Oil & Gas Bulletin
▸ 26.02.2016

Iran's return to increase Turkey's investment appeal

AA Energy Terminal, *22.02.2016*

Iran's openness to investments in the post-sanctions era, resulting in increased stability in the region, will strengthen Turkey's position as an investment base, head of the Republic of Turkey Prime Ministry Investment Support and Promotion Agency said.

In an exclusive interview with Anadolu Agency, Arda Ermut, head of the Republic of Turkey Prime Ministry Investment Support and Promotion Agency stated that Turkey stands as a base for various investments in the region while many international companies operate their investments in neighboring countries.

"We believe that Iran's return to international markets will make Turkey more attractive because of Iran's lack of infrastructure in terms of productivity and investing companies will tend to operate their activities in Iran from Turkey," Ermut explained. Thanks to this tendency, Turkey's position in the region as an operation base will become more powerful, he asserted.

"If we are to explain Turkey's critical position in the region with numbers, Turkey provides access to a population of 1.5 billion and an economic size of $28 trillion in neighboring countries based on a four-hour flight distance," Ermut said, surmising that Iran's return to international markets will both enhance the region and Turkey's role in it.

The U.S. and the EU lifted international sanctions on Iran following an announcement by the International Atomic Energy Agency who stated that the country was complying with its nuclear-related obligations agreed last summer. "Even the smallest step toward peace and stability in that region significantly increases the volume of foreign direct investment," Ermut concluded. In the middle of geopolitical risks and growing tensions in the region last year, Turkey attracted $16.5 billion in foreign direct investment in 2015.

Head of Turkey's top refinery takes over Koc Holding

AA Energy Terminal, *22.02.2016*

Chairman of the Executive Board of Turkish Petroleum Refineries Corporation, TUPRAS, Mehmet Omer Koc has been elected as chairman of the board of Turkey's largest company Koc Holding, according to a statement issued. Omer Koc, the second son of Turkish billionaire Mustafa Rahmi Koc, was also the vice president of the executive board of Koc Holding.

Mustafa Koc, the eldest son of Rahmi Koc and the former chairman of the board of Turkey's largest company Koc Holding, died last month at the age of 56 after suffering a heart attack.

He was chairman of the board of the family conglomerate since 2003. The new head of the Koc Holding has strong links with Turkey's energy industry. Omer Koc was the head of Koc Holding Energy Group between 2000 and 2004. He was made a member of the board of TUPRAS in 2006 and became chairman of the board from 2008 onwards.

TUPRAS, Turkey's largest industrial enterprise is the seventh biggest refining company in Europe and 29th biggest refining company in the world with a 28.1 million ton production capacity. The company is a leading brand in Turkey topping the Fortune 500 companies supplying crude oil, producing and exporting refined petroleum products. It is also involved with the storage, transportation, distribution and marketing activities in the petroleum industry.

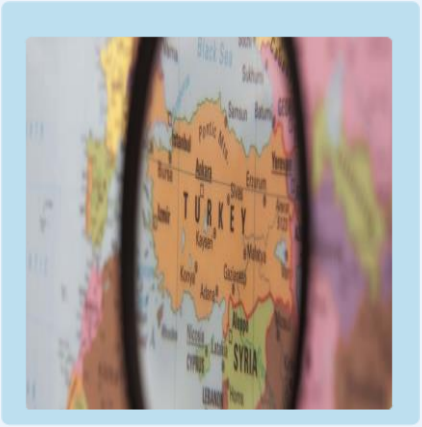
According to the Nelson Complexity Index which defines technical ratings of refineries, the existing refinery complexity of Tupras is equal to the complexities of refineries in France on the Mediterranean coast. The index has determined that the existing refinery complexity of Tupras at 7.25 complexity level is higher than that of the Mediterranean refinery complexity at 5.95.

The main purpose of the Resid Upgrade Project (RUP) is to build units that process low value fuel oil and convert it to valuable products. The Resid Upgrade Project (RUP) has been determined for the İzmit Refinery of TUPRAS located in the Gulf of İzmit which was initiated under the presidency of Omer Koc. The refinery is at the center of a consumption hub near densely populated and industrial regions in and around Istanbul, Kocaeli and Bursa, which accounts for around 40 percent of Turkish petroleum product consumption,

With the completion of the RUP, TUPRAS began to process 4.2 million tons of high sulfur fuel oil and produce 3.5 million tons of valuable high quality white products such as diesel/jet fuel, gasoline and LPG in Euro-V standards, while 690,000 tons of petroleum coke and 86, 000 tons sulfur were also produced. The facility was completed in December 2014.

Turkey's generators face problems of price, supply

Natural Gas Europe, *22.02.2016*



Electricity prices do not make happy reading for gas-fired power producers in Turkey nowadays. A surge in renewable generation, slowing demand and the impact of falling commodity prices have all contributed to pare the spot price for the last 14 months.

The story is not dissimilar to what has been happening in European power markets in recent years where renewable generation is gradually displacing thermal production, depressing power prices. The difference is in Turkey there is a pressing need for more gas generation because of pending expiry of contracts for public-private gas-fired plants.

But just as 5 GW of thermal plants built under the so-called build-own-operate and build-own-transfer (BOO/BOT) partnerships some 20 years ago are to be phased out in 2018/2019, there are also growing fears that Russia may act on its threats to discontinue the transit of gas through Ukraine to dependent countries by 2019.

Turkey's public and private gas companies have combined contractual annual imports of 14bn m³/yr through the Western Line, which transports the gas from Russia via Ukraine, Romania, Bulgaria into the northwestern Marmara region of Turkey. Almost all BOO/BOT plants are located in this part of the country and have been dependent on the Russian imports.

Although the expiry date of most BOO/BOT contracts and the possible cancellation of the Ukrainian gas transit would coincide, the reality is that Turkey cannot afford to lose 5GW, or 7% of its total installed capacity (at current levels). This is for two reasons. First, despite an accelerated growth in renewable capacity, Turkey continues to require baseload thermal capacity to ensure security of supply.

Garanti Bank, a high-profile Turkish lender, estimates that a total of 13.5 GW thermal capacity will be built in Turkey over the next ten years, although it concedes that the share of gas fired-generation in the total capacity mix would drop from nearly half six years ago to under a fifth.

Second, as most of the BOO/BOT power plants are in the highly industrialised and urbanised northwest, it is impossible to deprive the area of thermal production because it would cripple industrial output. Turkey's cross-border electricity interconnections with Greece and Bulgaria have provided an element of security for the Marmara region in recent years. However, they are still not sufficient to compensate for the potential loss of thermal production when BOO/BOTs reach their shelf life and Russia may decide to curb exports to the region. Turkey plans to double the current interconnection capacity to nearly 2 GW, but the process is slow because of technical constraints inside the Turkish electricity transmission network.

Because of the structure of the transmission system – gas-fired generation is concentrated in the west and hydro production in the east – it is technically and geographically challenging to flow electricity from one side of the country to the other. Furthermore, expectations for the completion of the 4.8-GW Akkuyu nuclear power plant which was due to be built by Russia's Rosatom by the beginning of the next decade, are fading amid escalating political tensions between Ankara and Moscow.

This means that alternative options such as better cross-border electricity interconnections, or nuclear and renewable generation could not plug a capacity deficit that is looming on the horizon. The most obvious and immediate solution is to overhaul the existing BOO/BOT fleet, phasing out plants with efficiencies lower than 52% and carrying out upgrades to the newer ones.

As contractual arrangements change and plants switch from selling their production from the regulated to the non-regulated market, they will also be incentivised to become more competitive. However, the inevitable questions that arise are how to raise sufficient cash to underwrite much-needed investment and where will the natural gas come from?

In a recent interview, the newly appointed energy minister Berat Albayrak noted that the Turkish energy sector required $100bn of investments in the next decade. With the forward price of electricity losing nearly a quarter of its value by time of delivery last year, it is hard to see what could incentivise investors to bring cash into the sector.

In order to rebalance electricity prices to a level that is competitive enough to attract investments, there is a need to review Turkey's current renewable policies. The high-volatility of the Turkish lira against the euro-dollar basket in the last 18 months has prompted renewable generators to seek the safety of the regulated feed-in tariff, pegged at an average $73.00/MWh.

This meant that in 2015 nearly 5 GW were operating under the feed-in tariff, three times the volume of 2014, while in 2016 that figure further tripled to 15 GW. The feed-in tariff rewards them for continuous operations, regularly depressing off-peak prices to zero.

The energy regulator has several options – to reduce the feed-in tariff for prospective renewable plants to curb investments in new capacity; to introduce a feed-in premium that would force companies to produce according to the demand-supply logic; or to introduce a portfolio management scheme that would involve better forecasting and optimisation.[3]

Any delays in overhauling the feed-in tariff scheme would lead to a vicious circle. Renewable generation would be incentivised to produce at full throttle, depressing prices, which in turn would discourage renewable generators to operate on the free market, switching to the feed-in tariff, instead. Swift reform in the renewable sector would have to be backed up by plans to ensure more gas imports.

Although over the last decade Turkey has been busy courting all gas producing countries in the region for more volumes, the promise of more imports looks bleak. Let's start with Azerbaijan. The country has pledged to sell 6bn m^3/yr to Turkey when new volumes come onstream from Shah Deniz 2 by 2019. The arrival of the new gas could come at a time when Russia threatens to cancel its gas transit via Ukraine.

Even so, there would still be an 8bn m³/year deficit as the Russian imports via the western Marmara region amount to 15bn m³/year. Even if Turkey requested Azerbaijan to increase its export volumes, this would be hardly possible.

The country is struggling to plug its own gas demand, which is set to increase from the current 15bn m³/yr to 20bn m³/yr by the end of the decade and is in talks with the local electricity incumbent AzerEnerji to change its contractual arrangements. AzerEnerji could start purchasing volumes from Russia's Gazprom rather than the Azeri oil and gas incumbent Socar, although nothing has been confirmed yet.

Iraq, and in particular northern Iraq, could provide an additional 10bn m³/yr by the beginning of the new decade, but as it happens the plans do not meet the reality on the ground. Gas sourced in the Kurdish Region of Iraq (KRI) has a high sulphur content, which means that it needs costly processing to remove it.

KRI observers have noted that initial up and midstream costs could hover between $3bn and $5bn, a heavy financial burden for any oil and gas company currently facing low returns because of falling oil prices. Furthermore, even if all the costs were met and the gas were to be produced, Turkey may still not be able to import more than 3bn m³/yr for the nameplate 10bn m³/year capacity, since it lacks vital pieces of infrastructure such as compressor stations to flow the gas inside its system.

Iran, also a possible exporter, already sells around 8bn m³/yr to Turkey. However, despite talks that it may double the volumes, in reality, Iran itself requires more gas, particularly in its heavily-urbanised northern region. One do would well to ask why would Iran want to export cheap gas when it could use it to generate comparatively more expensive electricity, part of which could be used domestically and part exported regionally?

Finally, the most difficult question to ask is whether Russia would indeed act on its threat to discontinue gas supplies via the western route. Alternative plans to build Turk Stream, a 63bn m³/yr pipeline that would have diverted the Russian gas via the Black Sea to Turkey and further to the Turkish-Greek border for consumption in Europe have fallen through. It is realistic to expect that without a Plan B, Turkey remains vulnerable to possible supply disruptions.

Turkey's private importers, who between themselves clinched import contracts amounting to a total 10bn m³/yr from 2012 for a period of 23 or 30 years are at risk as they off-take the gas from the western line. As one Turkish private shipper put it in an interview with the author, if Russia wanted to stop the gas, "it would not care much about what was written in contracts." Such an option, he said, would be much safer and cheaper than going to war with a country.

However, he also pointed out that Russia itself would be harmed if it were to stop exports to Turkey, not least because Turkey is its second largest market and losing it would hurt its already ailing economy. Still, Turkey needs to consider backup plans. First, it needs to invest in its own infrastructure.

This may not be easy at a time when Botas is losing money because of its support of a wasteful subsidies system. If Turkey were to reform its market to make it more competitive, it would start attracting investment.

Second, it needs to invest in cross-border gas interconnections either by building a new link such as the one connecting it to Bulgaria or by upgrading the existing one with Greece to allow for higher export/import capacities and reverse flows.

Given that demand for gas is subdued in southern Europe, Turkey could absorb excess volumes. Third, Turkey needs to explore the opportunity of building more LNG capacity, either as onshore terminals or as floating storage and regasification units (FSRUs).

Despite claims that US LNG volumes, which are due to reach the global markets from this year are unlikely to be competitive enough against Russian pipeline gas, if Turkey's relationship with Russia worsens to the point where the latter would stop exporting volumes, Turkey would have no option but to consider more LNG imports. These are difficult times for Turkey and if no plans are devised now, the country will risk facing major crises in the years to come.

Russia interested in Turkey-Israel gas relations

Natural Gas Europe, *19.02.2016*

Russia is interested in the possibility of gas ties between the Israel and Turkey, countries, according to a report in Israel newspaper Ha'aretz .

According to the report, Israeli foreign ministry's director-general Dore Gold met his counterpart Sergei Lavrov in Moscow to discuss cooperation between Russia and Israel and arms deals that Moscow might do with Iran, including a sale of S-300 anti-aircraft missiles, to which Israel objects. Russia's Foreign Minister Sergei Lavrov then asked the Israeli delegation about the rapprochement with Turkey and possible gas deals.

Russia relations with Turkey are at an all-time low since the downing of a Russian warplane last November, after which Russia imposed tourism and trade sanctions on Turkey stopping short of natural gas sanctions. Turkey is one of the main markets for gas from Israel's Leviathan field and also Russia's largest overseas gas buyer.

Israel and Turkey have been negotiating an agreement to end the crisis in their relationship stemming from the Mavi Marmara incident in May 2010. Economic relations between the countries have remained healthy and bilateral trade grew steadily until 2014, despite trading public insults and the expelling of ambassadors.

Things took a turn when Turkey became isolated in the region following the downing of the Russian aircraft. Turkey is also at odds with Egypt and has not recognized the legality of its president Abdel Fattah el-Sisi.

He ousted Muhamad Morsi, a member of the Muslim Brotherhood which was supported by Turkey. Turkey's main declared goal in reconciliation with Israel is the removal of the naval blockade and assisting the Gaza Strip which is controlled by Hamas, a foe of the Egyptian regime.

Wider use of Turkish coal to decrease gas imports by $7.2 billion

Daily Sabah, *23.02.2016*

While government is focused on transforming 70 percent of demand for energy imports more on the use of local energy resources, data compiled for the 2016 Budget Presentation of the Energy and Natural Resources Ministry indicates the country is capable of reaching maximum levels in coal production, potentially saving $7.2 billion in gas imports.

Numerous projects are being implemented to increase underground coal production, with research and development projects being undertaken to make coal consumption more environmentally efficient and to expand the versatility of coal as a fossil fuel.

The projects aim to ensure that the economy benefits from its coal reserves. The estimated potential in production of lignite coal - a local resource used in energy production in accordance with Turkey's Coal Strategy - is around 25, 000 megawatts. Once this capacity is commissioned, 32.5 billion cubic meters of natural gas - worth $7.2 billion - can be eliminated from current energy imports.

According to the 2016 Budget Presentation, projects to develop new incentives and revise current incentives in accordance with sector requirements will be granted for investments in electricity production plants, ultimately generating electricity through domestically mined coal.

Moreover, search and mining efforts for the discovery of local coal fields will be expedited, and a new funding method will be developed and implemented that allows companies to benefit from large lignite coal fields such as Afşin-Elbistan along with evaluations of lower capacity reserves. These are some of the goals that will be conducted in the coal mining and electricity generating sectors via local coal reserves in the near future.

Meanwhile, Energy and Natural Resources Minister Berat Albayrak unveiled an updated road map for the energy sector, noting that the amount of investment required in the energy sector is expected to exceed $110 billion while $16 billion in contracts will be available to local firms for the production of equipment and materials for the Akkuyu and Sinop nuclear power plants. Moreover, single-country dependency on superpowers such as Russia is expected to drop by as much as 50 percent by the end of 2019.

Thus, policymaking in the energy sector is based on the concepts of “security of supply, alternative energy resources, variety of resources, the inclusion of local and renewable energy resources in the economy, the deregulation of energy markets and productivity in energy production,” according to the ministry.

Priority will be given to local resources while the share of resources in energy supply will be increased, widening the number of supplier countries for crude oil and natural gas. These measures are expected to lower the risks associated with foreign imports. Furthermore, the share of electricity production derived from natural gas will stay below 38 percent of total production until the end of 2019, according to the roadmap.

Azerbaijan increases gas supply to Turkey

Trend News Agency, *23.02.2016*

In December 2015, Azerbaijan supplied 594.34 million cubic meters of gas to Turkey versus 586.92 million cubic meters in December 2014, a report on the website of Turkey’s Energy Market Regulatory Authority (EMRA) said. In total, Azerbaijan supplied 6.17 billion cubic meters of gas to Turkey in 2015 versus 6.07 billion cubic meters in 2014.

In December 2015, Turkey imported 5.34 bcm of gas, some 4.29 billion of which were imported via pipelines, other 1.05 bcm accounted for import of LNG, according to the report. Azerbaijan’s share in Turkey’s total gas import amounted to 11.13 percent in 2015, said the report.

The remaining part of the imported gas volume via pipelines accounted for Russia (2.82 billion cubic meters) and Iran (872.16 million cubic meters). In December 2015, Algeria (398.5 million cubic meters), Qatar (216.63 million cubic meters), Nigeria (350.47 million cubic meters) and Norway (88.73 million cubic meters) became the LNG suppliers to Turkey.

Turkey imports gas from Azerbaijan via South Caucasus gas pipeline (Baku-Tbilisi-Erzurum). Turkey has a contract for annual purchase of 6.6 billion cubic meters of gas from the Azerbaijani Shah Deniz offshore gas and condensate field.

Israel to discuss pipeline project with Turkey once relations normalized

Sputnik, *25.02.2016*

Israel will discuss a pipeline project to export gas to and through Turkey once the two countries normalize relations, Israeli Minister of National Infrastructure, Energy, and Water Resources Yuval Steinitz told reporters at the IHS CERAWeek energy conference in Houston, Texas.

"Once this takes place, and I hope this will take place in a few months' time or in a few weeks' time, I would hope, then I think we will discuss and to plan this project, the pipeline going through Israeli economic water directly to Turkey's, it might serve Israeli fields, and also Cypriot field. They need also to export most of their gas, of course," Steinitz said.

Tel Aviv, Nicosia and Athens agreed to work on joint projects to export gas from the Eastern Mediterranean's gas reserves discovered in the seas belonging to Israel and Cyprus to Europe. Ankara has been in talks with Israeli firms over a potential pipeline to carry Israeli natural gas to Turkey for several years, but the negotiations reached an impasse as relations between the two countries deteriorated.

Relations between Israel and Turkey deteriorated after the Freedom Flotilla incident in 2010, when a convoy of six ships, including one under Turkey's flag, tried to approach the Gaza Strip with humanitarian aid and activists on board. The flotilla was blocked and stormed by Israeli forces, with eight Turkish citizens being killed. Currently, Israel's Leviathan gas field, first drilled in 2011, is one of the largest young gas reserves in the world, with some 3,450 trillion cubic meters of natural gas of undiscovered reserves.

Kurdish oil flows shut as pipeline sabotaged in Turkey

Reuters, *23.02.2016*

Kurdistan's oil exports to world markets are set to be suspended for a second week running, a shipping source said, a move that will deprive Iraq's semi-autonomous region of its main revenue stream as the security situation in southeast Turkey worsens.

The pipeline to the Turkish port of Ceyhan from fields in Iraq's north, which carries around 600,000 barrels per day of crude, has been halted, the source said. The outage would be one of the longest in two years and a major blow to Kurdistan, which depends on revenue from oil exports via the pipeline and is struggling to avert economic collapse.

The interruption is also bad news for European refiners which have been snapping up relatively cheap Kurdish barrels over the past year, boosting profits and already being spoilt for choice in an oversupplied market. "We were told that the pipeline would not be on line until at least Monday," the source told Reuters on condition of anonymity because the information has not been made public. Turkish officials were not available for immediate comment.

Industry sources have said the pipeline was sabotaged. The shipping source and a second industry source with knowledge of the matter told Reuters that crude flows had been turned off due to ongoing security operations in Sirnak province, neighboring Syria and in Iraq. Violence has surged across Turkey's predominantly Kurdish southeast following the breakdown of a two-year ceasefire between Turkish security forces and the PKK last July.

The PKK, which says it is fighting for autonomy for Turkey's large ethnic Kurdish minority, has sealed off entire districts of some towns and cities in the southeast and declared autonomy, prompting the security forces to step up their operations. Considered a terrorist group by Turkey, the United States and the European Union, the PKK launched a separatist armed rebellion against the Turkish state more than three decades ago and more than 40,000 people have been killed in the conflict.

"The security situation is both very chaotic and hard to monitor due to the tandem operation of several PKK-inspired, or directly PKK-linked sub-groups," said Akin Unver, assistant professor of international relations at Kadir Has university. The pipeline has been sabotaged several times inside Turkey in attempted thefts and the KRG has also accused the PKK of targeting it. Although both Kurdish, the PKK opposes the KRG's economic relations with its foe, Turkey.

"Security forces have been carrying out mine sweeping around Idil," a second industry source said, referring to a district in Sirnak, which has become a focus of Ankara's military campaign. A 24-hour curfew has put in place in Idil last week and 10 PKK militants were killed there.

“Pipeline passes through several well dug-in PKK cells and rural strongholds,” Unver said. “Even though Turkish military outposts and patrols protect key sections of the pipeline, it is hard to prevent sabotage when the overall security situation turns more conflictual.”

As a result of the outage, Iraq’s state-run North Oil Company (NOC) which operates the Kirkuk fields has been forced to cut production to around 120,000 bpd from 200,000 bpd, a company official told Reuters. It is currently pumping around 30,000 bpd to the small refinery in Kirkuk and diverting around 70,000 bpd to storage depots near the city.

Jerusalem natural gas distribution license signed

Globes, *23.02.2016*

Minister of National Infrastructure, Energy, and Water Resources Yuval Steinitz has signed a license for establishing a natural gas distribution network in Jerusalem, the ministry announced.

The distribution license will enable the Rotem Natural Gas company to deploy a pipeline network connecting industrial zones, enterprises, and major consumers in Jerusalem and the surrounding area to natural gas. This is the last of the six regions for which natural gas distribution licenses have been signed. The cost of the work in Jerusalem is estimated at NIS 320-350 million.

Due to the difficulty of the venture caused by Jerusalem’s high density population, the Ministry of National Infrastructure, Energy, and Water Resources awarded the company a NIS 60 million grant. The areas to be connected to the network include the Givat Shaul industrial zone, Hadassah Medical Center - Ein Kerem, the Hebrew University of Jerusalem, the government complex in East Jerusalem, etc.

Rotem Natural Gas, owned by Rimon Consulting & Management Services, C. Mer Industries Ltd. (TASE: CMER), and Tahal Group International BV subsidiary TMNG, overcame three other groups in the tender. Distribution licenses have already been granted for five regions: the Negev and central regions (2009), the Or Hadarom region (2012), and the Hadera and inland valleys region and the Haifa and the Galilee region (2013).

Substantial progress in the switching of enterprises and public institutions to natural gas, however, is lacking. In addition to planning and bureaucratic obstacles, the main difficulty now is that since oil prices have plummeted 70% during the past year, it is not worthwhile for enterprises and public institutions to consume natural gas.

Phoenicia Flat Glass Industries CEO Eran Haimovich previously battled to switch his company from the consumption of polluting fuel oil to natural gas, and the state invested NIS 60 million to connect the company plant to natural gas, but he now wants to go back to using fuel oil. He asserts that this will save his plant NIS 150,000 a month.

If enterprises do not wish to consume gas, it will not be worthwhile for the distribution companies to deploy a pipeline network to supply gas. In view of this state of affairs, the Ministry of National Infrastructure, Energy, and Water Resources last month held a special meeting on the subject, and sources inform “Globes” that an increase in the grant for enterprises is under consideration for the purpose of making it worthwhile for them to switch to natural gas.

Iran may boost gas exports to Europe through Greece facilities

Gulf News, *24.02.2016*

Athens: Greece is in preliminary talks with Iran to secure natural gas for local needs and provide a gateway for the Gulf nation to supply fuel to other parts of Europe, Greek Energy Minister Panos Skourletis said.

Greece produces little oil and almost no gas, while Iran is a member of Opec and holds gas reserves that BP Plc ranks as the world’s largest. The countries agreed in January for Iran to supply crude to Hellenic Petroleum SA and buy oil products from the refiner. Iran’s first such agreement with a European company since the lifting of sanctions, opens the road to cooperation in the gas market too, Skourletis said.

“What’s sure is that Iran wants to start selling its natural gas in liquefied form using ships and is interested in Greece,” he said. The Revythousa re-gasification terminal near Athens is one potential entry point for Iranian gas, and a planned facility at Alexandroupolis in the north of the country is another. Iran is interested in both sites “for exporting to Europe,” Skourletis said. Iranian Oil Ministry media officials in Tehran couldn’t be reached for immediate comment.

Greece is hoping that the removal last month of international sanctions against Iran will help it diversify its sources of energy and enhance the European country’s role as a regional energy-distribution hub. Greece was forced to import more liquefied natural gas and switch at least one power plant to using oil for fuel in 2009, when a dispute between Russia and Ukraine disrupted gas supplies. Iran’s Deputy Oil Minister Amir Hossain Zamaninia discussed potential energy cooperation with Skourletis on January 22 in Athens.

Iran, which currently lacks facilities to export LNG, wants to use idle capacity at a facility in neighbouring Oman to process raw gas into a liquefied form for sale, the Iranian Oil Ministry’s news service Shana reported, citing Alireza Kameli, managing director of National Iranian Gas Export Co.

Iran and Oman are negotiating to build a pipeline to send gas across the Gulf to the Omani facility, Shana reported. By liquefying gas, producers can ship it by tanker to distant markets not linked by pipelines.

Iranian companies have expressed interest in participating with Depa, Greece's state-run gas supplier, in a company that will build and run the planned floating LNG storage and re- gasification facility at Alexandroupolis, Skourletis said. Expansion of the Revythousa gas-importing terminal will be completed in 2017, and with adequate investment, the plant could also send gas northward to other areas in Europe, he said.

Both facilities will be connected to two international pipeline systems, the planned Trans Adriatic Pipeline and Gas Interconnector Greece-Bulgaria links, Skourletis said. The market test for the Interconnector pipeline, which will link the Greek and Bulgarian gas systems, is due to be finished this month. "If that shows that the project is viable, it will open the road for the Alexandroupolis facility," Skourletis said.

Iran is also interested in Greece's refineries, he said. The Greek government has no plans to reduce its 35 per cent share in Hellenic Petroleum, the country's biggest refiner, so any purchase of a stake could only happen via a private investor in the company, Skourletis said. pan-European Oil & Industrial Holdings, owned by the Latsis Group, owns 43 per cent of Hellenic Petroleum, according to the refiner's website.

Iran joins Georgia's Caucasian gas circle

Eurasianet, *25.02.2016*

As the price of natural gas keeps declining, competition among Caspian Basin suppliers is picking up. Georgia, which serves as a crossroads for Caspian Basin energy exports, has become the focal point of a three-way scramble among natural gas exporters.

Citing a wintertime shortage of natural gas, Tbilisi is considering deals from Azerbaijan, which already supplies 90 percent of Georgia's gas; Russia, which provides the other 10 percent as a fee for transiting Russian energy to Armenia; and, now, Iran. Georgia's selection could have long-term implications.

Diversifying Georgia's gas supplies would mean moving away from Azerbaijan, the energy power behind the Southern Gas Corridor, an upcoming mega-gas-export tube that crosses Georgian territory en route to Turkey and Europe. Both the European Union and the United States have promoted the corridor as a way to wean Europe off gas imports from Gazprom, Russia's energy behemoth, and an economic tool often used by the Kremlin for geopolitical purposes.

But Georgian officials now see Gazprom as a potential supplier to meet a growing local demand for gas, estimated at 2.5 billion cubic meters (bcm) per year. Energy Minister Kakha Kaladze met with Gazprom representatives.

“Azerbaijan is our strategic partner and friend, but it is also a virtual monopolist on the Georgian market,” Kaladze told EurasiaNet.org. He claimed that Baku does not have the technical capacity to make additional gas deliveries, which are needed due to rising demand in rural Georgia and higher electricity production. Georgian officials have said the country currently suffers from a gas shortfall of 2.5 million cubic meters, a tiny fraction of overall annual use. The seemingly small deficit raises questions about why Georgian officials are considering new gas deals.

After the price of Azerbaijani gas for corporate clients increased last spring by roughly 30 percent (to $318 per 1,000 cubic meters), Tbilisi approached Gazprom, and received “a very competitive offer,” he said.

The prospect of increased purchases from Gazprom heightens fears among many Georgians. Enmity for Russia remains widespread in Georgia since the two countries fought a brief war in 2008. Kaladze has downplayed the notion that a deal with Gazprom would compromise Georgian sovereignty in any way.

“At best, it may go from 10 to 12 percent [of the Russian share in Georgia’s gas imports],” Kaladze told EurasiaNet.org. Only a handful of corporate gas consumers would benefit from Russian gas, he added.

Kaladze said he took Gazprom’s proposal back to Baku, hoping to negotiate a price match, but that, as yet, has not happened. Georgia and Azerbaijan for now have agreed to redistribute supplies so that Georgia gets less Azerbaijani gas in summer and more in winter, when consumption peaks. Meanwhile, enter Iran.

Following the lifting of international sanctions, Tehran has proposed selling Georgia up to 14 million cubic meters per day via Armenia, which is currently dependent on Russian-supplied gas. Normally protective of its own status, Russia seems surprisingly amenable to Iran’s moves. So far, Gazprom has voiced no objections to the South Caucasus’ energy pie expanding to include Iran.

Energy analyst Ara Marjanian, president of the E-Cub, an energy think-tank in the Armenian capital, Yerevan, believes that the partnership between Iran and Russia in Syria, as well as the end of sanctions against Iran, explains Gazprom’s apparent tolerance. “Let’s not jinx it, but the new geo-strategic and economic realities made Russia more cooperative,” Marjanian commented.

Not all Georgians welcome the idea of obtaining Iranian gas via Armenia. Liana Jervalidze, an independent energy analyst in Tbilisi, believes that energy security, economic benefit and geo-strategy dictate that “It is in Georgia’s best interest to remain a place for gas transit to Armenia, not the other way round.”

Kaladze earlier had claimed that, to push Tbilisi to accept cash rather than gas as a transit fee, Gazprom had threatened to stop supplying Armenia altogether and let Armenia get its gas from Iran. Whether Iran’s proposal and Gazprom’s alleged threat are related is not known.

Taking Iran up on its offer does not seem immediately feasible for Tbilisi. For now, Armenia's Gazprom-run pipeline to Iran can handle only about 1.1 bcm per year, and its line to Georgia takes only Russian gas. No mention has been made of building a second pipeline.

Steve LeVine, energy commentator and adjunct professor of security studies at Georgetown University, calculates that any Moscow-Tehran cooperation in Armenia, where Moscow has carefully cultivated a dependence on Russian energy, will be limited.

"There is no history of Russia, certainly modern-day Russia … deserting an intimate ally in that manner," LeVine said. "I don't see Iran and Russia going hand-in-glove," he continued. "They are rivals; Iran will act in its own interest."

Nonetheless, even the notion of using Armenia as a transit country for Iranian gas enrages its foe, Azerbaijan, Georgia's dominant gas supplier. Already miffed by Kaladze's talks with Gazprom, Baku, to keep its cards in play, has promoted Azerbaijan's own potential as a conduit for Iranian gas – an idea deemed "common sense" by a columnist for the government-aligned Trend news agency.

While on a trip to Tehran, Kaladze announced that Tbilisi could consider this option, too. Pipelines from Azerbaijan to Georgia and on to Turkey and Europe might appear an additional attraction for Iran. Tehran earlier this year expressed interest in such an export route, but has made no official commitment to join the Southern Gas Corridor.

If Iran's ultimate market is Europe, commented Baku-based energy analyst Ilham Shaban, director of the Caspian Barrel energy-research center, it can connect directly from the northwestern Iranian city of Tabriz to the Turkey-based Trans-Anatolian Natural Gas Pipeline, the midsection of the 3,500-kilometer-long Southern Gas Corridor, designed for pumping Azerbaijani gas through to Europe.

Meanwhile, Tbilisi is pursuing yet another option – increasing its take from the South Caucasus Pipeline, the Corridor's initial section. If that works, Kaladze stated on February 18, then Georgia would not buy Iranian or additional Russian gas.

Iranian oil minister calls OPEC production freeze ‘a joke’

Oilprice, *25.02.2016*

Iran has already increased oil exports by 500,000 barrels per day since sanctions have been lifted, and now it’s looking at an additional 250,000 bpd when it ups production in another oil field by the end of this year.

Iranian Minister of Petroleum Bijan Zangeneh has said that the country plans to raise crude oil production from the North Azadegan oil field by 250,000 barrels per day by late 2016, according to Iran’s official Petro Energy Information Network, Shana. Development is now nearing completion and production has already begun, and the increase in production will occur in multiple phases.

The Azadegan oil field is on the Iran-Iraq border, and the two countries share this field, which holds an estimated 5.6 billion barrels of reserves. Production is expected to increase by 150,000 after the completion of the first two phases, and then to ramp up to 250,000 thereafter.

Zageneh has also said recently that Iran is planning to reach a daily crude oil output of 4.6 million barrels under its 6th five-year development plan from 2016 to 2021. But this development requires some $40 million in investment if it is to be realized.

By the end of the previous five-year plan, which began in 2011, Iran will have boosted output of oil and condensates to 5.3 million barrels per day, 3.3 million barrels of which will be processed at home. According to the Iranian oil minister, some 75 percent of the country’s output currently comes from eight to nine mature fields whose production is declining.

Iran’s natural gas output is also set to rise, with the ministry targeting 1.1 billion cubic meters per day by the second quarter of 2018. All phases of the supergiant South Pars gas field, which it shares with Qatar, are scheduled to be online by the end of this year. According to Iranian officials, this would put Iran’s gas output above Qatar’s. For gas exports, it’s targeting primarily Iraq, gas-starved Pakistan and Oman, among others.

Finally, Iran is expecting to sign up to $15 billion in new petroleum contracts by 2017, according to the managing director the National Iranian Oil Company (NIOC), Rokneddin Javadi. Iran’s plans to increase production by the end of the year again lend more perspective to the output freeze proposed earlier. Zangeneh has since called the output freeze ‘‘a joke’’.

“Some countries that are producing above 10 million barrels per day (bpd) have called on Iran to freeze its production at one million bpd,” Zangeneh was quoted by Press TV as saying, with the Iranian news agency hinting that it was a clear reference to Iran’s nemesis, Saudi Arabia.

“This is more like a joke that they tell us they would freeze their production above 10 million bpd and that we should also in turn freeze our production at one million bpd,” he told an energy panel in Tehran.

At a Doha meeting, two of the world’s largest producers—Saudi Arabia and Russia—along with Venezuela and Qatar agreed to freeze oil output at January levels in order to stabilize the market. It was a lackluster deal that required other major producers to follow suit. Iran rejected any possibility that it would freeze output to January levels, though it initially said it supported the plan but would not commit to a freeze itself.

What a Saudi oil-supply freeze would really mean for markets

Bloomberg, *25.02.2016*

Saudi Arabia shot down rumours it might cut oil production, but reaffirmed its commitment to an output freeze that could restrict crude flows to market this summer. With the world’s biggest exporter already pumping near-record volumes, that may not matter.

Last week’s pledge to cap production at January levels along with Russia, Venezuela and Qatar — repeated by Saudi Oil Minister Nuaimi — could mean the Middle Eastern nation refrains from the typical output boost needed to feed the summer increase in domestic demand. Forgoing that surge would, in theory, deprive the market of exports equivalent to about a quarter of the current global crude surplus.

“Come summer, the production freeze will amount to a cut in Saudi crude exports,” said Olivier Jakob, managing director of consultant Petromatrix GmbH in Zug, Switzerland. “By holding supply at January levels and not increasing when their domestic requirement for power generation is at its peak, there will be about 500,000 barrels a day less Saudi crude making its way to global markets.”

Saudi Arabia has on average boosted output by about 360,000 barrels a day from January levels to the seasonal peak in June and July, according to figures going back to 2002 from the Riyadh-based Joint Organisations Data Initiative. Over the same period, the amount of crude the country burns to generate electricity typically rises by as much as 500,000 barrels a day as citizens turn up their air conditioning, the data show.

“The market is still assuming a big summer swing up” in Saudi production this year, said Amrita Sen, chief oil analyst at consultants Energy Aspects Ltd in London. “The freeze is making people think Saudi exports may now have to be down over the summer.” With Saudi Arabia’s production already at near-record levels, a dip in exports wouldn’t leave the market short.

The biggest member of the Organisation of Petroleum Exporting Countries ramped output up last year to intensify pressure on US shale producers and mark its territory before Iran's return to world markets. It was pumping 10.2 million barrels a day in January, according to data compiled by Bloomberg — a level that already exceeds the summer production peak in all but one of the past 10 years.

The exception was 2015, when peak summer output reached a record 10.6 million barrels a day, 400,000 higher than last month's level, according to data compiled by Bloomberg. The International Energy Agency projects the second-quarter supply surplus will be about 1.5 million barrels a day.

This year, "the kingdom would not necessarily have to sacrifice crude exports to meet seasonal demand," according to Sen. It has large amounts of oil in storage plus natural gas from the new Wasit project that could feed power generation, she said. "If alternatives can fill the gap in the summer, the dip in Saudi summer exports will not be that significant".

Finally, as Opec Secretary-General Abdalla Al Badri affirmed in Houston, the freeze agreement will initially last three to four months before the participants decide whether to take other steps — potentially expiring at exactly the time Saudi Arabia would typically open the taps. The accord is "the beginning of the process" and producing countries will gather again in March to discuss it, Al Nuaimi said.

Oil sank after Al Nuaimi's comments, during which he ruled out that the deal was a prelude to output cuts. Benchmark Brent crude traded 2.3 per cent lower at $32.52 (Dh119.35) a barrel as of 10:55am in London.

As far as the other participants in the freeze are concerned, the impact will be limited because they were already expected to have flat production this year, according to IEA Executive Director Fatih Birol. The whole agreement could turn out to be an empty gesture, said Harry Tchilinguirian, head of commodity markets strategy at BNP Paribas SA. "For Saudi Arabia to announce an output freeze is disingenuous when their production levels are already at the high watermark," Tchilinguirian said.

Saudi Arabia is reeling from falling oil prices

Washinghton Post, *25.02.2016*

“He understands that now is the moment to capitalize on low oil prices by cutting wasteful subsidies and reforming our economy to make us stronger,” said Fahad Bin Jumah, a Saudi economist who has advised Prince Mohammed.

Oil prices have plunged by about 70 percent, even falling below $30 a barrel, battering the world’s second-largest producer and jarring a society that has grown accustomed to easy money and extravagant consumerism. Oil revenue accounts for an estimated 90 percent of the Saudi government’s income, leading to large budget deficit of $98 billion, or about 15 percent of gross domestic product.

Saudi Arabia, a U.S. ally and absolute monarchy, has for decades managed to ride out manic oil-price fluctuations, amassing astonishing revenue that has financed a healthy cushion of backup foreign-currency reserves worth hundreds of billions of dollars.

But in October, the International Monetary Fund warned that the government, which projects a deficit of $87 billion for 2016, could run out of money within five years if it did not tighten spending. In response, Prince Mohammed pushed a raft of cost-cutting measures late last year that included a partial lifting of costly subsidies on gasoline, electricity and water. Authorities have reined in public spending, imposed hiring freezes and halted work on infrastructure and real estate projects. Officials talk about privatizing industry, including the prized national oil company.

The prince even discussed imposing taxes, a sensitive subject for Saudis, during an interview published last month by the Economist. “We’re talking about taxes or fees that are supported by the citizen,” he told the magazine, although he explicitly ruled out imposing income taxes. For many here, austerity has not been easy.

Shopping centers no longer fill with patrons as they used to. Business owners complain of anemic sales. And many Saudis, even those who flaunt luxury cars and live in palatial homes, seem increasingly concerned about personal finances.

“Look, I’m not going shopping as much, and I’m not spending like I used to,” said Mohammed Abdullah, 25, an employee at a government-run charity in the capital, Riyadh. “I’m spending more money on gas these days.”

Businesses say they have had to increase prices to cope with the rising costs from subsidy cuts. “We’ve basically stopped hiring, too,” said Mohammed, a manager of a company in Jiddah that imports European foods. He asked that his full name not be used because of concerns over repercussions for his business.

The oil crash has rippled beyond Saudi Arabia, spurring similar subsidy cuts and hiring freezes among fellow members of the Gulf Cooperation Council (GCC), a regional political and economic union of six petroleum-rich Gulf Arab monarchies. The United Arab Emirates, Qatar, Oman and Bahrain have joined Saudi Arabia in austerity and appear close to finalizing a GCC-wide value-added tax that could come into effect in 2018.

Analysts say the moves signal recognition in these countries that rising international competition in energy production means the days of $100 or more for a barrel of crude oil may forever be a thing of the past.

“I think there is growing recognition here that we need reform,” said Khalid al-Dakhil, a Saudi analyst based in Riyadh. But reforms could undo a bargain that for decades has preserved stability in Saudi Arabia and its smaller neighbors, where inflated government salaries and benefits including free health care and education, as well as handsome cash transfers, have also largely pacified citizens and fostered a high-spending culture. Range Rovers, Gucci bags and other luxuries are consumed like mundane objects in these countries.

“The Gulf Arabs are looking vulnerable, and I don’t know if they can weather the storm,” said Labib Kamhawi, a Jordan-based analyst. In recent years, Saudi Arabia’s bulging young population — more than two-thirds of its 22 million citizens are younger than 30 — has stretched the welfare state thin and caused unemployment to balloon.

Thousands of low-level princes rely on a vastly expensive royal payroll. And the austere form of Sunni Islam observed in the country denies adequate job and other opportunities to women, whose participation in the workforce is generally a key component of economic prosperity.

“The bottom line is that this is a state that is resistant to change, opaque in how it functions at almost every level and looking especially vulnerable at the moment,” said Christopher Davidson, an expert on Persian Gulf countries who teaches politics at Durham University.

Whether the Gulf Arab oil producers — all U.S. allies — can avoid Arab Spring-like instability may depend on what happens with Saudi Arabia, analysts and diplomats say. The kingdom acts as a big brother in terms of defense and political leadership for the GCC, but the kingdom’s attention has shifted to costly foreign entanglements overseen by Prince Mohammed.

The prince became second in line to the throne after his father became king last year. The prince then launched a war in Yemen against Iranian-aligned insurgents and has boosted support for rebels in Syria’s civil war.

The moves are meant to parry the influence of Iran, Saudi Arabia’s regional chief competitor, but they have alarmed rival royals who prefer the kingdom’s traditionally cautious approach to foreign policy. Saudis, moreover, quietly express concern over the sustainability of Prince Mohammed’s expensive foreign projects during lean domestic times.

“I think there is a sense here of recklessness at the top levels,” said one prominent Saudi with links to senior leaders who spoke on the condition of anonymity because of concern over retribution. Still, in public, Prince Mohammed earns praise here.

“He knows how to keep our economy strong,” said Faisal bin Ahmed, 36, co-owner of an events management company in Riyadh. He owns four luxury vehicles, including a Bentley, and flashes around a snakeskin wallet. Yet even the wealthy aren’t immune to the prince’s cost-cutting policies.

Fatn al-Shehir, 23, said her father has started suggesting that she curtail her daily excursions in her Chevrolet Tahoe with the family driver. (Because women are still forbidden from driving in the kingdom, they rely on taxis and chauffeurs.) She just graduated with a degree in business but has been unable to find a job. She spends her days dropping off résumés at businesses and state-run institutions. “Now, when I go out, my dad tells me, ‘You’re leaving again? It’s getting expensive to pay for all your bills!’” Shehir said. “In a way, he’s joking. But in a way, he’s not.”

Saudi oil minister says no to production cuts

WSJ, *23.02.2016*

Saudi Arabia delivered its starkest message yet to a reeling global oil sector, saying it wouldn’t rescue the industry from low prices by cutting its production. Ali al-Naimi, Saudi Arabia’s petroleum minister, told global energy industry here that demand for oil remains strong but that for prices to recover, excess supply will still need to be curbed.

That rebalancing, he said, will start as low prices squeeze out the production of oil that is the most expensive to extract and sell. That production comes from places including U.S. shale fields, Canada’s oil sands, deepwater projects that attracted investment during the years oil was priced over $100.

Now it is closer to $30. Mr. Naimi’s message is a shot across the bow for an industry already struggling to adjust to a price drop of more than 70% since June 2014, to a level at which many producers can’t survive.

Never before has Mr. Naimi, who has dominated Saudi oil policy for two decades, laid out so bluntly the Kingdom’s vision for how the industry should adjust to market conditions. New sources of supply are converging with pressures on oil demand created by China’s slowing economy, growing energy efficiency and, eventually, new power sources such as solar and wind.

“The producers of these high-cost barrels must find a way to lower their costs, borrow cash or liquidate,” Mr. Naimi told the IHS CERAWeek gathering, which included top executives from many of the world’s biggest oil companies and senior officials from big producing countries.

He added that prices hovering above $100 a barrel for years encouraged inefficient producers to grow output, and those barrels will have to leave the market first. “It sounds harsh, and unfortunately it is. But it’s the most efficient way to rebalance markets.”

Saudi Arabia could produce oil profitably at $20 per barrel, Mr. Naimi asserted, a level well below current prices. “We don’t want to, but if we have to, we will,” he said. Few, if any, other officials or executives in the room could say that about their country or company.

Mr. Naimi’s prescription to rely on market forces marked a reversal from the Organization of the Petroleum Exporting Countries’ traditional role of trying to orchestrate supply adjustments.

His comments come a week after talks among oil producers about freezing output levels helped to kindle a brief rally in oil prices. After he spoke Tuesday morning, the U.S. benchmark fell $1.62, or 4.9%, $31.77 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, traded down $1.50, or 4.3%, at $33.19 a barrel on ICE Futures Europe.

Prices in the $30-a-barrel range aren’t enough to salvage the budgets of oil-dependent economies such as Venezuela, Algeria and Nigeria. Even Saudi Arabia ran a budget deficit of more than $100 billion last year.

Few if any U.S. companies can extract oil profitably at current price levels, and those producing crude from unconventional tar-sands deposits in Canada need far higher prices to make a return on the billions of dollars they invested there. ConocoPhillips CEO Ryan Lance told conference attendees a few minutes after Mr. Naimi’s speech that oil companies can’t count on a deal between Saudi Arabia and other major producers to halt the oil bust. “We have to prepare for the worst case,” he said.

Saudi Arabia played a key role in the sharp decline in crude prices by declining to intervene in the global market at a November 2014 OPEC meeting. The decision disappointed those in the industry who had hoped the Kingdom would orchestrate the sort of coordinated output cut by OPEC producers that has pushed prices higher in the past.

Saudi Arabia raised market hopes, and the price of crude, again recently by agreeing with Russia, the world’s second-largest producer after Saudi Arabia, and a few other exporting countries to freeze production at current levels on the condition others support it. Hopes for a rapid agreement were dashed by Iran, which having recently been released from international sanctions has plans to nearly double its production. Hours before Mr. Naimi’s address, Bijan Zanganeh, Iran’s oil minister, called the Saudi Arabia-Russia pact “ridiculous.” His remarks helped send global prices lower.

The market has struggled with a surplus of more than 1 million barrels a day above demand. That gap was created before 2014 by a near doubling of U.S. output and after that by an increase in production from OPEC members and Russia.

The oil market’s rebalancing will be reflected in a fundamental restructuring of the industry as it comes out of this oil bust, according to Mark Papa, a partner at Riverstone Holdings and former CEO of shale pioneer EOG Resources.

Mr. Papa said the industry will first see “a lot of bodies, a lot of bankruptcies,” but the pain will leave the industry more stable—particularly independent U.S. producers. “The management teams that survive are going to come out of it and be a lot more conservative,” Mr. Papa said. “As times get better you are going to see that they are not going to stress the balance sheets as much.”

With U.S. gas, Europe seeks escape from Russia's energy grip

WSJ, *25.02.2016*

On the deck of this floating gas terminal, Mantas Bartuska awaits a tanker to pass a narrow inlet on the Baltic Sea with the first natural gas shipments from the Gulf Coast that many hope will transform Europe's energy market.

"Soon, hopefully, U.S. gas will come," said Mr. Bartuska, chief executive of the operator of the Independence, the gas terminal docked at the port city of Klaipeda, Lithuania. After a yearslong effort, a tanker chartered by Cheniere Energy, an American company, left a Louisiana port this week with the first major exports of U.S. LNG. This shipment isn't going to Europe, but others are expected to arrive by spring.

"Like shale gas was a game changer in the U.S., American gas exports could be a game changer for Europe," said Maros Sefcovic, the European Union's energy chief. Many in Europe see U.S. entry into the market as part of a broader effort to challenge Russian domination of energy supplies and prices in this part of the world.

Moscow has for years used its giant energy reserves as a strategic tool to influence former satellite countries, including Lithuania, one of the countries on the fringes of Russia that now see a chance to break away.

Some are building the capacity to handle seaborne LNG, including Poland, which opened its first import terminal last year. In Bulgaria, which buys about 90% of its gas from Russia, Prime Minister Boyko Borissov said last month that supplies of U.S. gas could arrive via Greek LNG facilities, "God willing."

The shale boom has reshaped the world energy market over the past decade, with the U.S. emerging as a new energy exporter, and the beginning of gas exports represents a big moment in this new world. Deutsche Bank estimates the U.S. could catch up with Russia as Europe's biggest gas supplier within a decade, with each nation controlling around a fifth of the market. Russia supplies about a third of Europe's gas via pipeline.

The U.S. faces a crowded market where a global glut is projected to keep prices low. American exports will help reduce European LNG prices by about 25% within two years, according to Goldman Sachs estimates. The U.S. will compete with Russia, Norway, U.K., Australia and others in Europe's gas market. Germany, for example, gets half its gas and Italy a third from Russia.

Low prices also mean natural gas could compete with coal and help Europe achieve its commitment to reducing greenhouse gas emissions. In Lithuania, officials have accused Moscow of engaging in a campaign of espionage and cyberwarfare to keep its share of the lucrative energy market.

“In Russia, gas always goes together with politics,” Rokas Masiulis, Lithuania’s energy minister, said in an interview at his office, across the street from a former KGB prison. “Russia is extremely aggressive in gas pricing and the arrival of U.S. LNG will change that.”

Bulgarian officials allege Russia bankrolled a wave of street protests in 2012 that forced the government to impose a moratorium on shale gas exploration. In 2014, Anders Fogh Rasmussen, then-head of NATO, told reporters that Russia was covertly funding European environmental organizations to campaign against shale gas to help maintain dependence on Russian gas. Russia’s foreign ministry didn’t respond to requests for comment.

U.S. gas exports will improve energy security for its allies, said Chris Smith, assistant secretary at the U.S. Energy Department. Those include Lithuania, which was the first Soviet republic to declare independence in 1990 but remains reliant on Moscow for energy. Until 2014, Gazprom owned 37% of Lithuania’s national gas company, Lietuvos Dujos, and dominated its boardroom, said current and former officials.

“There was no negotiation about gas prices,” said Jaroslav Neverovic, Lithuania’s energy minister from 2012 to 2014. He said Gazprom would send Lietuvos Dujos a list of gas prices, which the board automatically approved.

Mr. Neverovic said negotiations always took place on New Year’s Eve, when Gazprom would threaten to cut off supplies during winter’s coldest days. Gazprom denied setting unfair prices. Gazprom calculated its prices using a formula the Lithuanians said was unintelligible. A copy reviewed by The Wall Street Journal showed a 773-word formula with multiple sub-clauses.

The result, according to Lithuanian officials, was one of the highest gas bills in Europe. In the first half of 2013, industrial buyers paid an average of 44 euro cents, or $0.47, per kilowatt-hour for Gazprom gas. Businesses in the U.K., which has its own gas reserves, paid 35 euro cents, EU data show.

In 2008, after Gazprom doubled Lithuania’s gas bill, the country realized “it was hopeless to negotiate with Russia,” said Mr. Masiulis, the energy minister. Four years later, Lithuania leased the Independence gas terminal from a Norwegian company, giving the country the ability to get gas outside of Russia.

Soon after Lithuania leased the ship, Mr. Masiulis said Russia fomented opposition to the deal. Moscow complained to the United Nations that the Independence would harm a 60-mile long spit shared by Lithuania and Russia, which is a Unesco World Heritage site. A U.N. mission found no negative environmental impact. “This is how Soviet propaganda works,” Mr. Masiulis said. “If you can’t kill it, make it sound like a bad idea.”

When the Independence arrived in Klaipeda in October 2014, it was met by cannon salutes and martial music. Vytautas Grubliauskas, mayor of the town of 160,000 people that is dotted with Soviet-era apartment blocks, led the welcoming party. Hundreds waved Lithuanian flags in a ceremony that was streamed live on national TV. “Nobody else, from now on, will be able to dictate to us the price of gas, or to buy our political will,” Lithuanian President Dalia Grybauskaite said.

A U.S. diplomat read a letter from Secretary of State John Kerry, saying the Independence represented a “historic milestone” for Baltic energy security. Lithuania began receiving Norwegian LNG, reducing Gazprom’s gas monopoly to a market share of less than 80%. In the months before the terminal opened, Gazprom lowered Lithuanian gas prices by 23% and it remained cheaper than Norwegian gas. Still, Lithuania plans to increase its purchase of Norwegian gas this year. The U.S. is next.

“The less energy leverage Russia has, the more freedom we have,” said Linas Linkevicius, Lithuania’s foreign minister, as he left for a recent U.S. trip to discuss gas deliveries. “Let’s hope it will arrive as soon as possible.” Russian meddling has continued, according to Lithuanian officials. Last March, Lithuania expelled Russia’s consul in Klaipeda for allegedly spying on the terminal.

“You can feel that Russia is getting nervous about our terminal receiving U.S. gas,” said Mr. Bartuska, walking past the hundreds of pipes and spigots on the Independence, a 950-foot vessel. Chilling natural gas to minus 260 degrees Fahrenheit shrinks it to a liquid that can be stored and shipped by tanker to LNG terminals, such as the Independence, where it is returned to a gas and used to power factories and heat homes. The process is more expensive than shipping by pipeline.

Moscow is doubtful the U.S. can compete with Russian gas prices. Gazprom’s deputy chairman Alexander Medvedev said this month : “We are very relaxed about U.S. LNG, though very attentive.” ‘Soon, hopefully, U.S. gas will come,’ says Mantas Bartuska, chief executive of the operator of the floating natural gas terminal Independence, docked in Klaipeda, Lithuania.

At current prices, U.S. gas delivered to Europe would cost as low as $3.60 per million British thermal units. Russian gas now costs around $4.60, on average, according to Trevor Sikorski of London-based consultancy Energy Aspects. But, he said, “If Russia wanted to chase out the U.S., they could supply gas at probably $2 in a price war.”

Mr. Medvedev said Gazprom wasn’t planning a price war. But if U.S. LNG prices did fall, he added, the company “would seek to cut its own costs.” The first major U.S. exports left Wednesday from Sabine Pass, a terminal built on a patch of Louisiana swampland. A decade ago, Sabine Pass was planned as a gas import terminal, but the project reversed direction after the escalation of hydraulic fracturing, or fracking—the technique of using blasts of water, sand and chemicals to release oil and natural gas trapped underground.

‘Russia is extremely aggressive in gas pricing and the arrival of U.S. LNG will change that,’ says Rokas Masiulis, Lithuania’s energy minister. Fracking pushed U.S. oil production to its highest level in nearly half a century and led to an oversupply of gas that drove domestic prices to a 17-year low.

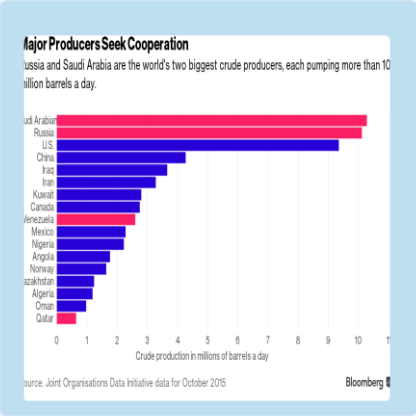
U.S. producers are now looking for customers in the saturated global marketplace. Around 90 million metric tons of new gas will hit markets annually over the next three years, equal to about a third of current demand, according to brokerage AB Bernstein.

Cheniere Energy, the operator of Sabine Pass, has signed 20-year contracts with a number of European gas companies, including U.K.’s BG Group, which was acquired by Royal Dutch Shell PLC, and Spain’s Gas Natural. Lithuania’s LITGAS signed a trade agreement with Cheniere last year. Officials expect the first U.S. gas to reach their shores in coming months.

Klaipeda's mayor, Mr. Grubliauskas, said during a recent interview at his office, decorated with photographs of U.S. naval drills in the port: "U.S. LNG is more than just about gas. It's about freedom."

Oil advances as cheap gasoline leads U.S. fuel stocks to drop

Bloomberg, *24.02.2016*



Crude oil advanced as cheap gasoline bolstered U.S. demand for the motor fuel and sent inventories lower. Gasoline supplies fell 2.24 million barrels to 256.5 million, according to the Energy Information Administration. Demand rose as U.S. pump prices lingered near a seven-year low.

Crude stockpiles climbed to an 86-year high while production dipped. Prices dropped after oil ministers from Iran and Saudi Arabia signaled that they're not willing to curtail production. "Crude is feeling the impact of the drop in product inventories," said John Kilduff, a partner at Again Capital LLC, a New York-based hedge fund focuses on energy.

"Gasoline inventories dropped and demand is pretty strong. Low prices are encouraging driving, which is helping with demand." Crude is down about 13 percent this year on speculation the global glut will linger after the Organization of Petroleum Exporting Countries abandoned output targets in early December. Iran is seeking to boost production by 1 million barrels a day in 2016 after sanctions were lifted last month.

West Texas Intermediate for April delivery rose 28 cents, or 0.9 percent, to settle at $32.15 a barrel on the New York Mercantile Exchange. The contract fell as much as 4.1 percent to touch $30.56 before release of the report at 10:30 a.m. in Washington. Total volume traded was 22 percent above the 100-day averageat 2:53 p.m.

Brent for April settlement increased $1.14, or 3.4 percent, to $34.41 a barrel on the London-based ICE Futures Europe exchange. The European benchmark crude closed at a $2.26 premium to WTI, the most since December.

Gasoline demand rose 1.8 percent to 9.06 million barrels a day through, averaged over four weeks. Consumption was up 5.2 percent from the same period last year. March gasoline futures rose 4.6 percent to $1.0104 a gallon, the highest settlement since Feb. 12. Diesel advanced 3.7 percent to close at $1.0594. The gasoline crack spread, a rough measure of the profit from processing a barrel of oil into gasoline, rose to $21.43, the highest since Jan. 22. The average price of regular gasoline at the pump nationwide was $1.709 a gallon on Tuesday, according to Heathrow, Florida-based AAA, a national federation of motor clubs. Retail prices touched $1.696 on Feb. 14, the lowest since January 2009.

Nationwide crude stockpiles rose 3.5 million barrels to 507.6 million last week. Supplies at Cushing, Oklahoma, the biggest U.S. oil-storage hub, rose to a record 65.1 million barrels. The site, which is the delivery point for WTI, has a working capacity of 73 million, according to the EIA.

Production fell by 33,000 barrels a day to 9.1 million, the lowest since October. Rigs targeting oil in the nation's fields fell to 413 last week, the lowest since December 2009, Baker Hughes Inc. said on its website Feb. 19.

"We aren't seeing any sign of an end to the inventory builds in the near term," said Adam Wise, who helps run a $7 billion oil and natural gas bond and private equity portfolio as a managing director at John Hancock in Boston. "Until there are sustained inventory declines, there won't be a significant price move to the upside. The only other thing that could spur a rebound is an OPEC agreement to cut output, which is looking extremely unlikely."

Saudi Arabia, which won't cut supply as it doesn't trust fellow exporters to follow suit, believes high-cost producers should bear the burden of rebalancing markets, Ali Al-Naimi said Tuesday. Iranian Oil Minister Bijan Namdar Zanganeh said a Saudi-Russia proposal to freeze output was "ridiculous" since Iran seeks to boost exports after years of sanctions, according to his ministry's news agency.

Canadian oil production to increase despite lower prices

AA Energy Terminal, *26.02.2016*

Despite lower crude oil prices, Canadian oil production is expected to continue its increase through 2017, the U.S.'(EIA data revealed. According to the EIA's February Short-Term Energy Outlook, Canadian oil projects that were already under construction are the main driver of production growth.

In addition, production of petroleum and liquids in Canada, which totaled 4.5 million b/d in 2015, is expected to average 4.6 million b/d in 2016 and 4.8 million b/d in 2017. "This increase is driven by growth in oil sands production of about 300,000 b/d by the end of 2017, which is offset by a decline in conventional production," according to the statement.

Prices of heavy [dense] Canadian crude oil are linked to the Western Canadian Select (WCS) benchmark; an index of different conventional and synthetic crude oils. "WCS has traded at about $15 to $20 per barrel (US $/b) lower than the U.S. benchmark West Texas Intermediate (WTI) crude oil since early 2014, because WCS has to be transported over a longer distance to refineries and - because of its density and quality - it is more difficult to process into petroleum products," the report indicates. The average price for WCS in January 2016 was $18.42 per barrel - about $15 per barrel below WTI. Additionally, the cost to shut down an existing oil sands project is estimated to be in the range of $500 million to $1 billion in the short term.

EIA's forecast for oil prices, which projects an increase in prices from 35 to 60 dollars per barrel on average over the next couple of years, is expected to allow new projects to earn a return over their running cost. According to EIA, Canada is a net exporter of most energy commodities and a significant producer of crude oil and other liquids from oil sands, natural gas, and hydroelectricity.

US oil production falls for fifth consecutive week

AA Energy Terminal, *25.02.2016*

Oil production in the U.S. fell for the fifth week in a row, for the week ending Feb. 19, the U.S.' Energy Information Administration (EIA) data revealed. Domestic oil production decreased to 9.1 million barrels a day (bpd) during the period, from 9.13 million bpd the week before, marking a 33,000 bpd weekly decline on average.

This is the fifth consecutive week of decline in U.S. oil output since domestic production last peaked at 9.23 million bpd for the week ending Jan. 15, since low oil prices have been pressuring high-cost shale oil producers to trim their investment forcing them out of the market.

"The U.S. oil output has now fallen by about 130,000 bpd since its recent peak in mid-January," London-based Capital Economics' U.S. Weekly Petroleum Status Report said. "Even though these declines are relatively small, it is likely that we are finally seeing some impact on shale oil production with the collapse in drilling rig numbers," said Thomas Pugh, author of the report and commodities economist at Capital Economics.

The number of oil rigs in the U.S. fell by 26 to 413 last week, and marked its ninth consecutive week of decline, according to oil field services company Baker Hughes data. This is the lowest level in the U.S. rig count since December 2009. The total number of oil rigs was cut by 74 percent since October 2014 when the count was at its highest level with 1,609.

Meanwhile, commercial crude oil stocks in the U.S. increased by 3.5 million barrels, or 0.7 percent, to reach 507.6 million barrels for the week ending Feb. 19. The American oil benchmark West Texas Intermediate fell by 2.7 percent to $30.57 a barrel, after it opened Wednesday at $31.41 per barrel.

However, the global benchmark Brent crude was on rise Wednesday, jumping 5.1 percent to reach as high as $34.66 per barrel, after beginning the day at $32.98 a barrel, following the media reports suggested that there were issues with crude loading to oil vessels in the U.K.'s North Sea during the day.

Announcements & Reports

► *Saudi-Russia Production Accord: The Freeze before the Thaw?*

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/02/Saudi-Russia-Production-Accord-The-Freeze-before-the-Thaw-1.pdf

► *The UK in the EU – Stay or Leave? The Balance Sheet on Energy and Climate Policy*

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/02/The-UK-in-the-EU-%E2%80%93-Stay-or-Leave-The-balance-sheet-on-energy-and-climate-policy-1.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

► *Iran Oil & Gas Post Sanctions*

Date : 22 - 24 February 2016
Place : London, UK
Website : http://www.iranoilgas-summit.com/

► *IHS Energy CERAWeek*

Date : 22 - 26 February 2016
Place : Houston, Texas, USA
Website : http://ceraweek.com/2016/

► *Australasian Oil & Gas Conference*

Date : 24 - 26 February 2016
Place : Sydney, Australia
Website : http://aogexpo.com.au/

Supported by PETFORM

► *GREAT Regional Oil and Gas Summit*

Date : 01 March 2016
Place : Istanbul, Turkey
Website : https://www.events.ukti.gov.uk/regional-oilandgas-summit/

► *7th Mediterranean Oil and Gas Forum 2016*

Date : 01 - 02 March 2016
Place : Nicosia, Cyprus
Website : www.energystreamcmg.com

► *International LNG Summit*

Date : 07 - 08 March 2016
Place : Cannes, France
Website : www.lngsummit.org/

► *Balkan Energy Leaders*

Date : 09 - 10 March 2016
Place : Belgrade, Serbia
Website : www.greenworldconferences.com/

► *International Conference on District Energy 2016*

Date : 20 - 22 March 2016
Place : Portorož, Slovenia
Website : www.sdde.si/en

► *COGEN Europe Annual Conference 2016*

Date : 22 - 23 March 2016
Place : Brussels, Belgium
Website : www.cogeneurope.eu

► *Gasification 2016*

Date : 23 - 24 March 2016
Place : Rotterdam, Netherlands
Website : www.wplgroup.com/aci/

► *22nd Annual BBSPA Conference*

Date : 07 – 08 April 2016
Place : Vienna, Austria
Website : www.bbspetroleum.com

► *3rd IENE Energy and Shipping Seminar*

Date : 08 April 2016
Place : Piraeus, Greece
Website : www.iene.eu

► *10th Global Oil&Gas Atyrau Conference*

Date : 12 – 13 April 2016
Place : Atyrau, Kazakhstan
Website : http://www.oilgas-events.com/

► *Global Oil & Gas Atyrau*

Date : 12 – 14 April 2016
Place : Atyrau, Kazakhstan
Website : http://oil-gas.kz/en/

► *22nd International Energy& Environment Fair and Conference*

Date : 27 – 29 April 2016
Place : İstanbul, Turkey
Website : www.icci.com.tr

► *Smart Energy Analytics 2016*

Date : 04 – 05 May 2016
Place : London, United Kingdom
Website : www.wplgroup.com/aci/

► *Flame – Europe's Leading Natural Gas & LNG Conference*

Date : 09 – 12 May 2016
Place : Amsterdam, Netherlands
Website : www.flame-event.com

► *Global Oil & Gas Turkey*

Date : 16 – 17 May 2016
Place : Istanbul, Turkey
Website : http://www.oilgas-events.com/TUROGE-Conference

► *6th International Conference & Workshop REMOO 2016*

Date : 18 – 20 May 2016
Place : Budva, Montenegro
Website : http://remoo.eu/html/general_information.html

► *Turkmenistan Gas Congress*

Date : 19 – 21 May 2016
Place : Turkmenbashi, Turkmenistan
Website : http://www.oilgas-events.com/

► *Pipeline Technology Conference*

Date : 23 – 25 May 2016
Place : Berlin, Germany
Website : www.pipeline-conference.com

► *Caspian Oil & Gas*

Date : 01 – 04 June 2016
Place : Baku, Azerbaijan
Website : www.caspianoilgas.az/2016/

► *Yamal Oil & Gas*

Date : 08 – 09 June 2016
Place : Salekhard, Russia
Website : www.yamaloilandgas.com/en/programmerequest/

► *7th International Energy Forum*

Date : 10 June 2016
Place : Istanbul, Turkey
Website : www.iicec.sabanciunic.edu

► *Energy Systems Conference 2016*

Date : 14 - 15 June 2016
Place : London, UK
Website : www.energysystemsconference.com

► *World National Oil Companies Congress*

Date : 15 - 16 June 2016
Place : London, UK
Website : http://www.terrapinn.com

► *ERRA Summer School: Introduction to Energy Regulation*

Date : 20 - 24 June 2016
Place : Budapest, Hungary
Website : http://erranet.org

► *9th SE Europe Energy Dialogue*

Date : 29 – 30 June 2016
Place : Thessaloniki, Greece
Website : www.iene.eu

► *Global Oil & Gas - Black Sea and Mediterranean*

Date : 22 – 23 September 2016
Place : Athens, Greece
Website : www.iene.eu

► *23rd World Energy Congress*

Date : 09 - 13 October 2016
Place : Istanbul, Turkey
Website : http://wec2016istanbul.org.tr/

► *15th ERRA Energy Investment & Regulation Conference*

Date : 17 - 18 October 2016
Place : Budapest, Hungary
Website : http://erranet.org/InvestmentConferences/2016

► *21st IENE National Conference "Energy and Development 2016"*

Date : 24 - 25 October 2016
Place : Athens, Greece
Website : www.iene.eu

► *European Autumn Gas Conference 2016*

Date : 15 – 17 November 2016
Place : Hague, Netherlands
Website : http://www.theeagc.com/

► *5th Cyprus Energy Symposium*

Date : 29 - 30 November 2016
Place : Nicosia, Cyprus
Website : www.iene.eu