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Expert: Brexit effects diplomatic solution for Turkey

AA Energy Terminal, *02.07.2016*

The diplomatic thaw between Russia and Turkey will allow contacts and negotiations to resume but any real agreements will require a serious expectation of a profitable transit, said Yuval Weber, an assistant professor at the Faculty of World Economy and International Affairs in Moscow's National Research University - Higher School of Economics.

Weber told Anadolu Agency that the Brexit vote is likely to have caused Turkey to lose faith in Europe and concede on diplomatic disputes with Israel and Russia. Almost fifty-two percent of British voters rejected their country's 43-year membership of the EU in referendum on June 23.

"Energy relations between Russia and Turkey faltered because of low oil and gas prices and oversupply from the U.S. and Middle East," Weber said. He added that negotiations between Russia and Turkey on energy projects may resume and noted, "The economy of Russia is still in recession and with parliamentary and presidential elections coming next year and in 2018, the money that would go towards pipeline construction is better spent at home in Russia."

Marco Giuli, a policy analyst from the Brussels-based European Policy Centre said Turkey remains a major importer of Russian gas and the two countries will remain as important energy partners. "It is possible that the idea of the Turkish Stream [natural gas pipeline project] will come back. But with two caveats. First, very large infrastructural projects are and will be facing growing difficulties in a more transactional international environment. Second, European demand dynamics is very unclear," he said.

Professor Jonathan Stern, chairman of the Natural Gas Research Program of the Oxford Institute for Energy Studies said there is some way to go before normal relations are restored between the countries. Russian President Putin has asked for compensation for the aircraft and the family of a pilot, who flew the Russian jet and violated Turkish air space.

"If this happens, I think we can begin to think again about the Turkish Stream maybe later this year or early next year; if it doesn't happen, or takes a long time to happen, I think there will be a further delays before we can think about this project," Stern emphasized.Alexey Miller, CEO of Gazprom, announced that Putin had canceled the construction of the South Stream Natural Gas Pipeline in December 2014. Putin laid the blame on the European Union for axing the project.

After terminating the project, Putin announced that Russia's state gas company, Gazprom, would build a 63 billion cubic meter (bcm) capacity natural gas pipeline to Turkey, bypassing Ukraine and naming the project the Turkish Stream. The Turkish Stream aims to transfer Russian natural gas to Europe via Turkey.

However a lack of progress in the project was put down to Russia's non application of the 10.25 percent gas price discount to Turkey's gas contract with Russia which was previously agreed on. After the Russian jet downing, both Turkish and Russian officials made statements about freezing talks on the Turkish Stream project.

Following the November 2015 downing of the Russian warplane in Turkish airspace, the Kremlin ordered sanctions on food products, an end to visa-free travel, and a ban on Russian tourists taking package holidays to Turkey.

Turkey's President Recep Tayyip Erdogan sent a letter to his Russian counterpart calling for the restoration of "traditional friendly ties,". After that on Wednesday Putin called Erdogan and the two leaders discussed bilateral relations and cooperation on regional issues and humanitarian crises. During the conversation, Erdogan and Putin emphasized the importance of normalizing relations between the two countries.

Israeli gas to Turkey puts Turkish Stream back on table

AA Energy Terminal, *01.07.2016*

Russia would not risk losing its gas market share in Turkey to Israeli gas amid the normalizing of Turkey's relations with Israel, Richard Kauzlarich, the co-director at the Center for Energy Science and Policy at George Mason University said.

Kauzlarich, who also served as the U.S. ambassador to Baku from 1994 to 1997, told Anadolu Agency that he is not surprised that there is a mutual interest in resuming normal relations including economic relations between Russia and Turkey. "Turkey and Russia share interests in the region and it is important to reduce tensions between the two countries," Kauzlarich said.

He noted that Putin had shown signs of wanting to revive the South Stream or Turkish Stream natural gas projects. Alexey Miller, CEO of Gazprom, announced that Putin had canceled the construction of the South Stream Natural Gas Pipeline in December 2014. Putin laid the blame on the European Union for axing the project.

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“Russia cannot afford to lose market share in Turkey so it’s no surprise that Gazprom is seeking to restart discussions with Turkey regarding the Turkish Stream. Another factor may be the normalization of Turkey’s relations with Israel,” he stressed.

According to Kauzlarich, Turkey and Israel’s steps for normalization of relations has improved the prospects of Israeli gas transiting through Turkey, despite the fact that it is still a mid to long-term possibility.

“Russia would not want to risk losing market share in Turkey to Israeli gas. So any improvement in energy relations between Russia and Turkey will be driven by two factors: first, Russia’s intent to maintain market share in the Turkish gas market. Second, to use the Turkish Stream and/or South Stream pipeline prospects as instruments of ‘soft power’ for Russia’s geopolitical ambitions,” Kauzlarich noted.

Mikhail Krutikhin, partner of RusEnergy, a Moscow-based analytical and consulting agency also said that Putin definitely would like to build either the South Stream or Turkish Stream project. “I do not see any rational reason for either of the projects, but such decisions of the Russian president are very rarely reasonable,” he added.

Turkey and Israel are to normalize relations after a six-year rift over the killing of 10 Turkish activists by Israeli commandos on board the Mavi Marmara aid ship destined for Gaza, Turkish Prime Minister Binali Yildirim said.

Turkey and Israel separately signed a reconciliation deal on Tuesday, aiming to normalize relations after the six-year hiatus. According to the deal, Israel will pay a total of $20 million in compensation to the families of the Mavi Marmara victims. Also, 10,000 tons of supplies will sail to Gaza from Turkey on Friday, Yildirim announced.

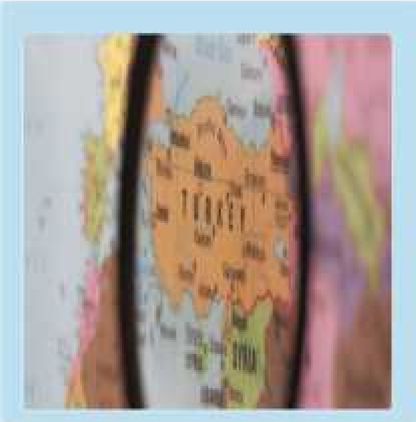
Following the November 2015 downing of the Russian warplane in Turkish airspace, the Kremlin ordered sanctions on food products, an end to visa-free travel, and a ban on Russian tourists taking package holidays to Turkey.

Turkey’s President Recep Tayyip Erdogan has sent a letter to his Russian counterpart calling for the restoration of “traditional friendly ties,”. After that on Wednesday Putin called Erdogan and the two leaders discussed bilateral relations and cooperation on regional issues and humanitarian crises.

During the conversation, Erdogan and Putin emphasized the importance of normalizing relations between the two countries. The normalization of relations has also brought the Turkish Stream natural gas pipeline project back on the table.

Israeli Energy Minister: Israeli gas may reach Turkey in three years

Hurriyet Daily News, *01.07.2016*



As Turkey and Israel move to restore their relationship after six years of strained ties, both sides are looking forward to the opportunity to transfer Israel's natural gas to Turkey, a move which could happen as early as 2019, according to Israeli Energy and Natural Resources Minister Yuval Steinitz.

"I think that it is quite likely that Israel will export natural gas to Turkey. And maybe also in the future we will export natural gas to Europe through the Turkish gas transmission system that is now under construction. I think it is good for Turkey. It is good for Israel," Steinitz told daily Hürriyet over the phone on June 29.

Turkey and Israel reached an agreement earlier this week that will allow the two countries to restore full diplomatic relations, which broke off in 2010 after Israeli forces raided a convoy of aid ships attempting to break the blockade of Gaza, killing nine Turkish activists.

Energy will be an important area of cooperation between the two countries, with Turkey being the most feasible route for Israel's future natural gas exports. "The deal, if there will be such a deal, it will be a deal between companies from both sides," Steinitz said, adding, "Israeli or American companies like Nobel and Turkish companies."

"The two countries however will have to agree to give some kind of consent to such a deal, and agree to the construction of a gas pipeline from Israeli economic water to Turkey," he noted. Israel can currently export 350 billion cubic meters (bcm) of gas, the minister said, adding there was potential for more production. "According to the estimates, in a few years' time probably we will be able to export up to 2,500 bcm. This is a lot of gas," Steinitz said.

"And if this will take place, it is just an estimate [but] this is also the estimate of [the] U.S. Department of Energy that we will discover in the next few years much more gas than what was discovered so far. If this happens Israel will have to export a lot of gas to Western Europe. Then Israel can export gas through Turkey through the TANAP pipeline, a very large pipeline that is going be built, from [the] Caspian Sea to Turkey through Europe," he said.

Israel has three options to export gas to Europe, according to Steinitz, who outlined each of them. "[The] first one is the LNG [liquefied natural gas] facilities in [the] Egyptian delta. In Egypt there are two LNG facilities. One of the ideas there was already some kind of MoU [memorandum of understanding] between the companies in Egypt that gas from Israel will move to [the] Egyptian delta, and in those LNG facilities will be liquefied and shipped with ships from Egypt to Europe. This is one possibility, but it is quite expensive. "Another possibility is to build a pipeline from the Israeli economic water through Cyprus to Greece, a very long underwater pipeline.

This is possible but it is a very big project and it might take much longer. It might take five to eight years to build such a very long undersea pipeline. Technically it is possible but it is quite expensive and quite long.

“The third possibility to export gas to Europe is through Turkey. And there are two possibilities here. One possibility is that Israel will export gas to Turkey. Currently it is a lot of gas, but in the future it might be much more, almost actually unlimited de facto if we find the additional gas fields. And this is very likely.

This is highly probable. And the other possibility, if the two countries will agree, is that gas from Israel and [the] Eastern Mediterranean basin in general will be transported through Turkey to Europe. And then Istanbul can become an international energy hub,” he said. The minister noted the cost estimates for a pipeline to Turkey was “about $2 billion or a little bit less,” adding it would be financed by the private sector with the consent of both Turkey and Israel.

“It will be [financed] by [the] business private sector on both sides. If everything will go well, I think… in 2019 Israeli gas from [the] Leviathan [gas field off the coast of Israel] can be exported to Turkey. It might be as early as 2019.

“But of course you know once Leviathan will begin to produce natural gas, it is possible by this timeline to build a pipeline not just from Leviathan to Israel, but also from Leviathan to Turkey. In the best case scenario we are speaking about approximately three years. Of course it might take longer, it depends. But actually technically, if everything goes well, in three years from now Israeli natural gas can already be exported to Turkey,” Steinitz said.

How will Turkey’s agreement with Israel change the power equation in the Mediterranean?

Yeni Safak, *30.06.2016*

The vital point of Turkey-Israel relations is the Palestine issue. Turkey’s sensitivity toward this issue increased after the Justice and Development Party (AK Party) came to power. Despite the Palestine fault line, economic and diplomatic relations continued until then-Prime Minister Recep Tayyip Erdoğan’s “One Minute” scolding.

A year after this incident the Mavi Marmara raid occurred on May 31, 2010. After this incident, Turkey’s negative attitude toward Israel did not change despite all mediation attempts. Turkey had conditions to reestablish diplomatic relations. Six years later, Israel accepted these conditions.

Israel already has obligatory relations with the countries in the region. However, the real reason behind Israel wanting to restart its diplomatic and economic relations is “power.” The dynamics of the global power equation changed after 2010. New developments took place in power, especially in the region. Therefore, naturally Israel sought not to be left out of the equation.

What changed in the power equation of the region that caused Israel to be concerned? Turkey started the Trans-Anatolian Natural Gas Pipeline Project (TANAP), which expects to buy gas from Azerbaijan for itself and to serve as a bridge between TANAP and the interested EU countries. Many actors in the power field are aiming to establish close ties with Turkey in order to realize mutual energy projects.

The removal of sanctions from Iran has brought Iran back into the power equation. It is evident that Iran wants to enter the world markets and turn its resource into income. The Northern Iraq Kurdistan Regional Government (KRG) is determined to cooperate with Turkey in selling its gas and petrol on global markets despite experiencing problems with its central government.

The Turkish Stream project was shelved after the Russia-Turkey plane crisis. Being 50 percent dependent on Russia for its power, Turkey sought alternatives, while many countries want to serve Turkey in this field.

Therefore a pre-agreement was signed with Qatar’s liquefied natural gas (LNG) exporter in order to avoid the negative effects of the energy crisis with Russia. Within this scope, the new period of constructing a power storage and gasification terminal has started.

Turkey making power agreements with different countries strengthens it in the power equation of the region. Regional countries are becoming interested in Turkey for energy agreements. In addition to all this, Israel’s energy report does not look good at all.

The groundwork for the agreements with Egypt and Jordan is not ready yet. Another question is: To whom will Israel sell the gas it discovered in Leviathan and Tamar in 2009? Will it transport this natural gas through the LNG line or pipelines? Besides, it needs investments to do this transfer as well as financing.

In this respect, Turkey offers a low-cost and secure route. Israel will provide Turkey with natural gas and also use Turkey as a bridge to supply the EU market with natural gas. Otherwise it is very hard for Israel to enter the global market without Turkey’s help.

Thus, Turkey’s strategic position is very important for Israel’s natural gas to meet the demand. Yet, while Turkey uses its advantage it should not forget that this natural gas is actually Palestine’s. Northern Iraq entering the EU market with TANAP and Israel entering it with other projects restricts Russian and Iranian hegemony in the region.

Therefore Israel will try to create competition among regional competitors like Iran and Russia in order to provide energy to the EU market via Turkey. This will especially effect Iran in revising the high prices it requests from Turkey for natural gas.Israel having the upper hand in energy directly depends on its relations with Turkey.

Turkey should consider Israel's request to negotiate within the parameters of both diplomacy and energy dynamics. Every step Turkey takes will determine the future of Palestine and the dynamics of the regional power equation.

Turkish energy giant BOTAS tops Fortune 500 Turkey list

Daily Sabah, *30.06.2016*

BOTAŞ, a state-owned energy company, has ranked first on the Fortune 500 Turkey list, which determines Turkey's top 500 largest firms, with a net sales income of TL 37.1 billion ($12.9 billion).

Covering all business sectors except for financial institutions and holdings, the latest Fortune 500 Turkey survey was published in Fortune Turkey's July issue. BOTAŞ came first on the list, followed by Tüpraş. After being the highest ranking company for the past eight years, Tüpraş's net sales income hit TL 36.8 billion this year because of the impact of the worldwide decline in oil prices.

While OMV Petrol Ofisi preserved its third place in the list with a net sales income of TL 30.9 billion, Turkish Airlines (THY) took fourth place with a net sales income of TL 28.7 billion, followed by the Turkish Electricity Transmission Company (TEİAŞ) with TL 20 billion.

The Turkish Electricity Trading and Contracting Corporation (TETAŞ) ranked sixth with TL 19.5 billion while fuel company OPET ranked seventh with TL 18.5 billion. Grocery store chain BİM took eighth place with TL 17.4 billion, followed by Ford in ninth place with TL 16.7 billion and Shell & Turcas at tenth with TL 15.4 billion in net sales income. The total assets of the Fortune 500 companies reached TL 837.3 billion, due to a 16.8 percent increase, and their capital hit TL 340 billion, increasing 9.6 percent.

Net sales of 160 companies in the list exceeded the TL 1 billion limit compared to 147 companies the previous year. While the number of companies with a net sales income over TL 10 billion was 16 last year, it was 17 this year. Including 86 new companies for 2016, the Fortune 500 list consists of 270 production, 127 trade, 78 service and 25 construction firms. On the other hand, the number of companies announcing losses went up, increasing from 95 to 108.

Turkey starts repairing relations with Moscow

Natural Gas Europe, *29.06.2016*

A letter from Turkey's president, Recep Tayyip Erdogan, to his Russian counterpart Vladimir Putin, may help to restore relations between the two countries. They have been frosty since last November, after the Turkish air force shot down a Russian jet over Turkey's borders, killing the pilot.

The contents of the letter have not been made clear but the Turkish presidency stopped short of apologising – a key condition for ending hostilities – according to Erdogan's spokesman, Ibrahim Kalin. However, he said there was a sentence expressing sympathy for the relatives of Russian pilot.

From the other side, Putin's spokesman Dmitri Peskov reportedly said that Erdogan spoke of his deep regret for what happened and said he wanted to restore relations. In a televised press conference, Kalin said that Erdogan and Putin would hold a teleconference midday on June 29 about the next steps. "We are expecting a quick normalisation in diplomatic and economic ties between two countries. Also, the Russian side took constructive steps," he said.

"The sanctions applied to Turkish companies can be reduced gradually. Our ties in energy, economy and business will begin to normalise in the near future," he said. The spokesman also said that Turkey would not change its foreign policy regarding issues in Ukraine, Crimea and Syria.

Also, Turkey's foreign minister, Mevlut Cavusoglu, will hold talks with his Russian counterpart Sergei Lavrov in Sochi July 1, during the Black Sea Economic Cooperation Summit. The letter coincides with Turkey and Israel agreeing to revive diplomatic ties after the 2010 Mavi Marmara incident.

Analysts said that the Turkish side has been pragmatic but it will take a long time to normalise the economic and diplomatic ties between two countries. "The investment community will be cautious on the chances of the establishment of energy ties between two countries. The Turk Stream pipeline project, which Gazprom proposed and shelved, might not be started immediately," Mustafa Salih, an independent energy analyst, told NGE.

"I would assume that the normalisation with Russia can be relatively soon, definitely in time for the 2017 tourism season but perhaps much sooner," said Michael Harris, chief strategist of Renaissance Capital, based in London. "Turkey needs to diversify its imported energy resources. Turkey's approach to Russia will bear fruit in early October. The feasibility of the Turk Stream natural gas pipeline project, which Putin proposed in late 2014, may begin later this year. If all things go smoothly, we may see the Russian molecules in early 2019 via a new pipeline," Mehmet Kara, Editor of Energy Daily, told NGE.

Russians cannot spend more time for waiting for this pipeline, he said. Turk Stream is a diverted version of South Stream Pipeline, a similar route which will ship Russian gas under the Black Sea to Turkey's Trachea region, near the border with Greece and Bulgaria.

"We are seeing a reversion to a more traditional Turkish foreign policy. Pragmatism is probably key here, as a reflection of declining Western power and leverage in the region," said Timothy Ash, chief emerging markets strategist of Nomura, based in London.

"From a market perspective, the prospect of normalisation in economic and business relations with Israel, Russia, and potentially Egypt is positive. The prospects for a Cyprus peace deal and then energy sector development south to Israel and Egypt is also a potentially significant positive," he said.

Russian gas flows to Turkey reduced

Argus, *01.07.2016*

Russian gas flows to Turkey through the Western line today have fallen by just over a third from nominated levels, owing to a reduction in gas delivered through Ukraine.

Physical flows at the Malkoclar entry point — at the border with Bulgaria — declined to 289.8mn kWh/d at 09:30 local time today, which is 36.3pc lower than the 394.9mn kWh/d nominated for the day, according to data on the Entso-E Transparency platform. The reduction in Western line flows started at 10:00 today, Botas said. But some market participants claimed that the disruption started yesterday evening.

The fall in Russian gas transiting Ukraine follows a disagreement between Ukraine's transmission system operator Ukrtransgaz and Russian state-controlled Gazprom's export arm, Gazpromexport, Turkish grid operator Botas said today.

But one market participant said the cut in flows was because of a "technical problem" affecting the flow of gas through Ukraine and Bulgaria to Turkey. Export flows have been restored now, Gazprom said, with flows to Turkey expected to resume normal levels tomorrow.

Gas execs see Israel-Turkey gas deal by 2017

Globes, *28.06.2016*

The rapprochement agreement between Israel and Turkey presented – and expected to be signed Tuesday – will also likely lead to the signing of a gas export deal by the end of next year, according to executives in the Leviathan partnership. The partners revealed they have opened talks with a consortium of 15 Turkish energy companies which expressed interest in half of the available reservoir.

The gas could also flow on from Turkey to Europe – which no longer wishes to rely on Russian gas. Both Israeli and Turkish sources believe Europe will import 8-10 BCM annually starting in 2020.

Turcas Petrol CEO Batu Aksoy said, “The primary benefit to creating a consortium of companies is the spread of the risks which are inherent in such a significant deal.” The Leviathan partners said they were also holding talks with European companies operating in Turkey.

“The export of Israeli gas to Turkey is a win-win for both parties,” Turkish gas exeutive Nusert Comert told “Globes”, “This is the best deal financially and the right decision strategically.” Comert says Turkish gas consumption has doubled in the past decade – up to 48.6 BCM – and will likely double again in the next twenty years. Turkey does not have its own natural gas reserves and is forced to import from a number of suppliers at high prices. Furthermore, ISIS activity in northern Iraq prevents the import of gas through the region, the gas flow from Russia through Ukraine is inconsistent, and the TANAP will now only be ready at the end of that year.

Another proposed Russian pipeline – Turkish Stream – has been delayed and experts believe it will likely be scrapped entirely. From Israel’s perspective, the deal will finally get the ball rolling on Leviathan’s development. In Israel, the realization has dawned that Egypt is no longer an attractive destination for a number of reasons: in the past year oil and gas prices have fallen rapidly, making exports to an Egyptian LNG facility (which will then export the gas to Europe) economically unsound; Egypt itself has discovered new gas reservoirs; and the price of natural gas in the country has risen, attracting international interest. If those reasons weren’t enough, Shell acquired BG – and it’s difficult to imagine the company would want to engage with Israel for such a large transaction.

Experts in both Turkey and Israel note the opportunity for exporting gas to Europe as one of the key benefits of the reconciliation between the two countries. Europe, which relies on Russian for 30% of its gas consumption (largely pumped through Ukraine), is desperately seeking new ways to diversify its supply – especially because in recent months Russia has taken aggressive measures against Ukraine, including cutting off its gas supply, affecting Europe as a whole.

More importantly, Russia recently decided to cancel the South Stream Pipeline project connecting to Europe through Bulgaria. A senior source in the Leviathan partnership said: “The moment we can export gas to Turkey, we will be able to export to Europe.”

Another source added, “Unlike with Egypt – where the gas flow is one-way from Israel to Egypt – the deal with Turkey is reciprocal.” He said that once Turkey connects a pipeline to Europe, Israel will – if necessary one day – be able to import gas through the same pipeline through which it exported it.

But none of this is a certainty. Russia, from which Turkey imports 55%-60% of its natural gas, will do everything in its power to prevent this project from getting off the ground. Russia is one of the largest oil and gas exporters in the world. Fifty percent of its economy is based on that export; the international sanctions against it, combined with falling oil prices, have hammered the country.

Gas executives believe Russia will follow a strategy of volume over value – similar to Saudi Arabia’s oil strategy – in order to maintain its hold on the market. A VP for state-owned Gazprom recently said the country would raise its gas production in 2016 by 8%, from 418.5 BCM in 2015 to 452 BCM in 2016.

Last month, after the meeting between Russian President Vladimir Putin and Israeli Prime Minister Benjamin Netanyahu, it was reported Putin wanted to participate in the development of the Israeli gas reservoirs; this month, it was reported Netanyahu invited Putin to do so. The Israeli defense establishment is concerned the Russians seek to sabotage the development of Leviathan to thwart competition with Russian gas – or at least to ensure it is not sold to Europe or Turkey.

Then there is the US, which began to export liquefied natural gas (LNG) last February. For now, it has only succeeded in exporting to Latin America. It had one European delivery – to Portugal – but there is no doubt its eyes are set on the Europe.

Until a year and a half ago, the natural gas in Europe cost $11-15 per mmbtu. In the US, the cost is $2 per mmbtu; it could sell the gas to Europe for $6.9 per unit (after expenses). Russia can compete in that price range but Israel cannot.

From a technical perspective, exporting gas to Turkey is difficult but far from impossible – a submarine pipeline could begin at the Leviathan reservoir, pass through Cypriot island waters, and land at the southernmost point in Turkey – at an estimated distance of 500-550 kilometers from the reservoir.

Sources inform “Globes” the two potential landing sites are Ceyhan and Iskenderun in southern Turkey. The pipeline would likely be constructed by Turkey using contractors since Israel does not have the know-how, the experience, or the appropriate equipment.

The natural gas companies said on Monday that all the existing pipelines serving Turkey reach its northern border, meaning a southern pipeline would increase its energy security. However, a submerged pipeline could cost as much as $2-4 billion – though the recently falling oil prices have also led to drops in iron and undersea equipment prices.

But beyond the cost and the technical challenge, there is also the question of Cyprus island. The proposed pipeline between Israel and Turkey would pass through Cypriot economic waters – requiring the country's approval. But relations between Cyprus and Turkey have been frosty since the latter occupied the northern part of the island in 1974.

A Greek Cypriot energy executive – who preferred to remain anonymous – was furious at the deal between Israel and Turkey. He said, "a gas export deal between Israel and Turkey is a point of no return for Israeli-Greek Cypriot ties. Israel is encouraging the conduct of Turkey on the island; it is not acceptable."

Deputy Ambassador of Greek Cyprus to Israel Michalis S. Firillas has even said his country would not authorize the construction of a pipeline because "though there are talks between the two sides of the island, Turkey would need to change its approach for them to reach a breakthrough."

Alon Liel, the former Israeli ambassador to Turkey and a noted expert on the Turkish market, told "Globes", "The deal with Turkey will hurt relations with Greece and likely Greek Cyprus." He mentioned the agreement signed in January between Cyprus, Israel, and Greece in Nicosia – which called for strengthening their trilateral ties. Liel said "Israel gave Greek Cyprus and Greece the illusion that it was onboard; signing a deal with Turkey is a sort of betrayal."

The Greek Cypriot energy executive, however, hinted at an opportunity to appease Cyprus: "Stop thwarting the development of Aphrodite." The subtle hint to the "Globes" expose from last October which revealed Israel demanded Cyprus island include it in its development of Aphrodite because some of the reservoir spills over into Israel's Yishai reservoir. Meanwhile, Israel is refusing to sign a unitization agreement between the two states, which would officially regulate the development of their shared oil and gas reservoirs – thus delaying the development of the Cypriot field.

Israel could offer a "barter deal" wherein Israel "releases" the Aphrodite reservoir in return for the authorization for its Turkish pipeline. In that event, Cyprus island could also connect to the pipeline and export gas to both Turkey and Europe.

Saudi Arabia's oil storage falling as exports exceed production

Oilprice, *27.06.2016*

The U.S. has seen several weeks in which the levels of crude oil sitting in storage have declined, falling from 80-year record highs. Inventories have dropped more than 10 million barrels since May, offering clues that suggest that the oil market is moving closer to a supply/demand balance.

Although the EIA storage figures are closely watched by oil analysts, a lesser known but similar metric from Saudi Arabia also indicates an oil market continuing to adjust. According to data from the Joint Organisations Data Initiative, and reported on by Bloomberg, Saudi oil inventories have declined for six consecutive months.

Saudi oil inventories have drawn down by 38.6 million barrels since October, taking storage down to 290.9 million barrels, a two-year low. The new Saudi energy minister Khalid Al-Falih told Bloomberg TV that he sees "a balanced market." He also said that Saudi Arabia has "started inventory drawdowns that will continue for the foreseeable future."

The declines are contributing to a convergence in supply and demand. As exports continue to exceed production, Saudi Arabia should continue to burn through inventories. But it cannot keep up that pace indefinitely.

At some point, if it cannot boost production (or chooses not to), oil exports will have to fall as inventories become low. A drop in exports will tighten global supplies, reducing any remaining global surplus and thereby push up oil prices. Moreover, the drawdowns could increase because of higher domestic oil demand during summer months, as air conditioners run full blast. Saudi Arabia consumes a substantial volume of oil for power generation, upwards of 1 million barrels per day.

But for now, few have noticed the large declines in oil storage levels. "The drop in Saudi crude stocks signals the rebalancing has started," Amrita Sen, chief oil analyst at Energy Aspects Ltd., told Bloomberg. "Crude stocks are coming off in places where either the data is opaque or the market isn't paying as much attention."

Oil is still heading to $10 a barrel

Bloomberg, *28.06.2016*

Back in February 2015, the price of West Texas Intermediate stood at about $52 per barrel, half of its 2014 peak. I argued then that a renewed decline was coming that could drive it below $20, a scenario regarded by oil bulls as unthinkable.

But prices did fall further, dropping all the way to a low of $26 in February. Since then, crude rallied to spend several weeks flirting with $50 per barrel, a level not seen since last year. But it won't last; I'm sticking to my call for prices to decline anew to $10 to $20 per barrel. Recent gains have little to do with the fundamentals that led to the collapse in the first place.

Wildfires in the oil-sands region in Canada, output cuts in Nigeria and Venezuela due to political unrest, and hopes that American hydraulic fracturing would run out of steam are the primary causes of the recent spurt. But the world continues to be awash in crude, and American frackers have replaced the Organization of Petroleum Exporting Countries as the world's swing producers.

The once-feared oil cartel is, to my mind, pretty much finished as an effective price enforcer. Even OPEC's leader, Saudi Arabia, is acknowledging the new reality by quashing recent attempts to freeze output, borrowing from banks and preparing to sell a stake in its Aramco oil company as it tries to find new sources of non-oil revenue.

The Saudis and their Persian Gulf allies continue to play a desperate game of chicken with other major oil producers. Cartels exist to keep prices above equilibrium, which encourages cheating as cartel members exceed their allotted output and other producers take advantage of inflated prices.

So the role of the cartel leader, in this case Saudi Arabia, is to cut its own output, neutralizing the cheaters to keep prices up. But the Saudis suffered market-share losses from their previous production cuts. OPEC has effectively abandoned restraints, with total output soaring to as high as 33 million barrels per day at the end of last year:

Iran, freed of Western sanctions, plans to double output to 6 million barrels a day by 2020, which would make it the second-largest OPEC producer behind Saudi Arabia. Russia continues pumping to support its economy after the collapse in oil prices devastated government revenue and export earnings. War-torn Libya is also ramping up production as best it can.

The International Energy Agency predicts that even with a successful OPEC production freeze, if U.S. frackers cut production by 600,000 barrels a day this year and a further 200,000 barrels per day in 2017, excess supply would run at 1.5 million barrels a day until 2017. That's a continuation of the recent oversupply of 1 to 2 million barrels a day.

The price at which major producers chicken out and slash production isn’t determined by the prices needed to balance the budgets of oil producing nations, which are as high as $208 per barrel in Libya and as low as $52 per barrel in Kuwait. Nor is it the “full cycle” or average cost of production that includes drilling costs, overheads, pipelines, etc.

In a price war, the chicken-out point is the price that equals the marginal cost of producing oil from an established well. Once fracking operations are set up and staffed, leases paid for, drilling underway and pipelines laid, the marginal cost of shale oil for efficient producers in the Permian Basin in Texas is about $10 to $20 per barrel and even lower in the Persian Gulf.

Furthermore, fracking costs continue to fall as productivity improves. The number of drilling rigs operating in the U.S. continues to drop. But the rigs taken offline are mostly old vertical drillers that drill only one hole per platform, while horizontal rigs -- able to drill 20 to 30 wells per platform like the spokes of a wheel -- increasingly dominate. So output per working rig is accelerating.

At the same time, global economic growth, and therefore demand for oil, is weak. China, that giant consumer of oil and other commodities, is shifting to services from manufacturing and infrastructure spending. Energy conservation measures in the West are curbing oil demand. And technological advances in fracking, horizontal drilling, deep-water and Arctic drilling will boost non-OPEC supplies to as high as 58.6 million barrels per day this year from 58.1 million in 2015.

And don’t forget the crucial influence of inventories on prices. After all, with global output exceeding demand, the extra crude goes into storage. And when the storage facilities are full, the surplus will be dumped on the market to the detriment of prices.

Cushing, Oklahoma, the delivery point for determining the price of West Texas Intermediate, is nearing full storage capacity; the same is true for the Amsterdam-Rotterdam-Antwerp region, the oil gateway to Europe. China is running out of capacity for commercial and strategic reserves. Globally, crude oil inventories have jumped to record levels, with a leap of 370 million barrels since January 2014.

Surplus oil is also being stored on ships, even though so-called floating storage costs $1.13 per barrel per month compared with 40 cents in Cushing and 25 cents per month in underground salt caverns, like those used for the U.S. Strategic Petroleum Reserve. Furthermore, as low oil prices have made shipping by train unprofitable, rail tank cars are being utilized, with so-called rolling storage costing about 50 cents per barrel per month.

So what will trigger renewed price declines? Excess production will end up being dumped onto the market. Pressure from lenders on financially-weak energy borrowers will force them to produce as much oil and gas as possible to service their debts.

The likely continuing rise of the safe-haven dollar against the currencies of developing economies will hype the cost of imported oil -- universally priced in the U.S. currency -- further curbing demand. Finally, the likely slowing of global economic growth and oil demand in reaction to the U.K. decision to leave the European Union reinforces my pessimism. An oil price drop to below $20 per barrel would be a shock reminiscent of the dotcom collapse in the late 1990s and the subprime mortgage debacle that produced the 2008 financial crisis -- both of which triggered recessions.

Of course, oil prices would not stay in the $10 to $20 barrel range indefinitely; recession would squeeze out excess energy production and prices would recover, likely to the average cost of new production. But the deflation that might accompany a worldwide economic downturn might mean the new equilibrium price for oil is between $40 and $50 a barrel -- well below the $82 average in the first half of this decade, and lower than the assumptions in the business plans of energy producers.

Slovak-Polish pipe advances as Gazprom calms Eustream

ICIS, *01.07.2016*

Capacity at the proposed Polish-Slovak natural gas interconnector will be sold in a binding open season in late July or early August, according to Slovak transmission system operator Eustream.

The announcement was followed by Eustream stating it had received assurances from Russian supplier Gazprom that its network will continue to be used in the long term, even if Nord Stream 2 is built. It is unclear if the two statements are connected. Eustream and its Polish counterpart GAZ-SYSTEM are currently in the final stages of preparing the rules for the open season, the statement read.

The pipe, which could be operational by 2021, would be capable of annually flowing 4.7 billion cubic metres (bcm) towards Slovakia and 5.7bcm into Poland. Domestic upgrades to the network in southeastern Poland would be also necessary for the 158km interconnector to function.

If the 12 million cubic metres (mcm)/day of capacity flowing from Poland to Slovakia comes online, it would open up the LNG market for Slovakia with Poland's new Swinoujscie LNG terminal, which has a 15mcm/day regasification capacity.

The new interconnector will also grant traders active on the Polish market access to supply from the Caspian Sea. The Polish-Slovak interconnector will form part of the North-South corridor, an EU-backed gas interconnection project that aims to increase security of supply in eastern Europe.

The Polish-Slovak pipeline, which was first conceived in 2011, is on the European Commission's projects of common interest list, which can speed up financing and cut red tape. The announcement of the open season was followed by the Slovak TSO stating it had discussed with Gazprom the implication of the Nord Stream 2 being built and how that would impact flows through the central European corridor.

It said: "Eustream welcomes the assurance from Gazprothat Slovak gas transmission system as well as the Czech gas transmission system will be used in [the] long term, even if Nord Stream 2 is built."

"Eustream also highly appreciates the understanding between both parties that the entry point from Ukraine to Slovakia shall remain fully functional even if Nord Stream 2 is commissioned," it added. Nord Stream 2 would flow gas from Russia directly to Germany, where it would then be transferred to EUGAL, which is another proposed pipe that would run from the Baltic Sea to the Czech Republic.

However, if Nord Stream 2 was to replace the traditional route via Ukraine, shippers would be keen to not be the last capacity holders on traditional routes as rising tariffs would force the remaining shippers to shoulder the entire transportation cost.

"One of the unspoken things is that alternative routes to Europe impose an additional cost on traditional pipelines," Doug Wood, gas committee chairman at the European Federation of Energy Traders told ICIS. Eustream's comments could imply that volume delivered via Nord Stream 2 could in part be delivered onward from the Czech Republic to Slovakia and then into Poland.

Russia's oil production won't falter

Forbes, *29.06.2016*

One recent headline from RT had me shaking my head: "Running on empty: Russia has less than three decades of oil remaining." Yogi was right: "It's deja vu all over again." Remember Energy Minister Victor Khristenko's warning in 2005 that Russian oil production "will reach a certain plateau of production within the time frame of 2010."

Remember the now defunct Oil Drum's headline back in 2008: "Russia's Oil Production is About to Peak."?"We now see production peaked last year," Mikhail Kroutikhin, editor in chief of the Russian Petroleum Investor, told the BBC in 2008. Yet, even amid recently falling prices…

Russia's oil production has continued to increase, up 12% since that falsely claimed peak in 2007. One reason for these continuously false predictions is the obsession with "proven reserves," which are simply just current, always in flux counts of the much larger resource. And people often forget that as technologies evolve the "unconventional" becomes the "conventional," as a widening "de-conventionalization" of the global liquids supply continues to take hold. Crude oil actually now accounts for 81% of global liquids supply, when it was 89% in 2000.

Thus, we exhibit a very low capacity to fully appreciate how much oil a country really has. Russia's proven oil reserves are now up over 80 billion barrels, compared to 60 billion in 2008 and 50 billion in 2000. The most recent growth in reserves and production are very telling because they've occurred in an unusually low price environment, which has the effect of reducing, not increasing, these totals. The "peak oil" thesis like the RT headline that gives a specific number of years that a country has left to produce oil continues to be proven dramatically very wrong.

Since 2000, Russia's proven oil has INCREASED by 30 billion barrels, despite the extraction of over 56 billion barrels. (Also showing this low level thinking that has become too pervasive in our energy-environment discussion, a 2014 USA Today headline: "The world has 53.3 years of oil left").

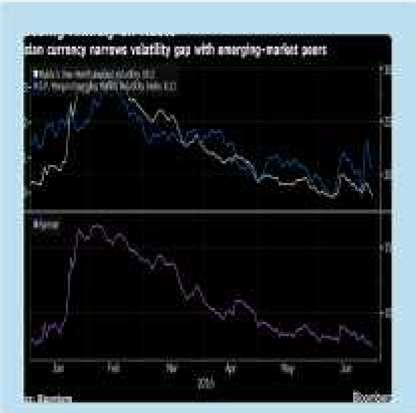
Russia now consumes about 3.5 million b/d, and the country has very low incremental needs for more. Already exporting nearly 15% of the world's oil, Russia's future oil production is becoming increasingly important.

Russia's oil sector today does indeed face a variety of problems. Sunken prices that will mean higher taxes, aging infrastructure, and limits to key oil technologies because of the sanctions imposed on Russia over Ukraine are wrecking havoc. The government has been making adjustments (here), but apparently still needs $82 oil to balance its budget. Even better, "Russia sees oil price of $45-$50 per barrel 'acceptable."

As perhaps the most hydrocarbon rich country in the world, Russia will remain an oil and gas powerhouse. It simply has to: oil and gas comprise over 60% of Russia's exports and make up over 30% of the country's GDP. Oil (25%) and gas (55%) supply 80% of Russia's total energy. Hydrocarbon revenues account for more than 50% of the federal budget revenues.

Russia's ruble bucks oil advance as Nomura says funds hit limits

Bloomberg, *29.06.2016*



Russia's ruble failed to keep pace with gains in crude as Nomura International Plc said funds are hitting their limit for bets that the currency will strengthen. The currency strengthened 0.4 percent to 63.860 against the dollar in Moscow even as Brent crude jumped 2.5 percent as U.S. crude inventories declined.

Bonds fell as the government auctioned local-currency notes, while stocks climbed. While the rebound in crude has helped the currency climb the most in markets after Brazil's real this year, Russia's finance minister said this month the country isn't "interested" in a stronger exchange rate.

The rally has left investors pondering whether any future appreciation is likely as they meet a cap for exposure, according to Nomura. "The ruble is having a difficult time rallying from these levels because positioning is already quite heavy and also because the market understands that the policy makers are not keen to have a stronger ruble," said Dmitri Petrov, an analyst at Nomura in London. "People are already long to their allocation limits." The Micex index of stocks gained 1.3 percent, rising for a second day, while five-year bonds fell, pushing the yield up three basis points to 8.75 percent.

The Finance Ministry sold all 8.15 billion rubles of August 2021 fixed-coupon OFZ bonds, with orders exceeding the amount offered by two-to-one. The ministry also sold 12.4 billion rubles of May 2019 fixed-coupon OFZs.

The government has now effectively fulfilled a 270 billion-ruble borrowing target for the second quarter running, having sold 269.08 billion rubles over the last three months. Alexei Egorov, an analyst at Moscow-based Promsvyazbank, said sanctions imposed over the Kremlin's role in the Ukraine crisis two years ago have insulated Russia from the impact of Britain's decision to leave the EU. The ruble is up 3.7 percent this month, the most in emerging Europe, data compiled by Bloomberg show.

"The ruble got lucky in June," Egorov said. "It wasn't hit nearly as hard as other emerging-market currencies by the Brexit volatility because there just isn't a lot of foreign capital left in Russia." Egorov says the ruble should be trading as strong as 62 against the dollar with oil at current prices. He's expecting the Russian currency to continue its advance in July before weakening in August.

Brexit, US LNG and Panama Canal

Natural Gas Europe, *01.07.2016*

Britain's Jreferendum on whether to leave the EU, and the resulting resignation of its pro-remain prime minister, has set in train the process for selecting his successor who will have to decide how best to implement withdrawal.

This is too long-winded a process for the heads of some other EU member states who say divorce is divorce, and are making the most of the confusion in the UK – its prime minister, David Cameron, has said he will have gone by October; and the main opposition leader, Labour's Jeremy Corbyn, has so far refused to leave despite the exodus of the shadow cabinet – to pressure it into hasty action.

They want it to invoke Article 50 of the EU treaty to kick-start the two-year process. A senior executive of a major French bank with UK activities said this week that the decision meant a difficult time not just for the UK but for Europe and the world and he was saddened by it.

However he also said he was certain that London would remain a very strong financial centre and he told NGE that it was not so much the volatility – which brings opportunities – as the instability that was worrying.

However, with the exception of loss of eligibility for certain funding grants and the weightier matter of Scotland also seeking again to withdraw from the UK – its economy is still running at a deficit, a problem that helped derail the Scottish independence referendum of 2014 – it is not clear that energy markets will be greatly affected by UK withdrawal.

Trade with the European Union means, as Norway and Russia have found out, following the EU's rules, such as the UK-influenced network codes and adherence to anti-trust legislation. Wholesale energy contracts will remain enforceable and the European Federation of Energy Traders said it "remained confident that decision-makers will find the right means to secure the continued inclusion of the UK in the EU single energy market….

We will continue promoting competition, transparency and open access in the UK energy sector as part of our regional spectrum irrespective of how the terms for the UK's continuing engagement with EU markets are finally formulated."

At a higher level, the president of the European Commission Jean-Claude Juncker insisted to the European parliament June 28 that it was 'business as usual', despite the surprise decision of the British public.

"We have launched a plan for the Energy Union. Do you really want — because everyone says 'things must change' without ever saying precisely what must change — do you really want us to put an end to this continental effort to sever our dependence on Russia and to safeguard energy supplies in Europe? No. We will carry on down this path."

Of course views and opinions in the European Union are far from uniform across the bloc; Germany has a more positive view on Nord Stream 2 and the need to retain some dependence on Russia than do the Baltic states, for example.

However if the UK withdrawal plan becomes clear and irreversible in the coming months that might give French EDF the excuse it needs not to proceed with the Hinkley Point C nuclear plant in the UK. No longer investing in another EU member state, EDF could argue it faces a bigger risk if it went ahead than before, although both governments say they are committed to it.

France is poised to inject €3bn into the company, which is 75% state-owned, late in July. Unions are in talks with management after which the final investment decision will be taken. Due on stream originally in 2017, now 2025 is the earliest start-up date for the plant, which might now rely on more Chinese money than at present. Nonetheless on June 28, French economy minister Emmanuel Macron – who has backed Hinkley Point C all along -- said his government is still backing the investment by EDF, despite the Brexit vote.

Plan B for the UK appears to be a combination of capacity markets and demand-side management, in order to reduce the threat of black-outs – a feature of British life not known since 1973, the year it joined what was then the European Economic Community. If it were outside the EU there would be less scrutiny of the measures that the UK adopted to meet its security of energy supply and carbon targets.

Across the Atlantic, the rise in US gas prices has given pause to the excitement about LNG exports, with August delivery at Henry Hub now around $2.80/mn Btu. This is despite the high level of storage, and reflects risk of continuing high air-conditioning demand. The higher it rises, the more export markets have to rise, or the sellers lose more money on their long-term contracts. Buyers in the UK will be affected though, as a weaker pound makes imports of all kinds of energy more expensive in local terms.

And with the announcements in the past week about the six-week halt in injections into the Rough storage site and the Dutch Groningen field having its annual output ceiling lowered by another 3bn m³ – subject to a public consultation starting July 1, it could go down to less than half its 2013 level – the European gas market might become more bullish than it has been.

Looking at the wider picture the widening of the Panama Canal will be able to shave tens of cents off exports that go to Asia borne on all but the Q-Flex and Q-Max vessels, according to the US Energy Information Administration.

"The newly expanded Panama Canal will be able to accommodate 90% of the world's current liquefied natural gas (LNG) tankers with LNG-carrying capacity up to 3.9bn ft³," it said June 30. Before, only 30 of the smallest LNG tankers – 6% of the current global fleet – with capacities up to 0.7bn ft³ could transit the canal.

This will have "significant implications for LNG trade, reducing travel time and transportation costs for LNG shipments from the US Gulf Coast to key markets in Asia and providing additional access to previously regionalized LNG markets," it said June 30.

"A transit from the US Gulf Coast through the Panama Canal to Japan will reduce voyage time to 20 days, compared with 34 days for voyages around the southern tip of Africa or 31 days if transiting through the Suez Canal." Journeys to the west coast of South America will also become a lot shorter.

The Panama Canal Authority has introduced new tolling fees designed to encourage additional LNG traffic through the Canal, especially for round trips. Transit costs through the Panama Canal for an average 3.5bn ft³ carrier are estimated at $0.20/mn Btu for a round-trip voyage, representing about 9% to 12% of the round-trip voyage cost to countries in northern Asia.

"Based on IHS data, the round trip voyage cost for ships traveling from the US Gulf Coast and transiting the Panama Canal to countries in northern Asia is estimated to be $0.30/mn Bu – $0.80/mn Btu lower than going through the Suez Canal and $0.20/mn Btu – $0.70/mn Btu lower than travelling around the southern tip of Africa.

LNG exports to India, Pakistan, and the Middle East are not expected to flow through the Panama Canal because alternative routes, either the Suez Canal or around the southern tip of Africa, have lower transportation costs." About 9.2bn ft³/day of US natural gas liquefaction capacity is either in operation or is being built.

If Trump wins, what looms for US LNG for Europe?

Natural Gas Europe, *29.06.2016*

All along most of the 2016 U.S. election trail the issues of energy policy have been conspicuously omitted by the frontrunners, instigating certain uneasiness among the industry actors, investors, trading intermediaries, stockbrokers, insurance agents and shippers.

Energy topped the agenda of a public rally and discourse in Bismark, North Dakota, bringing some relief to the interested parties noted for their divergent views on tapping the offshore oil deposits, widening the application of the fracking technologies, and above all, earmarking shale gas either for exports or for the domestic market.

The shades and twists of the U.S. energy policy in the time span of the next four years constitute a vital issue for the European Union. Any new accent or twist that U.S. export priorities might acquire make a lot of difference, in particular for the countries of Southeast Europe now being encouraged to place their bets and money on the steady if not necessarily cheap American LNG cargoes.

Finally, it was the Republican standard bearer, the flamboyant maverick who flies around the country on board his personal airplane – nicknamed “Trump Force One” – with 24-karatgold bathroom fixtures who has thrown his hat into the ring, which was basically shied by all other contenders from both camps vying for residence in the White House.

As a starter, it is worth to point out that Donald Trump sounded like a classical laissez-faire guru who is preaching non-interference and even withdrawal of the government from the economy, abandoning the current regulatory zeal of the Democrats, and leaving the show to be run by business itself.

“Energy independence is my policy, and I would say that is what we all want”, Trump said. He called on the federal government “to get out of the way” of the energy industry. It meant, among other things, that the enfant terrible of the Republican weird panopticon, the abrasive iconoclast, whom Mitt Romney, the failed nominee from 2012, accused of “absurd third grade theatrics”, opposes the Democrat’s craving to shut down or at least curtail to the minimum coal production.

It remains unknown whether Trump, if elected President of the U.S.A., would support the shipment of cheap American coal to Europe. Yet, there is a high probability he would do it to meet the expectations of a plethora of energy actors that are making hefty profits on the renaissance of dirty power generation on the other side of the Atlantic. If so, Europe must sigh with relief: it is assured of steady supplies of heavy-polluting substances for years to come. Unsurprisingly, Trump positioned himself as a friend of hydraulic fracturing, the root cause of the “shale boom” that brought the much-sought sustainability of the energy sector and its acquisition of a remarkable export potential.

Quote: “Through modern technology, we found out that we (the United States) are sitting on energy like no one would believe.” Quite expectedly, he used the opportunity to lambast his opponents from the other party:

“Hillary Clinton is going to ban fracking, Bernie Sanders is going to ban fracking... you do that you are going to be back in the Middle East begging for oil again,” Trump said. “That’s not going to happen, not with me.”

Not to alienate the “green” voters, Trump praised the renewables, notably solar power but added a few dissonance remarks, saying windmills in California are “killing hundreds and hundreds of eagles. Plus it is very, very expensive and doesn’t work without a subsidy.”

Going back to fracking, it is noteworthy that Trump’s counsellors must have briefed him properly. He showed awareness that under the present oil low-price environment new drilling has almost come to a halt, while marginal shale gas companies struggle to survive, and even bigger fish like Chesapeake Energy Corporation are looking shaky having to settle royalty lawsuits and sell assets to keep afloat.

Trump probably had this background in his mind when he pledged to the responsive audience in North Dakota to endorse policies assisting the price for WTI to climb back to $50 per barrel.

It was rather predictable. Robert Rapier, a chemical engineer with 20 years of international engineering experience in the energy business, the author of Power Plays: Energy Options in the Age of Peak Oil, noted the difference of the two parties on these issues.

“Democrats and Republicans tend to advocate very different energy policies. Republicans are friendlier to the oil and gas industry, while Democrats generally lean toward renewables. We saw this play out in the spending bill adopted at the end of 2015, when Republicans won an end to the crude oil export ban in exchange for an extension of tax credits for wind and solar power,” Mr. Rapier wrote recently in the Energy Post.

Basically, the energy aspect of Trump’s “America First” motivation amounts to total energy independence, which has already liberated U.S. foreign policy of the necessity to be sensitive to the whims and ambitions of theKingdom of Saudi Arabia. Trump wants to revitalise domestic energy sector for it to contribute to a steadfast revenues’ flow to the federal budget thus cutting deficit and providing jobs.

Given Trump’s focus on bringing home all of it, like bringing the bacon home and “bringing boys back home by Christmas”, and also repatriating production facilities and investment, it is all too probable that the extravagant billionaire, who challenges certain segments of the U.S. establishment, would be all too eager to push up oil prices to make it once again expedient to drill for shale and raise the margin of profit for domestic energy producers. It is highly likely that President Trump would not stop short of taking a hard-line approach toward OPEC and Saudi Arabia and the rest of it. He would be a hard-nosed ruler ready to rough any of the adversaries or vocal opponents who might come in the way of the new American Dream, rebranded by Trump to “America First” – it has a worrisome prospect that under certain circumstances Europe would find itself on the receiving end.

The diminished dependence on imported oil (cut by almost 70%) has made Trump gloat gleefully at the perspective of achieving full energy independence. As Gary Hart correctly intoned in his article on the ABO - About Oil portal, “Just a few short years ago the United States could not have undertaken nuclear negotiations leading to the lifting of economic sanctions against Iran for fear of alienating the Kingdom of Saudi Arabia, upon which we have been so dependent for oil supplies.” Trump is the one who would capitalize on partially parting with the uncomfortable donor of desert oil.

In sum, the stance taken on energy issues by the winner of the Republican primaries is more or less clear. Some sticking points remain like Trump’s claim that oil price slump is a totally “self-inflicted” problem and he is resolute to deal with it through his policy of “complete American energy independence.”

In fact, it sounds rather confusing. It does not provide any hint what tools and methods would be applied by the possible new US President to push up domestic oil prices if he has advocated the federal government “to get out of the way” of the energy sector.

But, supposedly, the US administration under Donald Trump somehow manages to seduce oil prices to grow, say, up to $50 per barrel or more, which will make prospecting, drilling and production of shale oil and gas once again a most profitable enterprise. It might fit well into the concept “America First” but might not bode well with the unarticulated slogan “Europe First”.

Here is the list of simple questions that have no answers so far: How exactly would it translate into the end price of US LNG shipped to end-consumers in Europe? How will it be reflected in the final bills? For instance, will the Greek clients “on the receiving end”, that is at the LNG Terminal in Alexandroupolis be happy with what they get?

Trump has not assured a resident’s permit at the White House but he has already secured a place in contemporary American politics, having influenced the political agenda, including the intellectual discourse and also down-to-earth debates on energy issues. The controversies and vagueness of some of his pledges makes it a must for the Europeans to keep a close watch on the “America First” guy.

US LNG margins to Europe developing as curve prices rise

ICIS, *24.06.2016*

The economics of shipping US LNG to Europe are becoming increasingly favourable as circumstances have conspired to push up forward gas prices in Europe.

The NBP Winter contract surged 8% session on session to $6.411/MMBtu on the back of news about a full and immediate 42-day restriction on injections into Britain's biggest storage facility, Rough. The cost of gas for Winter '16 delivery at the NBP would be big enough to cover not only the typical feedgas element of US LNG exports but also the $2.25/MMBtu liquefaction tolling fee written into the first offtake agreement between Cheniere and Shell, and the cost to Europe.

Find the blue bubble representing this development in the visualisation below. The spread between forward gas prices at the Henry Hub and in Europe only serves as a guide to the profitability of future exports, as contractual cargoes lifted from Sabine Pass are linked to the Henry Hub settlement price for the month in which the cargo's delivery window is scheduled to begin.The chances of seeing US LNG cargoes arriving in northwest Europe even sooner have also increased.The ICIS free-on-board (FOB) price assessment for the US Gulf has frequently slipped below the NBP front month since it was launched in May. The NBP front month is yet to pull clear of the ICIS US FOB price when shipping costs are factored in, however.

The FOB price is formed from direct input from market participants, and in the absence of firm transactions, bids and offers are considered. Until more liquidity develops, the US FOB price assessment also includes a netback element from the highest spot delivered ex-ship (DES) price in the Atlantic Basin.

Key contracts on the TTF curve have also climbed in recent sessions, but remain at a discount to the NBP and are therefore moving into 'into-the-money' territory at a slower pace. On the front month, the TTF did hold a bigger premium to the ICIS US FOB assessment than the NBP. The Rough storage outage has cut injections of gas in Britain creating a short-term surplus of gas that has applied pressure to the prompt and front-month contracts at the NBP in particular.

The decision to flow US LNG towards Europe is not solely dependent on favourable profit margins to northwest European hubs, but also on how competitive European hubs are versus other global LNG import destinations. At present, destinations such as Bahia Blanca in Argentina and Hazira in India still offer US exporters a better return.

European hub prices are likely to remain volatile in the short term as the market digests the implications of the recently confirmed Brexit and awaits news regarding future Groningen production caps. The arbitrage for US LNG exports to Europe may be set for further swings in the coming sessions.

North American leaders sign bold clean energy pledge

AA Energy Terminal, *30.06.2016*

Canadian Prime Minister Justin Trudeau, U.S. President Barack Obama and Mexican President Enrique Pena Nieto on Wednesday met in Canada for the North American Leaders' Summit, where the trio decided on sweeping energy goals.

The trio pledged in a joint statement to use "clean power generation" to produce 50 percent of North America's energy by 2025. Trudeau, Obama and Nieto noted that solar, hydropower, wind and nuclear energy are renewable energy sources, while fossil fuels and coal – energy sources that contribute to human-driven global warming – are methods that need to be diminished.

The White House estimates North America currently draws 37 percent of its energy from renewable sources. According to the Global Carbon Atlas, a non-governmental organization dedicated to environmental research, North America is ranked second among continents for carbon dioxide emissions, a byproduct of fossil fuels that are largely considered the major driver of climate change. Asia, with major fuel consumers including China, India and Russia, is the only continent that emits more carbon dioxide.

"Together, we estimate that the development of current and future projects and policies to achieve this goal will create thousands of clean jobs and support of our vision for a clean growth economy," the trio said in the statement.

Large scale cross-border clean energy transmission projects are a major focus of the leaders' goal. Three such projects were specified: one that connects Quebec and New England, one between Manitoba to Minnesota and one from Texas to Mexico. Another part of the pledge aimed to power 100 percent of government operations using renewable energy in all three countries by 2025.

Oil rises on tightening stockpiles, broad market recovery

WSJ, *29.06.2016*

C U.S. oil prices made their largest gains in one session since early April as falling U.S. stockpiles and a broader market rebound sent traders back into crude and many other commodities.

Crude stockpiles fell by 4.1 million barrels in the week ended Friday, double what analysts had forecast in a survey by The Wall Street Journal. The U.S. Energy Information Administration also reported declines in U.S. production, in stockpiles at the key crude delivery hub of Cushing, Okla., and in distillate stockpiles, which include heating oil and diesel.

The market has been on its strongest rally since the financial crisis—nearly doubling since a decade low in February—as traders bet that supply outages and falling production will help resolve a longstanding glut. Analysts and brokers warned that resolution is still far off and that last week's drawdown still left stockpiles near records. But they also said it was clear traders weren't heading those warnings.

"There are clearly enough traders still willing to buy weakness, buy the dip," said Tim Evans, analyst at Citi Futures Perspective in New York. Supply and demand "might become tighter—later on, later this year or next year.… That's the bet."

U.S. crude oil for August delivery settled up $2.03, or 4.2%, at $49.88 a barrel on the New York Mercantile Exchange. It was the largest one-day gain since the second week of April and took the price to within 25 cents of its three-week high. Brent crude, the global benchmark, gained $2.03, or 4.2%, to $50.61 a barrel on ICE Futures Europe. Oil's advance accelerated late Tuesday when the American Petroleum Institute estimated a 3.9 million barrel draw in crude stocks. The EIA confirmed that fall in crude and reported that total commercial oil stockpiles fell by 1 million barrels to 1.372 billion barrels, the sixth drawdown in the last eight weeks.

"Attention is now being focused more on the fundamental data again, which point to a tighter oil supply," Germany-based Commerzbank said in a note. But oil has also been helped by a broad-based market recovery from last week's Brexit vote, brokers and analysts said. The U.K.'s vote to leave the European Union had shocked investors into selling off riskier assets and buying traditional haven assets including the dollar. But the dollar fell sharply Wednesday—often a help for oil—and investors are diving back into stocks and commodities, all showing broad gains.

The Wall Street Journal Dollar Index, which tracks the dollar against a basket of other currencies, fell 0.5%. Oil and other dollar-denominated currencies often rise in price as the dollar falls because they become more affordable for traders who are using other currencies.

The S&P GSCI index, which tracks the prices of 24 commodities, is up 1.9%. The Dow Jones Industrial Average rose 250 points, or 1.4%, to 17659. The S&P 500 gained 1.6%, and the Nasdaq Composite rose 1.8%. In Europe, shares rose across the board, with the Stoxx Europe 600 advancing 3.1%, London's FTSE 100 gaining 3.6%, and France's CAC 40 rising 2.6%. "The weak dollar is supporting everything," said Jim Ritterbusch, president of energy-advisory firm Ritterbusch & Associates. "That's what it's all about.… We have this broad-based increase in risk appetite and oil is following along with it."

Saudi Aramco cuts all August oil prices for US, Asian clients

Bloomberg, *30.06.2016*

Saudi Arabia, the world's largest crude exporter, cut all official selling prices for its crude sales to Asian and U.S. clients in August.

State-owned Saudi Arabian Oil Co. lowered its official selling price for Arab Light crude to Asia by 40 cents to a premium of 20 cents a barrel above a regional benchmark, the company known as Saudi Aramco said. The company had been expected to cut the premium for shipments of Arab Light crude by 25 cents to 35 cents a barrel more than the benchmark for buyers in Asia, according to the median estimate in a Bloomberg survey.

Brent crude has dropped more than 35 percent since Saudi Arabia led a 2014 decision by the Organization of Petroleum Exporting Countries to maintain production to drive out higher-cost producers. The group decided to stick to its policy of unfettered production at its June 2 meeting in Vienna, with ministers united in their optimism that global oil markets are improving.

Saudi Arabia considers the global oil glut to be over, its Energy Minister Khalid Al-Falih told the Houston Chronicle in an interview this month. The comments echo views of the International Energy Agency, which said on June 14 that the crude market will be balanced in the second half.

All other official selling prices for Asian clients were also reduced, the statement showed. The biggest cut was by 90 cents a barrel for Extra Light, to a premium of $1.70 a barrel above an Oman/Dubai benchmark. U.S. prices were all lowered compared with July. Again, the largest reduction was Extra Light. Its premium was lowered to $1.70 a barrel above its benchmark, compared with $2.10 for July.

Middle Eastern producers are competing with cargoes from Latin America, North Africa and Russia for buyers in Asia, its largest market. Producers in the Persian Gulf region sell mostly under long-term contracts to refiners. Most of the Gulf's state oil companies price their crude at a premium or discount to a benchmark. For Asia the benchmark is the average of Oman and Dubai oil grades.

Announcements & Reports

► *Energy and Air Polllution*

Source : IEA
Weblink : http://www.iea.org/publications/freepublications/publication/WorldEnergyOutlookSpecialReport2016EnergyandAirPollution.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

► *FSRU Asia Summit*

Date : 06 – 07 September 2016
Place : Amara Sanctuary Resort Sentosa, Singapore
Website : http://www.fsrusummit.com/

► *Operational Excellence in Oil and Gas Europe*

Date : 19 – 21 September 2016
Place : London, UK
Website : http://www.opexinoilandgasemea.com/

► *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 Greek Cyprus Energy Symposium*

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