered to the economic committee of the Knesset during a consultation that is part of the process of approving the framework.

The assessment was given by Avi Licht, deputy of the state Attorney General. Mr. Licht said that the exposure to legal claims is one of a few arguments in favor of approving the framework. Despite the demands for transparency, during the hearing Mr. Licht refused to detail what kind of claims Israel is exposed to, saying that it would help the other side.

However, he said that after due consideration it appears that legally Israel’s stance will be stronger with the framework’s approval.”There are two risks that have to be taken into account”, said Mr. Licht. “The first one is, what happens if the framework goes through?

The second one is, what happens if it goes through and then the state violates it? With assistance from an American law firm, we have examined all the risks. Noble Energy makes use of Israel’s bilateral [trade] agreement with Greek Cyprus [in order to sue the state].” Israel is a signatory to a bilateral trade agreement with Greek Cyprus in which commercial disputes are discussed before the ICC Arbitration body in Geneva, Switzerland. This is a private body, not subject to national states laws, and its discussions are being held behind closed doors.

The arbitration process in the ICC can be costly, lengthy, and their decisions are not open to appeals. Since the U.S. has no such bilateral agreement with Israel that enables claims through the ICC Arbitration body, Noble Energy has created a Cypriot entity in order to facilitate such litigation.

Licht also said that the chances for the state to leave out one of the investors from either the Tamar gas field or the Leviathan gas field, in order to promote competition in the natural gas market, was not high and an alternative was not applicable. He reckoned that such a move might have lasted 12 years, would have delayed the development Israel’s gas assets, and caused the state huge economic and geopolitical damages.

Shah Deniz 2 development is within target

Natural Gas Europe, *02.12.2015*

Over 50% of planned work has been completed of Shah Deniz gas and condensate field in the Caspian Sea, offshore Azerbaijan. The project is on target for production of first gas in late 2018, operator BP has said.

The work includes engineering, procurement and construction of onshore and offshore facilities and drilling subsea wells, BP Azerbaijan said. Two semisubmersible drilling rigs–Istiglal and Heydar Aliyev–have been involved into the pre-drilling program for Shah Deniz -2. Eight subsea production wells have already been drilled and suspended in preparation for first gas and consequent production ramp up.

Drilling operations will continue in order to deliver all wells required to reach the planned plateau level–16 billion cubic metres (bcm) a year. BP reports that eight pin piles are the first pieces of permanent equipment for the Shah Deniz-2 platforms now fixed on the seabed.

Construction activities are currently ongoing at all offshore and onshore sites and fabrication yards in Azerbaijan and Georgia. It includes the expansion of the gas terminal in Sangachal and the expanded Southern gas pipeline (SCPX) that will pump gas from stage-2 to Turkey. In the first nine months of 2015, SCP expansion activities continued along the pipeline route across Azerbaijan and Georgia.

Stocks of pipe have been building up at the pipe yards along the route with more than half of the pipe needed for the Azerbaijan section already in the yards. Since the mainline construction in Azerbaijan commenced at the end of June, approximately 61 kilometres of pipe has now been welded.

Mainline pipeline and compressor stations 1 and 2 and the pressure regulating and metering facility construction in Georgia is ongoing. Topsides and jackets for two platforms that will be installed in Shah Deniz within stage-2 are under construction in the Amec-Tekfen-Azfen yard near Baku and Baku Deep Water Jackets factory.

Baku Shipyard has received for final assembly the two hull sections for the subsea construction vessel Khankendi, which was constructed in the Keppel Fels shipyard in Singapore. Once completed, this new vessel will be deployed to the Shah Deniz-2 area for the construction of the subsea structures.

The capital expenditure for Shah Deniz by the beginning of October has reached $3.37 billion, the majority of which was associated with Shah Deniz-2. Shah Deniz 1 produced 7.2 billion bcm of gas and about 13.4 million barrels of condensate by October.

BP said that the stage-1 expansion programme helped to increase the existing facilities' production capacity to 29.5 million standard cubic metres of gas per day or around 10 bcm a year. Before the implementation of the expansion programme, it was about 27.3 million standard cubic metres a day.

This year BP implemented the first maintenance program in Shah Deniz since operations began in 2006. The Shah Deniz Alpha production platform has been shut down for about 20 days to enable maintenance, inspection and project work on both the offshore platform and onshore facilities in Sangachal.

Major Russian producer intensifies efforts to rebalance portfolio through deals

Natural Gas Europe, *01.12.2015*

Rosneft is intensifying its efforts to rebalance portfolio and strengthen cooperation with European companies, closing the purchase transaction with France's Total concerning 66.67% share in AET-Raffineriebeteiligungsgesellschaft mbH and announcing completion of the transaction to sell a 20% share of Taas-Yuryakh Neftegazodobycha LLC to UK-headquartered BP.

"Rosneft and Total closed sale and purchase transaction concerning 66.67% share in AET-Raffineriebeteiligungsgesellschaft mbH, representing a 16.67% share in PCK Raffinerie GmbH ," statement says.

"The deal represents a natural element of Rosneft strategy aimed at strengthening its presence in the key European market, one step further along the added value chain." As a result of the transaction, the company, led by Igor Sechin, will reinforce its position in the Berlin/Brandeburg area. The transaction, which follows the agreement signed by Rosneft and Total in June, will allow the Russian giant to create synergies thanks to existing oil infrastructure in the area.

Rosneft and BP announced the completion of a transaction to sell a 20% share of Taas-Yuryakh Neftegazodobycha, which is developing the the Srednebotuobinskoye oil and gas condensate field in Eastern Siberia.

"The companies' cooperation within the project will contribute to expanding local infrastructure and boosting production capacities of these Eastern Siberian fields, one of the key regions of Rosneft's business," Rosneft wrote. The Russian company reported a 16.1% increase in net income in the first nine months of the year with respect to the same period in 2014, despite a 7.8% decrease in revenue.

Russian major ready to invest in Iranian gas

Natural Gas Europe, *26.11.2015*

Gazprom is ready to invest in Iran's gas exploration and production projects, a senior official of the company said. "Gazprom's cooperation with Iran will be mostly in exploration and production sectors," IRNA quoted the official. "We are hoping to transfer new technologies in this field.

"He continued, "Although Iran could be a rival for Russia in the gas sector in the future, this issue will not hinder us from cooperating with Iran." Gazprom is willing to cooperate with Iran after the sanctions imposed on the country have been lifted. This cooperation will be beneficial for both sides, the official said.

Gazprom may also take part in liquefied natural gas projects in Iran once sanctions against Tehran are lifted, Gazprom's deputy Chief Executive Officer Alexander Medvedev said in June. "Gazprom does not rule out its participation in these projects under certain conditions," Reuters quoted Mr. Medvedev as saying. "The sanctions should be lifted first."

Ukraine’s gas imports slow

Argus, *02.12.2015*

Ukraine imported 1.1bn m³ of gas last month, down from 2.4bn ³ a month earlier and 36pc less than planned, after halting supplies from Russia.

The country initially planned to take 1bn m³ from Russia in November, but state-owned Naftogaz stopped imports on 25 November, citing a higher price for Russian gas than supplies through EU countries.Imports from the EU at 750mn m³ were slightly higher than the 723mn m³ originally scheduled. Ukraine does not plan any further imports from Russia this year, insisting that the 16bn m³ held in storage will cover winter requirements.

But Russian state-controlled Gazprom’s has insisted that it is not enough to ensure stable transit shipments to Europe and Turkey. Russian imports in January-November this year more than halved compared with a year earlier to 6.2bn m³. But receipts from EU countries — mainly Slovakia — more than doubled to 10bn m³.

Imports made independently of Naftogaz were 222.4mn m³ last month, 24pc higher than in October. Ukraine’s gas traders association said 10 firms supplied gas to domestic consumers in November, up from seven a month earlier.

Most of the gas was provided by Energy Resources of Ukraine, which partners French energy firm Engie, to state-owned fertilizers producer Odessa Port Plant and steelmaker ArcelorMittal. Naftogaz has set a 5,845-6,474 hryvnia/’000m³ ($249-275/’000m³) price for industrial consumers from 1 December, equivalent to a 5pc reduction. The cut is intended to shore up the firm’s market share in the face of competition from independent suppliers.

Naftogaz’s prices have become a benchmark for the domestic market since Kiev stopped regulating values for industrial buyers on 1 October. The move has opened up the market to foreign trading firm participation.

Gazprom gas exports firm in November

Argus, *02.12.2015*

Russian gas exports to Europe — excluding the Baltic states — and Turkey were 13.6bn m³ in November, nearly 30pc higher year on year. Exports were 144.4bn m³ in January-November, just 13.6bn m³ below the full-year 2015 target of 158bn m³ and 8.5bn m³ higher than a year earlier.

Germany and Italy drove Russian exports this year. Germany bought 40.9bn m³ in January-November, 23pc more than a year earlier, while Italy bought 22.5bn m³, a third higher than a year earlier. Germany bought 4.4bn m³ in November, 20pc more than November last year, while Italy bought 1.56bn m³, 25pc up on the year.

Gazprom's average November sales price was $204/'000m³, $6/'000m³ down on the month and $126/'000m³ down on November 2014. Its average sales price is expected to drop below $200/'000m³ in December. Whether the 158bn m³ full-year sales target is met could depend on the weather in Europe.

Importers had weighted their oil-linked gas take towards the second half of this year because prices were set to be much lower than in the first half of 2015. But exceptionally mild weather for much of this quarter has muted demand, and similar conditions are forecast to the end of this year. That said, oil-indexed prices look set to rise later next year, which could persuade importers to maximise imports now and roll over unused inventories to the 2016-17 storage cycle, reducing their injection needs as prices rise next year.

Nord Stream 2: How does Ukraine respond?

Natural Gas Europe, *30.11.2015*

Nord Stream 2 is clearly seen as a threat to EU supply security. 10 EU Member States (Estonia, Latvia, Lithuania, Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria and Greece) forwarded a letter to the European Commission objecting to the proposed Nordstream 2.

EU supply security and threatens to destabilise Ukraine. It requested that the Commission undertake a close examination of the compatibility of Nordstream 2 with EU law. Clearly, Nord Stream 2 is also a threat to Ukraine: To Ukrainian revenues (the current transit arrangements net Ukraine more than $2 billion each year).

To Ukrainian financial capacity to rebuild its pipeline network: If Nord Stream 2 is built it will be much more difficult to obtain investment for network upgrade. Thirdly, the current transit arrangement provides the one element of geostrategic leverage that Ukraine has both with the EU and Russia. Remove the transit of gas from the territory of Ukraine then Kyiv has very little leverage with Moscow and is of far less relevance to Brussels, Berlin, Paris and Warsaw.

One of the major arguments deployed by the proponents of Nord Stream 2 to make the case for the project is to argue that the new pipelines are justified because of the supply security risk of running natural gas through the Ukrainian transit system. They cite in particular the 2006 and 2009 Ukrainian-Russian gas disputes.

This is somewhat disingenuous as the Russian Federation bears a substantial amount of responsibility for both cut offs. Furthermore, the current Ukrainian government has demonstrated, despite the impact of military conflict and gas disputes with Russia over the last two years, that it can keep the gas flowing westwards in even the most difficult of circumstances.

In addition, it is Russia much more recently in 2014 and 2015 that has been the one cutting gas flows to EU Member States in order to stop reverse flows of Russian gas back into Ukraine (i.e this is Russian gas sold under contract to EU states that is then resold to Naftogaz the Ukrainian state owned operator and then reverse flowed back into Ukraine).

Ukraine can strengthen its case further against Nord Stream by making any possibility of any Russian-Ukrainian gas dispute extremely remote. It has to be remembered that the prospect of supply disruption to EU states is often confused with the disputes between Russia and Ukraine over gas pricing for Ukraine’s own gas. A good example occurred over the last few days. Where Ukraine came to the conclusion that because of the cheap and plentiful supply of gas from the EU obtainable via reverse flow it did not need to purchase any more Russian gas for the time being.

This decision was spun in Moscow as the Ukrainians refusing to pay for Russian gas and dark hints that Europe's supplies via the Ukrainian transit network were at risk. In fact EU supplies in transit were not in issue, and in fact there was no dispute in respect of Russian gas to Ukraine for Ukrainian consumption. Ukraine had just decided it did not need to take any more Russian supplied gas for the time being.

One confidence building measure that Ukraine can take to remove Western fears is to move rapidly to fully reform its gas market. This means pushing on with the full implementation of third energy package including full unbundling of Naftogaz, privatising the Naftogaz busiinesses and establishing an independent regulator. Ukraine has already taken a number of significant steps towards reform including the removal of price controls which have seen consumer and public sector prices tripled.

This reform has had two major features. First, increasing prices to market levels will see Naftogaz's debt fall to 7% of Ukrainian GDP to zero by 2017. Second, and even more crucially terminating differential pricing levels will remove a major source of corruption in the gas sector (consumer and public sector gas could easily be diverted to industrial purposes). Pushing ahead quickly with all the third energy package reforms will give EU states greater confidence in the operation of the Ukrainian gas market and Ukraine's commitment to ensuring supply security.

A second confidence building measure would be to consider upgrading the powers of the Energy Community on the territory of Ukraine. Under the Energy Community Treaty Ukraine has agreed to comply with the EU energy acquis. Ukraine could increase the confidence of the EU Member States in Ukraine's adherence to EU rules by Ukraine granting the Energy Community EU level powers of surveillance and enforcement on the territory of Ukraine.

This would mean that the Energy Secretariat which currently supervises the application of the Energy Community rules would gain European Commission surveillance and enforcement powers, and an energy court, potentially based in Kyiv but modelled on the EU's European Court of Justice would supervise the Energy Secretariat and enforcement of Energy Community law. This 'upgrade' of the Energy Community could be achieved by Ukraine agreeing to a protocol to the Energy Community Treaty.

Such a level of international supervision of the national energy sector would make it very difficult to sustain any arguments regarding reliability in ensuring the supply of gas across Ukrainian territory. The third measure would be to make Ukraine as far as possible independent of Russian gas supplies. If Ukraine uses little or no Russian directly supplied gas then there is no basis for a dispute and therefore no threat to continued transit of gas bound for the EU via Ukraine. This prospect is increasingly possible due to reverse gas flows from Hungary, Poland and Slovakia.

This is indeed why Ukraine currently is not taking any Russian directly supplied gas. Ukraine should seek support for additional reverse flow supply routes from the EU and enhanced reverse flow capacities from states such as Slovakia who could potentially increase its flows to Ukraine. In addition, Ukraine should also look at alternative sources of supply. Given the decline in Russian-Turkish relations there may well for instance be an opportunity to now revive the prospect for a LNG floating regasification station off Odessa harbour which could provide an additional source of supply.

Equally, if the government can effectively reform the royalties on gas production which have been a source of dispute with industry over the last year, both conventional and unconventional production could be increased providing additional supplies of non-Russian gas.

By taking these measures Ukraine can head off the argument about supply security made to support Nord Stream 2. In fact Ukraine has done remarkably well over the last two years to keep the gas flowing to Europe through revolution, war and economic collapse. Given the track record of the last two years where transit was maintained in even extreme political circumstances and the commitment to liberalise the Ukrainian gas market there is no real threat to European supply security which would justify the building of Nord Stream 2. It is far cheaper and provides far greater supply security for the EU to support Ukrainian transit, than pay (as EU consumers ultimately will) for a new €10 billion pipeline under the Baltic Sea.

Helping Ukraine to reform Naftogaz's gas transmission business

Kyiv Post, *28.11.2015*

Naftogaz, the giant state-owned Ukrainian oil and gas company with 80,000 employees, used to be a synonym for wastage, corruption and opacity. But it looks like it might have turned a corner.

Thanks to a new management team, a fourfold increase in gas prices and the beginning of legal reforms, its losses in 2015 will be down to 3.1% of Ukraine's GDP, from 5.5% in 2014, according to the International Monetary Fund. The impact on the deficit could fall to 0.2% in 2016, and Ukraine's dependence on Russian gas has been markedly reduced. But just as the skies were clearing, new clouds appear.

The reform of Naftogaz is stalling. Though the country adopted a gas law in April, Ukraine's politicians have not been able to agree a model for the unbundling of Naftogaz's different business lines, or agree on which lines should be prepared for privatization.

The risk is that if Naftogaz is not quickly and comprehensively reformed, the bad old habits of redistribution and political corruption will resurface. Because of the importance to Ukraine of Naftogaz, this could undermine the country's association process with the European Union.

In addition, the income from gas transit, from which Naftogaz currently earns about $2 billion (USD), might drop to zero should Russia's Gazprom finalise its attempts to circumvent Ukraine's gas transit system via the Nord Stream II pipeline. The only sensible response to both challenges is to complete the reform of the regulatory framework and to fully unbundle Naftogaz.

The gas transmission arm should become a fully independent business that is regulated like its peers in the EU and shielded from political control, in order to convince European suppliers that any new alternative to Ukrainian gas transit would be a waste of money.

This is urgent, because uncertainties over gas transit through Ukraine are a pretext for Nord Stream II. It is also crucial in the longer term, because the badly needed investment in Ukrainian gas production requires non-discriminatory access to the pipelines.

Unbundling the gas transmission business and freeing it from political control implies significant political cost for the oligarchs and politicians that will lose influence over the main Ukrainian rent-generating machine. Moreover, the benefits of reform will only accrue over time–but Ukraine places more value on income today than on future benefits. Furthermore, the obvious solution–privatising the gas-transit business and regulating it according to the EU rules that Ukraine has signed up to (the famous ‘third package’)–is problematic.

Currently it is not feasible because an immediate privatisation will look like a sell-out of the country. No sensible western investor without political leverage in Ukraine would invest money and time in Naftogaz’s gas transmission business, only for their investment to be implicitly expropriated when the revenues start flowing. And the plan is not credible for transit customers, because there are strong incentives for future governments to use the regulatory tools at its disposal to extract economic or political rents from gas transit.

But there could be a solution. Ukraine could sell a share in its gas transmission business to a benevolent investor that has an interest in a prosperous Ukraine and stable gas transit. One candidate could be the European Bank for Reconstruction and Development (EBRD) which has built up expertise in Ukraine’s gas sector over two decades and has experience of pre-privatisation deals.

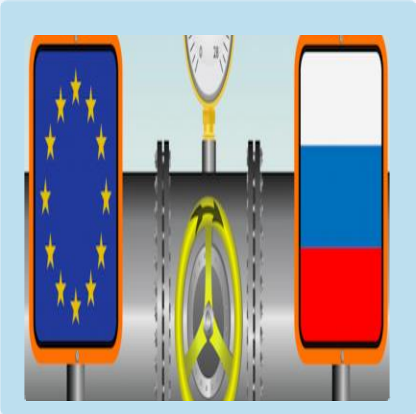
From the perspective of the mainly European taxpayers that fund the EBRD, such a transaction is justified by self-interest. The EU would stabilise gas transit through Ukraine, enable gas sector reforms that are crucial for Ukraine’s political stability and might even extend its internal gas market to a country with significant gas storage and production potential.

To enable the deal, the Ukrainian government would have to commit to a regulatory framework enabling the EBRD to make profits if the gas transmission business is well managed. Based on this commitment, the EBRD could bring in western expertise and money to restructure the business. The aim of the operation would be full privatisation of the state’ and the EBRD’s shares some years down the road. The expected revenues when this final privatisation step takes place would be a major incentive for the Ukrainian government to stick to its commitments to the EBRD.

Selling the gas transport system to a “foreign” investor at a price that might appear low compared to private transactions of similar assets in the west could be unpopular in Ukraine, especially as household energy costs are set to rise. To address this concern, a fixed share of the profit that the EBRD makes when privatisation takes place would be returned to the Ukrainian budget. This would also increase the incentives for the Ukrainian government to develop a regulatory framework that increases the privatisation value of the gas transmission business.

Nordstream 2: Too many obstacles, legal, economic, and political to be delivered?

Natural Gas Europe, *01.12.2015*



Germany may be seeking to expedite the construction of Russia's Nordstream 2 pipeline by shielding the controversial project from tough the laws of the European Union (EU), according to a transcript of talks between Russian President Vladimir Putin and German Energy Minster Sigmar Gabriel, Atlantic Council Senior Fellow Alan Riley writes in "Nordstream 2: Too Many Obstacles, Legal, Economic, and Political to Be Delivered?".

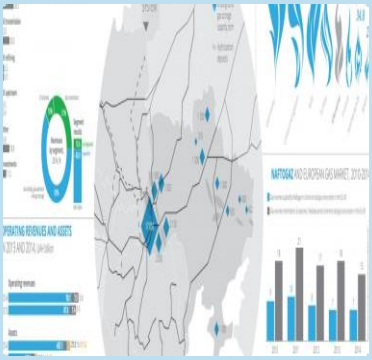
Despite Germany's move, however, Riley argues that the pipeline is unlikely to be completed by its slated 2019 opening date.

The EU, undeterred by Germany, will likely demand that its energy laws be rigorously applied, given that if Nordstream 2 came online it would undermine EU supply security and conflict with the EU's fundamental liberalization rules.

Even without these political and legal issues, Riley writes that Gazprom will find the pipeline too costly to build as financing costs have grown too great amid the EU's shrinking gas market and the long shadow cast by sanctions on Russia. While Nordstream 2 may once have seemed a politically and economically viable project, the Ukraine crisis has so altered the landscape that, according to Riley, Gazprom may "have taken on a project that is undeliverable."

Ukraine releases daily transmission reports to defend against Russian major's claims

AA Energy Terminal, *16.11.2015*



Ukraine transmitted 203.6 mcm of gas to the EU and Moldova, Ukrtransgas and Naftogaz reveal, adding that the orders for Wednesday and Thursday were satisfied in full.

"The orders for transmission through cross-border points at the country's Western border amounted to 204.3 mcm for the day," Naftogaz reported. "During the two days after Naftogaz stopped buying gas from Gazprom, Ukraine has transmitted a total of 409.7 mcm. The orders for the period amounted to 409.4 mcm'. The publishing of the information comes in response to allegations from Russia's Gazprom, state-run Ukrtransgas said.

Ukraine's gas transmission system has a daily capacity of 444 mcm of gas. According to Naftogaz, just 46% of this capacity from Russia to the European Union was used during the gas day of 26 November 2015.

"In response to constant Gazprom claims about instability of Ukrainian transit after Ukraine's decision to stop procuring gas from Gazprom, our company started publishing daily information on the volumes of transmitted gas," Ukrtransgas' press office wrote in an email statement.

Is Washington attempting to torpedo Nord Stream 2?

Sputnik, *01.12.2015*

An expert speaking to independent Russian newspaper Svobodnaya Pressa suggests that Washington may be playing the role of 'coordinator' in the campaign by several Eastern European countries including Poland, Slovakia and the Baltic states to try to prevent the Nord Stream 2 gas pipeline from being built.

Nine Eastern European countries, including Poland, Slovakia and the Baltic states, are petitioning to block the construction of the pipeline, which, if built, would bypass Eastern Europe on its way to Germany, connecting to the Opal and Nel pipelines, thus supplying other countries in Western Europe.

In their letter to European Council President Donald Tusk, summarized by Britain's Financial Times, the Eastern European nations are demanding that the proposed pipeline be put on the agenda of December's leadership summit.

Commenting on the letter, Svobodnaya Pressa journalist Vasily Vankov noted that "it is not difficult to guess that the signatories calling for the obstruction of another Russian energy project are [mostly] members of the traditional anti-Russian camp," with the "document speculating on the topic of 'Europe's dependence on Russian gas,'" which purportedly runs counter to the bloc's "energy diversification and security policies."

So far, Berlin, together with European Commission President Jean-Claude Juncker, has resisted pressures from the EU's new members, suggesting that the purely commercial project should be allowed to proceed if it complies with the supranational bloc's internal market rules.

Speaking to Svobodnaya Pressa, Alexandr Pasechnik, the Head of the analytical department of Russia's National Energy Security Fund, noted that he believes that despite the efforts of Poland and the Baltic states, Nord Stream 2 has good prospects.

View of the Nordstream gas pipeline terminal prior to an inaugural ceremony for the first of Nord Stream's twin 1,224 kilometre gas pipeline through the baltic sea, in Lubmin November 8, 2011

"I think that Gazprom will try to speed up the project, especially now that a large pool of influential European partner companies has been formed," the analyst noted. The shareholders, Pasechnik recalled, include big players in the West European energy market, including Germany's E.ON and BASF/Wintershall, Royal Dutch Shell Group, Austria's OMV and France's Engie. "Naturally, these companies have a direct interest in seeing the project's speedy implementation."

With “Western Europe serving as the main beneficiary of the two new lines of the North Stream,” Pasechnik noted that nevertheless, some officials in Brussels, including EU Energy Commissioner Maros Sefcovic, continue to see Nord Stream II as a project with political and security implications.

“Russia, for its part, has not backed away from its strategy of building supply routes to bypass Ukraine. In this regard, the expansion of the Nord Stream by another 55 billion cubic meters of gas per year (equivalent to 28.7% of all of Gazprom’s exports in 2014) will allow it not only to reduce its transit dependence on Ukraine, but also to substitute the capacity of the cancelled Turkish Stream,” which would have had the capacity to ship 31.5 billion cubic meters of gas per year to Europe and Turkey.

With Berlin looking to increase the use of natural gas following the closure of its nuclear plants, other benefits of the proposed pipeline, Pasechnik noted, ironically include energy security for many of the Eastern European countries which have stepped out against the project, especially “should Kiev once again decide to engage in energy blackmail, siphoning supplies bound for Europe and forcing Gazprom to turn off the taps.”

Energy Development Fund Director Sergei Pikin, also convinced of Nord Stream II’s potential, explained that other benefits of the project include a direct connection to Western Europe, and, even more importantly – the fact that Gazprom “will be working in a consortium with European partners,” which means that the project will not fall under the EU’s Third Energy Package legislation, designed to ban one company from owning both the pipeline and the gas flowing through it.

“We build the pipeline up to the shores of Germany’s Greifswald,” Pikin noted. “From there, the infrastructure will be built by the Europeans, and Gazprom’s share in the ownership of European networks will be zero.”

According to Pikin, apart from Slovakia, which makes a healthy profit from the gas bound further West, “the fact that Poland and the Baltic countries have joined in the attempt to sabotage North Stream II is really nonsense.”

“How are they in any way related to this project?,” the analyst pondered. “Unfortunately, there is really nothing surprising that our traditional energy ‘spoilers’ in Europe [continue] to carry out the geopolitical whims of Washington. At the moment, they are carrying losses after having built regasification terminals and buying up American LPG, once again demonstrating the lack of any rational economic motivation among the countries of the ‘cordon sanitaire’ built around Russia by the Americans.”

Asked whether politics can ultimately be left out of the equation, Pikin noted that nothing can be guaranteed, particularly if something occurs in the conflicts in Syria or Ukraine, leading to a dramatic worsening in relations between Russia and the West.

“If this occurs,” the expert notes, “Chancellor Merkel will explain to Western European energy companies, on a political level, that they cannot cooperate with an ‘aggressive’ Russia.” In any case, the expert suggests, “Washington and its loyalists in Eastern Europe will continue to put all possible forms of pressure on Berlin.

"The main thing," Pikin notes, "is to find the right lobbyists. When we were negotiating on the [now canceled] South Stream, we were supported by the Bulgarians and the Hungarians. These were weak lobbyists, with only Austria able to 'show its teeth' to Brussels. Germany, on the other hand, is a pillar of the EU's economy; the whole EU can be said to be built under it. We offered Berlin the opportunity to become a major European energy hub, and to earn money on the supply of gas to its smaller partners. [So far,] Merkel's government has agreed, and they are fully able to carry on negotiations with Brussels on their own."

Europe's Energy Union: A problem of governance

Natural Gas Europe, *30.11.2015*

The EC put forward a proposal for an Energy Union in a document entitled 'A Framework Strategy for a Resilient Energy Union with a Forward - Looking Climate Change Policy.' As the title indicates, it was an ambitious document. It called on EU to achieve a 'fundamental transformation' of Europe's energy system to reach the goal of a 'sustainable, low-carbon and climate-friendly economy designed to last'.

To do so, it said that 'we have to move away from an economy driven by fossil fuels, an economy where energy is based on a centralised, supply-side approach and which relies on old technologies and outdated business models.

We have to empower consumers through providing them with information, choice and through creating flexibility to manage demand as well as supply. We have to move away from a fragmented system characterised by uncoordinated national policies, market barriers and energy-isolated areas.'

The Commission was looking for an ambitious European initiative on which all member states could work together. The time may well have seemed ripe for this – in other areas (treatment of asylum seekers; Greece and the Euro) the wider European project seemed to be stuttering. But in relation to energy, European countries have a common goal of decarbonisation, and face common challenges in areas like security (the original idea of an Energy Union had been put forward by Donald Tusk, then Prime Minister of Poland, in response to the Ukraine crisis and worries about European dependence on Russia for its gas supplies).

Yet, energy has for many decades been less 'European' than most other policy areas. Member states enjoy considerable autonomy – indeed they have a Treaty right to determine their own energy mix. Policy developments at the European level have therefore in the past tended to stem from non-energy agendas – such as the single market and the environment – resulting in accusations that the Commission has developed a 'silo mentality' and has failed to integrate its overall approach to the energy sector.

In any event, the need for action on an EU energy policy was not seen as pressing during the long period of low energy prices and abundant supplies during the 1990s. However, the higher prices of the 2000s and renewed security concerns such as those prompted by the Ukraine crisis, along with the need for fundamental changes in the energy sector to deliver decarbonisation, have since pushed energy policy up the agenda again and underlined the need for a common European approach.

UK firm completes deal for North Sea gas assets, including Breagh and Clipper South

Natural Gas Europe, *01.12.2015*

Chemical giant INEOS has announced today that it has completed a transaction to acquire all of DEA Deutsche Erdoel's UK North Sea gas field assets, including the Breagh and Clipper South fields.

In a statement released on INEOS' website today, the company says the takeover will include platforms, infrastructure and "the highly skilled team that runs them." INEOS will operate the fields through a newly formed subsidiary, INEOS Breagh, which is to be based in London. The gas from the fields is enough to provide up to 8% of the UK's gas, INEOS said, enough to warm 1 in 10 British homes.

"The fields themselves are well positioned, close to INEOS' assets in the North East and Scotland," the statement added. The transaction is part of INEOS' stated drive to becoming a leading player in UK gas. Already this year, the company completed a transaction with IGas, which saw INEOS take a 50% interest in seven IGas shale gas licences in the Bowland licences. In October, it also took a 25% interest in the Clipper South Gas Field from Fairfield Energy Holdings, bringing its stake in that field at that time to 75%.

US Senate, House agree transp. bill funded by oil sales

AA Energy Terminal, *02.12.2015*

The U.S. Senate and the House of Representatives agreed on a five-year, $305 billion transportation bill that will see sales from Strategic Petroleum Reserves as part of its funding. A total of 66 million barrels of crude oil from SPR will be sold between 2023 and 2025, according to the bill known as FAST Act, or "Fixing America's Surface Transportation."

16 million barrels of crude oil are planned to be sold in 2023. The U.S. Secretary of Energy will be responsible for the drawdown of crude from SPR and conduct its sales until a total of $6.2 billion is generated from the sales, according to the bill.

The rest of the amount needed by the bill will be generated by the Federal Reserve, and by some financial solutions such as the U.S. government collecting some outstanding taxes throughout the country. Both the Senate and the House are expected to pass the bill before the Friday deadline when the current funding runs out.

SPR is saved for the U.S. supply security, and serves as a buffer against supply shocks from the regions the U.S. imports crude oil. However, since the U.S. has increased its domestic oil production dramatically to over 9 million barrels a day on average, from 5 million barrels per day in 2008; SPR, which stands around 695 million barrels at the moment, has been targeted by various U.S. lawmakers in a number of occasions in the past months.

A group of U.S. senators proposed a highway transportation bill that would be partially funded by selling 100 million barrels of crude from SPR. Some lawmakers in the U.S. Congress proposed to sell 58 million barrels of crude oil from SPR between 2018 and 2025, which would generate revenues for the country's budget.

Selling SPR could also pave the way to lift the 40-year-old self-imposed ban on exporting domestically produced crude oil in the U.S., although President Barack Obama is strictly against lifting the export ban since it goes against his green energy policies in the country.

White House: Obama to veto House energy bill

AA Energy Terminal, *21.11.2015*

The U.S. President Obama would be advised to veto a House of Representatives bill about the U.S. energy security and infrastructure, the Office of Management and Budget said.

The office said that the U.S. administration opposes the bill since it would hinder its moves towards energy efficiency, hamper the Department of Energy's abilities, undermine initiatives to modernize the U.S. energy efficiency and infrastructure, and interfere with Obama's authorities. The bill named "North American Energy Security and Infrastructure Act of 2015", aims to establish a fund for energy security, authorize $850 million for it between 2017 and 2020 period.

According to the bill, this amount is intended to be met by selling the U.S.' Strategic Petroleum Reserves (SPR), which has been targeted by various U.S. lawmakers in a number of occasions in the past months.

A group of U.S. senators proposed a highway transportation bill that would be partially funded by selling some of the country's SPR, which stands around 695 million barrels at the moment.

Some lawmakers in the U.S. Congress proposed to sell 58 million barrels of crude oil from the SPR between 2018 and 2025, which would generate revenues for the country's budget. While selling SPR could pave the way to lift the 40-year-old ban on exporting domestically produced crude oil, President Obama is strictly against such a move as it would encourage oil producers in the country to raise their output, thus hinder his green initiatives and use of renewables in the U.S.

"The administration is committed to taking responsible steps to modernize the nation's energy infrastructure in a way that addresses climate change, promotes clean energy and energy efficiency, drives innovation, and ensures a cleaner, more stable environment for future generations," the Office of Management and Budget said in its statement.

"If the President were presented with H.R 8, his senior advisors would recommend that he veto the bill," the statement underlined. The bill is scheduled for the U.S. House of Representatives' Committee on Rules for Tuesday 8:00 p.m. GMT.

US crude stocks increase for tenth consecutive week

AA Energy Terminal, *03.12.2015*

U.S. crude oil stocks increased for the tenth consecutive week, the U.S.' EIA data revealed. Commercial crude oil inventories in the country rose by only 1.2 million barrels, or 0.2 percent, to reach 489.4 million barrels, from 488.2 million barrels from the previous week, according to the EIA.

For the same period, strategic petroleum reserves in the country remained unchanged at 695.1 million barrels. "U.S. oil stocks grew again last week despite strong growth in refinery inputs, as a surge in imports overwhelmed higher demand," London-based Capital Economics' U.S. Weekly Petroleum Status Report said.

"An additional increase in imports, especially from OPEC and Mexico, added to the glut," said Thomas Pugh, author of the report and commodities economist at Capital Economics. Weekly commercial crude oil imports increased by a massive 414,000 barrels per day on average to reach 7.75 million barrels per day ending Nov. 27, from 7.33 million barrels a day ending Nov. 20, according to the EIA.

Meanwhile, domestic oil production in the U.S. also increased by 37,000 barrels per day to climb above 9.2 million barrels a day during the same period, but still around 400,000 barrels a day lower than April when U.S. output peaked at 9.6 million barrels per day. This amount of increase in oil production was "more than enough to offset the previous week's decline," Pugh said, and added "The market reaction to today's stocks report was understandably negative."

The price of the global benchmark Brent crude oil fell from around $44 per barrel on Wednesday and dived below $43 a barrel after the release of U.S. weekly crude inventories. The American benchmark West Texas Intermediate declined from $41.30 per barrel and fell below $40 a barrel, according to official figures. Oversupply and low demand are the major reasons behind low oil prices, which declined around 60 percent since June 2014 when they were around $115 per barrel.

Announcements & Reports

► *Incidence and Impact: A Disaggregated Poverty Analysis of Fossil Fuel Subsidy Reform*

Source : OIES
Weblink : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/12/SP-36.pdf

► *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

► *The 9th ICIS European Gas Conference*

Date : 04 December 2015
Place : Amsterdam - The Netherlands
Website : http://www.icisconference.com/europeangas

► *Interconnecting Europe: Natural Gas in Romania*

Date : 09 December 2015
Place : Brussels - Belgium
Website : http://www.gasdialogues.com/interconnecting-europe-natural-gas-in-romania-9-december-2015

► *European Gas Conference 2016*

Date : 19 – 20 – 21 January 2016
Place : Vienna, Austria
Website : http://www.europeangas-conference.com/?utm_source=external%20&utm_medium=banner&utm_campaign=naturalgaseurope

► *Kazakhstan Oil and Gas Summit 2016*

Date : 22 - 23 February 2016
Place : Almaty, Kazakhstan
Website : http://www.kazakhstanogs.com/