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Iran wants to increase gas exports to 'brother' Turkey

AA Energy Terminal, *08.09.2016*

Iran wants to increase its natural gas exports to Turkey, according to Mansour Moazami, Deputy Minister of Industry, Mine and Trade of Iran. Moazami, who is also former managing-director of the National Iranian Gas Company and former deputy oil minister told any impending negotiations between Turkey and Iran will focus on gas prices.

"We want to increase our gas exports to our neighbor, friend and brother Turkey," he said. "I hope we can solve this matter because the price is negotiable for both sides. We are going to negotiate and try to solve it [to our mutual benefit] and I'm sure we will increase all exports to Turkey," he said.

In line with Iran's aim to regain its footing in the energy market, Moazami explained that Iran similarly wants to increase oil production. During the sanctions period, Iran's production could not be increased and it consequently could not expand its market share.

"After the sanctions, we want all rights. We don't have any problems [with customers] in the oil trade. Our traditional customers want to increase imports from Iran. We have good customers, and after all sanctions were removed, we started to negotiate increasing our oil exports," he said.

With Iran's enhanced facilities to boost oil production, it wants to increase crude production from its current level of 3.8 million barrels to 4 million barrels per day by the end of this year. "We are going to decrease our local consumption. According to our own data, domestic consumption will increase to 2 million barrels per day within five years. It means that we will have one million barrels extra for exports," he noted.

Moazami said that he does not think a production freeze decision will be made at OPEC's informal meeting on Sept. 26 to 28, 2016 in Algeria. "I don't think an OPEC production freeze is possible. Because you can see the supply, demand and the economic dynamics in the world. Everything is normal," he said, adding that he also does not expect an increase in oil prices.

With high expectations for the outcome of the OPEC meeting, oil prices spiked to its peak level of $49.40 from $46.70 on Monday, but later settled lower at $47.63 after a mutual statement between Saudi Arabia and Russia to cooperate in global oil markets, failed to live up to the hype. The global benchmark Brent oil is trading at $48.81 at 08:17 GMT on Thursday.

"We want to increase the oil prices but the reality is different and it's very difficult. I was working for the Ministry of Petroleum for more than 31 years. It's hard to tell the real price of oil because it is very difficult with estimations, and it depends on many elements and factors," he added.

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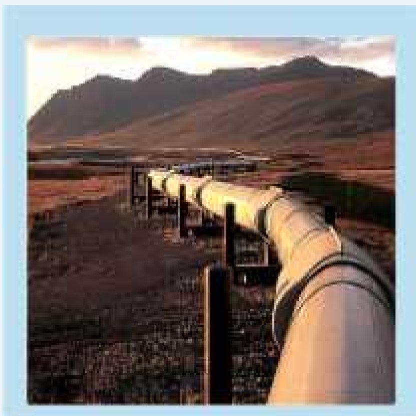
The most recent formal meeting of OPEC was held in Vienna in June following the Doha meeting in April to discuss freezing oil output. However, both meetings met with failure to agree on freezing oil production at January 2016 levels to shore up prices.

Iran did not join the previous production freeze attempt in April as it wants to maximize its oil output after the lifting of sanctions following the nuclear deal between Tehran and P5 +1 countries signed in July last year.

Turkey's offshore gas is waiting to be explored

AA Energy Terminal, *04.09.2016*



Turkey's offshore reserves could become a future source of oil supply, but not in short to medium term, Mehmet Ogutcu, chairman of the Global Resources Partnership, U.K., said.

Ogutcu, who is a former Turkish diplomat and senior executive with the IEA and the BG Group, explained that, although having untapped hydrocarbon resources, Turkey is geographically close to 72 percent of the world's proven oil and gas resources, and thus commands major chokepoints and transit routes for energy shipments between key energy-producing areas in Russia, the Caspian Sea basin, the Middle East and high-value European consumer markets.

"Turkey has the potential to become the 'Energy Silk Road of the 21st century'," Ogutcu said. "Yet, despite its prime location, this country has only drilled 4,400 wells since 1940, compared to over 1.5 million in Texas. In other words, its territory remains almost entirely untapped. Turkey's oil reserves right now are estimated to be around 40-45 million tons," he explained.

With current consumption as it is, those reserves will not last longer than 20 years, according to Ogutcu. "Even though Saudi Arabia and Turkey have an equal number of operating wells, the former produces nine million barrels per day (bpd) of oil, while Turkey produces 45,000 bpd, necessitating imports for 93 percent of its oil requirements.

There is a strong need to produce more and competitively from its own acreages as well as import at the most favorable cost from global markets, ideally from its nearby oil-rich neighbors," he suggests.

However, he underlined that Turkey should not persist in producing domestically from its on shore or offshore fields at any cost, particularly at a time when oil prices are low and supplies are abundant. "Self-sufficiency and geopolitical realities are important, but let's not forget that oil is a fungible commodity and can be sourced globally from anywhere so long as you have a deep sea port to receive oil tankers.

Turkey has no doubt some internationally recognized offshore potential. The question is whether it is worth exploring and extracting in the current juncture. If oil prices, now hovering around $50, go above $100 a barrel, then it is justifiable to step up domestic exploration," Ogutcu explained.

Despite the steady continuation of Turkey's Black Sea operations, which reportedly contains up to 10 billion barrels of oil, Ogutcu said that Turkey's priority has been focused on the transportation and trading of oil and gas with the aim of becoming an energy hub, rather than extracting domestic resources.

"Turkey tried to do the same [exploration and drilling] in the Mediterranean, especially after Israel, Egypt and Greek Cyprus found the gas in East Med, especially off Northern Cyprus and between the Cypriot island and the mainland. There could also be significant reserves beneath the Aegean Sea, although this has not been confirmed because of ongoing territorial disputes with Greece," he noted.

Emphasizing the hefty expense in offshore oil extraction, he argued that many big majors are avoiding or postponing new investments in the current low price environment. Furthermore, he expects oil companies in the short term to be more selective with projects and drilling schedules. "New projects may be suspended simply because, with such low oil prices, they are not worth it," he underlined.

In such circumstances, he suggests that Turkey focus on importing oil from its neighbors at discounted prices and invest in domestic onshore and offshore fields but only if it is financially viable.

Additionally, he recommended that Turkey explore opportunities to acquire distressed oil and gas assets and companies in producing countries where extraction costs are relatively low and access to high value international markets is possible such as in Iraq, Libya, Russia, Kazakhstan, Iran, Egypt, Azerbaijan and East Africa.

"It [Turkey] can also work towards becoming a regional hub which combines transportation as well as legal, institutional and financial infrastructure," he added. Dr Sohbet Karbuz, director of hydrocarbons at the Observation for Mediterranean Energy said that despite the negative drilling results in both the Black Sea and the Mediterranean so far, seismic studies however insufficient, reveal good potential for Turkey.

"However, the current market environment and low energy prices put a constraint in exploration activities which is very costly. Today to drill a deep offshore well costs over $100 million. This is why companies generally prefer to intensify their efforts in hotter spots where they can get bigger rewards. Therefore we need to be more proactive in attracting foreign investors," he explained.

Karbuz also said although Turkey is not endowed with oil and gas like some of its neighbors, insufficient exploration to date raises hopes for future discoveries. "Exploration activities in Turkey have never been sufficient, especially offshore. Today the country remains largely under-explored and under-exploited with regards to both conventional and unconventional prospects. So far 20 percent of land areas and one percent of water areas have been explored in terms of both seismic surveys and drilling," he noted.

There is a great opportunity to deploy modern technology for oil and gas exploration, especially deep offshore areas, as well as in using advanced technologies in areas that previously have not been considered prospective, according to Karbuz.

“Contrary to common clichés, I do not believe that we know the geology of Turkey well enough. If a considerable amount of oil and/or gas is found offshore Turkey, it would surely be a game changer both for Turkey and for the region,” he said.

The advantages of such an oil and natural gas discovery in offshore Turkey would act as a catalyst to directly improve the country’s energy supply security and reduce the economic burden of oil and gas imports, according to Karbuz.

“It would contribute towards Turkey’s ambition of becoming an oil and gas trading hub. It would also help develop and attract oil and gas export infrastructure projects. Finally, it would have significant geopolitical implications, most probably reshaping Turkey’s role, power and position on the international scene,” he concluded.

Gazprom’s Turkish Stream gains first Turkish permits

Natural Gas Europe, *08.09.2016*

Turkey has awarded Russian gas exporter Gazprom the first permits it requires for the development of the 31.5bn m³/yr Turkish Stream gas pipeline via Turkey, Gazprom announced.

According to the statement Gazprom has received the permits “through appropriate diplomatic channels” following a meeting last week between Gazprom CEO Alexei Miller and Turkish energy minister Berat Albayrak. Gazprom referred to the meeting as having seen the two sides reach an agreement to finalise quickly all the necessary procedures for initiating the project and quoted Miller as stating:

“The issuance of first permits is good news for Gazprom. This move of the Turkish side reflects the interest of Turkey’s government in the Turkish Stream project and marks the transition to its practical implementation,” Gazprom said.

Following last week’s meeting Gazprom announced that the two sides had reached an agreement on the “earliest possible completion of the procedure for issuing authorizations” to enable the work on Turkish Stream to start. Both Gazprom’s Turkish representative and Turkish energy ministry officials were unavailable September 8 to confirm exactly what sort of permits had been issued. However they are likely to relate to the conducting of feasibility studies for the final section of pipeline running through Turkey’s European Black Sea Exclusive Economic Zone (EEZ) and territorial waters and the section running overland through Turkey’s European province of Thrace.

The main part of the offshore section of the line running through Turkey's Black Sea EEZ was previously approved under Gazprom's now abandoned project for a 63bn m³/yr South Stream pipeline across the Black Sea and through Bulgaria.

Gazprom last year completed an environmental impact assessment (EIA) report for the offshore and landfall sections of the new Turkish Stream project which was submitted to Turkey's environment ministry for vetting.

Although the ministry web site indicates that the public consultation process for the project has been completed, as yet the EIA report has not received official approval. No EIA report has yet been submitted for the overland section of the line owing to a succession of bureaucratic and political delays, stemming from the need for the two countries to conclude an intergovernmental agreement for the line before they finalise the overland route. Turkish media reported recently that Gazprom has started surveying land in Thrace.

Russian gas travels south

Daily Sabah, *08.09.2016*

Let's call a spade a spade: Turkey is an energy dependent country while Russia is by far its largest natural gas supplier. Neighboring the gas- and oil-rich Iraq and Iran, Turkey itself is short of commercial deposits of natural gas and relies on imported gas almost totally.

Around 27 bcm of natural gas per year comes to Turkey from Russia. Russian deliveries experienced a sharp increase in 2011 reaching 26 bcm. Two pipelines bring Russian natural gas to Turkey. They are the Blue Stream running across the Black Sea and Western Corridor that travels to Turkey through Ukraine, Moldova, Romania and Bulgaria.

While the transit-free Blue Stream brings its gas directly to Turkey avoiding potential transit related bottlenecks, the Transbalkan pipeline continuously generates concerns about stability on its 10 bcm a year gas deliveries.

The reason is the ongoing tension between Russia and Ukraine that has triggered the Russia-masterminded plan to fully stop the Ukrainian transit of natural gas to Europe by 2019 when the Russia-Ukraine transit agreement is due to expire. The closer the D-day, the higher the importance of constructing of a route safe from bottlenecks from Russia to Turkey to replace the Transbalkan pipeline.

In 2015, about 40 percent of Russian gas came to Turkey by the Transbalkan pipeline, while the other 60 percent was pumped through the Blue Stream. Russian gas imports last year totaled 27 bcm and nearly half went to electricity generation.

Ambitious as it sounds, Russia's plans to find a solution to gas imports to Europe bypassing Ukraine could truly come to life if an alternative route is created. In this pursuit, several years ago Russia masterminded a construction of the South Stream pipeline to cross the Black Sea from Anapa in Russia to Varna in Bulgaria free from transit risks of passing through Ukraine when carrying 63 bcm of natural gas a year to the EU.

Still, regardless of expectations enjoyed and efforts contributed, the project never took off due to Russia-EU disagreements and was shut down for good in autumn 2014. By that time, Russia's expense on aborted construction was already enormous: on pipelines alone it had spent about 2 billion euros.

The South Stream replacement didn't have to wait long to come and in the first days of December 2014 Turkey and Russia announced their plan to build a Black Sea submerged pipeline of a similar capacity of 63 bcm a year. Of them, 16 bcm of gas were to meet the Turkish market demand, while the other 47 bcm was to proceed to a mega gas storage unit at the Turkish-Greek border to supply the EU. The suggested four-line connector was to travel 900 km across the Black Sea bottom and have a land section of 180 km.

Called the Turkish Stream, the projected pipeline was met by the international community with surprise though seen as a promising development. Nevertheless, its negotiations almost immediately ran into difficulties and were put on stand-by in autumn 2015. After the Turkey-Russia jet crisis last November the project fell away, but instantly recovered when the country's leaders made peace in June. Today Turkish-Russian are booming. Energy co-operation, as their backbone, is speedily gaining momentum and the Turkish Stream is back to the negotiating table as a top priority project.

It may well be completed by the end of 2019, according to Russian Energy Minister Alexander Novak when interviewed at the G20 Summit in China. Following up on the August meeting between the presidents of Turkey and Russia in Saint Petersburg, the parties established a joint working group to prepare the Turkish Stream intergovernmental agreement to be signed this October.

The natural gas matters are of major importance for both Turkey and Russia. If Russian Gazprom and Ukrainian Naftogaz eventually fail to agree on an extension of their transit accords after 2019, Turkey will find itself short of 10 bcm of Russian gas per year currently pumped through the Transbalkan pipeline.

Six Turkish companies, namely Enerco Enerji, Avrasya Gaz, Bosphorus Gas, Shell Enerji, Bati Hatti and Kibar Enerji today use the Transbalkan capacity. Following up on the December 2014 agreement reached on the Turkish Stream construction, Gazprom granted them a 10 percent discount starting from Jan. 1, 2015, but arbitrarily took it back a year later amid the Turkish-Russian jet crisis.

As a result, Russian gas deliveries through the Transbalkan pipeline sharply declined by around 50 percent in February 2016, though returned back to normal by April when the parties agreed on a new price discount. No doubt, Turkey is a lucrative market for Russia in terms of gas sales. Between 2013 and 2015, Russia exported to Turkey roughly 27 bcm of gas per year to meet around 60 percent of Turkish demand.

By gas import volume, Turkey is only second to Germany. This makes both countries dependent on each other in terms of supply and demand and eventually natural partners. It also creates solid ground for the construction of a mega pipeline like the Turkish Stream.

Today it's apparent that the initial ambitious plan to pump 63 bcm a year to Turkey, build a four-line connector on the Turkish Stream and a major gas storage unit on the Turkish-Greek border requires modification.

The Turkish market will hardly need more than 14 bcm a year of Russian gas to come by a single line, which adds a cost burden on the Turkish Stream construction, making Russia quite unhappy. To meet the partner half way, Turkey has volunteered to share the Turkish Stream construction cost with Russia, which in return gives it an opening for a potential shareholding in the projected pipeline.

Not an EU member, Turkey is in a position to demonstrate better flexibility in energy matters that Russia never came to terms on with the EU in regard to the South Stream construction. During the past decade the Turkish energy police has experienced an impressive change and as a result the diversification of energy sources became an achieved result. Turkey's natural gas imports were expanded by contracted deliveries from Azerbaijan and Iran in parallel with an increase in volume of Russian gas deliveries.

Iran is second after Russia as a natural gas importer today accounting for a 10 percent share of the Turkish market by pumping about 10 bcm a year in line with the 1996 contract agreement. With sanctions removed, Iran is working to restore its position in the international oil and gas markets by raising their production levels. As such, it is likely to increase its market presence in Turkey as well.

From 2007, gas from Azerbaijan has been coming to Turkey by the South Caucasian Pipeline from Baku via Tbilisi to Erzurum. In 2015, construction of the Transatlantic pipeline system, TANAP was started from the Shah Deniz gas deposit in Azerbaijan through Georgia, Turkey, Greece and Albania to eventually deliver Azeri natural gas to southern Italy.

After its completion by 2018, Turkey will be receiving annually some additional 6 bcm of gas, while around 10 bcm will be going to Europe. The pipeline system capacity is envisaged to be extended up to 30 bcm a year in the future. As a result, the Azeri share of the Turkish gas market will continue to increase and its market position will grow stronger, while the anticipated diversification of Turkish gas imports will receive an additional boost.

Still, the Russian share of the Turkish gas market will continue exceeding by far that of Azerbaijan and Iran, and it doesn't look to be meaningfully go down in the near future regardless of the coming construction of the Akkuyu nuclear power plant to meet 10 percent of Turkey's energy demand and local development of renewable energy sources. Natural gas will remain the prime energy carrier in Turkey for the foreseeable future making the Turkish Stream construction highly beneficial for the country's economic development.

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Turkey, China strike nuclear energy agreement on sidelines of G-20 summit

Anadolu Agency, *03.09.2016*

Turkey and China signed three agreements covering nuclear security, energy and agricultural health certification during Turkish President Recep Tayyip Erdogan's visit ahead of the G-20 summit in the coastal Chinese city of Hangzhou.

The Turkish Atomic Energy Authority (TAEK) and National Nuclear Safety Administration of China undersigned a regulation on "Cooperaiton in Nuclear Safety" deal. Turkish Energy Minister Berat Albayrak and Chinese FM Wang Yi signed the agreement Russia is building Turkey's first nuclear plant, as a Japanese-French consortium has won the tender to build a second one in the north.

China is among countries interested in building a third plant. Albayrak signed another deal on cooperation on renewable enegry and coal. Turkish Deputy Prime Minister also signed a deal on pistachio plants.

Erdo an and his Chinese counterpart Xi Jinping held talks and presided over meetings between delegates from the two countries. Erdo an expressed hopes that Turkish-Chinese relations would be strengthened.

China is Turkey's third trade partner worldwide after Germany and Russia, and its first trade partner in the Far East, according to Ankara's Foreign Ministry. Erdo an arrived in Hangzhou on Sept. 3 for the 2016 G-20 summit, set to be held on Sept. 4 through Sept. 5. On the sidelines of the gathering, he is expected to hold meetings with Russian President Vladimir Putin and United States President Barack Obama.

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Gazprom CEO: Turkish Stream optimal choice for Europe

Daily Sabah, *06.09.2016*

Alexey Miller said central and southern European countries should apply to Turkey for their natural gas demands, adding that they should buy natural gas with the Turkish Stream pipeline which will run from Russia to Turkey, instead of the South Stream, which will be built in Bulgaria.

In a statement regarding the issuance of exploration permits that Russia requested from Turkey for gas pipeline passing through the Black Sea during President Erdo an's meeting with Russian counterpart Putin, Gazprom President Miller said the exploration permits are fully related to the Turkish Stream, and have no relevance to South Stream.

According to Miller, if European countries demand natural gas via the Turkish Stream pipeline, Turkey will provide the natural gas through its border with Greece. Therefore, European countries wishing to purchase natural gas can apply to Turkey.

In a statement regarding the nature of the bilateral meeting between President Erdo an and Russian leader Putin prior to the G20 Summit in China, the Kremlin Palace announced that Turkey requested the full elimination of sanctions on agricultural imports after the charter flight ban was lifted during the normalization process between the two countries.

Listing the subjects discussed by the two leaders, Putin's spokesperson Dmitry Peskov said three important issues came to the fore during the meeting; namely, the Turkish Stream natural gas pipeline project, Turkey's plans to purchase larger amounts of crude oil from Russia and the Akkuyu Nuclear Power Plant project. "Besides, in the scope of the normalization process between the two countries, Turkey brought up the lifting of the ban implemented by Russia on agricultural products as swiftly as possible and we promised that we will work in that direction," Peskov said.

During his visit to Turkey in December 2014, Putin announced that Moscow had scrapped the South Stream pipeline project that would have carried Russian natural gas to Europe via Bulgaria, replacing it with the planned Turkish Stream pipeline. The Turkish Stream is designed to carry natural gas to Europe over the Turkish-Greek border. The process of negotiations have accelerated and more concrete steps have begun to be taken by both countries since the meeting of Erdo an and Putin in St. Petersburg on Aug. 9.

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Kremlin: Russia's Putin, Turkey's Erdoğan support increased oil trade

Hurriyet Daily News, *05.09.2016*

Russian President Vladimir Putin and Turkish President Recep Tayyip Erdo an have expressed joint support for Russia's Rosneft increasing oil supplies to Turkey, Kremlin spokesman Dmitry Peskov said, as reported by Reuters.

The two leaders met on the sidelines of the G-20 Summit in the eastern Chinese city of Hangzhou. "There was support for the possibility of further developments of Russian oil supplies by Rosneft," Peskov said. "In addition, they spoke about Rosatom. It is known that the Turks have introduced the necessary amendments rather quickly that will allow to intensify the work on the Akkuyu NPP.

They also discussed the Turkish Stream; the case is, as many permissions and agreements were given for the South Stream route, now in fact only the name changes, and so there is the need to issue new permissions, this will speed up the process. There is a change in the name, not in the direction," he said, as quoted by Russian TASS late Sept. 4.

The Turkish colleagues also asked about lifting Russia's restrictions on agricultural products, according to the TASS report. "This work will continue," Peskov said, adding: "In general, the talks were rather positive and they confirmed the joint determination to further normalize relations."

Israel seeks to lure big oil and gas groups for rights auction

Financial Times, *04.09.2016*

Israel says some biggest oil and gas companies have expressed interest in forthcoming auction of exploration rights as the country attempts to restore confidence among investors after years of regulatory uncertainty. Yuval Steinitz will hold talks with potential Asian investors in Singapore this week after meetings in London last week.

Bids are due in November for 24 blocks being opened for drilling off the Israeli coast. The roadshow represents an attempted relaunch of Israel's natural gas resources among overseas investors after delays to the $6.5bn Leviathan offshore project led by Noble Energy and Delek.

The project was finally approved by the Israeli government in June after surviving an antitrust investigation and a Supreme Court challenge by opponents who claimed Noble and Delek would have too much control over the country's gas reserves. Uncertainty over Leviathan has deterred further investment in exploration but Mr Steinitz said the regulatory framework had now stabilised.

"Israel is back in business," he told the Financial Times. Interest in eastern Mediterranean gas has been fuelled by big finds in Egypt, where Eni of Italy and BP of the UK have committed to large developments this year. Cyprus is also thought to have significant untapped resources.

Mr Steinitz said the region was emerging as an important new source of gas for Europe as North Sea reserves decline. "If you want to be part of what's happening in the eastern Mediterranean, you need a presence in Israel," he said. "Most of the natural gas in Israeli economic waters is still to be found."

The latest geological surveys were presented at a conference in London last week and in Houston earlier this year. Once the Singapore wing is completed, most large and medium-sized oil and gas groups will have attended one of the presentations, Mr Steinitz said.

BP is among those known to have attended the London event but it and other companies contacted by the FT declined to comment on their potential interest. Analysts said the industry remained wary of Israel after the Leviathan delays and cautioned that attracting investment in exploration anywhere in the world was currently difficult with energy companies under pressure from low oil prices.

Israel is already self-sufficient in gas from its Tamar field, operated by Noble and Delek; Mr Steinitz said Leviathan and any further finds would be used for export. Deals have been struck with Egypt and Jordan for gas from Leviathan but the longer-term aim is to establish an export route to western Europe. Three main options are under consideration: shipping by sea from liquefied natural gas terminals in Egypt and potential pipelines through Turkey or through Cyprus and Greece.

The region's tense diplomatic relations could complicate the push to link eastern Mediterranean gas with international markets but Mr Steinitz said there was a strong incentive for co-operation. Israel had received more visits from Cypriot and Greek leaders in the past year than for decades previously, he added.

Can Israel get full benefit from its energy resources?

Globes, *05.09.2016*

Israelis are a debating people and even grand good fortune provokes controversy among them. So it has been with the discovery of large natural gas reserves within Israel's exclusive economic zone. The bonanza has given rise to a protracted series of political, regulatory and judicial disputes.

The quarrels revealed important misunderstandings about energy production and sale. That's not surprising, because Israel has for years been an energy-importing country. It now needs to change its perspective. The authors recently served on the Eastern Mediterranean focused on energy and security issues.

Cosponsored by Hudson Institute and the University of Haifa, the commission was politically and professionally diverse. It included former Senator Mary Landrieu (Democrat, Louisiana), who chaired the US Senate's Energy Committee; Charles Davidson, the former chief executive of Noble Energy Inc. (NYSE: NBL), the main developer of Israeli offshore gas; and Eytan Sheshinski, the Hebrew University economist who was instrumental in devising Israel's tax scheme for that gas.

It also included former chiefs of the US and Israeli navies: Admirals Gary Roughead and Ami Ayalon, former Israeli Ambassador to the United Nations Ron Prosor, former US Navy official Seth Cropsey and historian Arthur Herman.

Over the next 30 years, Israel's gas could generate more than $270 billion in revenues, over half of which would go to the public through royalties and taxes. It would allow Israel to reduce oil imports and cut its use of relatively high-polluting coal.

Israel could become an important energy-exporter. Building a domestic energy industry creates jobs and business opportunities for Israelis. Geological studies say that Israel may have additional large oil or gas deposits underneath the existing gas fields.

This is an important point that has not received enough attention. Whether there will be investor interest in those additional resources will depend on whether the known resources can be brought promptly into production and whether Israel's business environment is seen as hospitable and stable.

The Tamar gas field, found in 2009, already supplies more than half the needs of Israel Electric Corporation (IEC) (TASE: ELEC.B22) (to provide power to Israel and to the Palestinian Authority). The Leviathan gas field is estimated to be more than twice the size of Tamar.

Before its production can start, the developers need a completely final agreement with the government. The parties revised their agreement in May 2016 after the Israeli Supreme Court struck down their previous agreement over the government's promise not to make future regulatory changes, but major questions remain: Will the government ask the Knesset for approval?

And will the revised agreement be challenged in court? Meanwhile, Israel's Energy Minister has approved the Leviathan plan of development. Legal finality on the framework agreement is required before the developers can obtain financing.

Not all countries with large resources manage to benefit from them. The key is being able to attract investment continually. Where laws and policies make resource development too hard, the resources, however valuable, remain undeveloped.

However justified the regulatory concerns, delays in developing Israel's gas have spawned higher project costs and risks. The discovery of a large offshore gas field in Egyptian territory and falling global energy prices exemplify those risks.

Meanwhile, the gas producers' financial strength has diminished. Those producers will have more difficulty selling the two small offshore fields that Israeli regulators have required them to sell. Lower world natural gas prices have made export projects less attractive for investment. Access to project financing for energy projects has been substantially reduced and has become more costly.

How energy revenues should serve the citizens' wellbeing is a key question. But only if its resources are found, developed and marketed will a country face the welcome challenge of deciding how to spend such revenues.

Aspects of Israel's offshore energy development have been topics of intense public debate: anti-monopoly laws, taxation, exports, environmental concerns, regulatory stability, and how the government should manage and spend the gas revenues. Each of these issues has public importance and multiple interest groups advance divergent opinions about the best ways to proceed. None of the issues can be handled properly as a stand-alone policy question.

Optimal stewardship of natural resources aims to balance a number of goals: making use of known energy supplies, laying the foundation for finding more, safeguarding the country's reputation as a fair and reliable place for foreign investment, protecting environmental interests, capitalizing on diplomatic openings, taking advantage of domestic job and business opportunities, collecting taxes and using the revenues in society's best interest. Some of these concerns are in tension with others. Pursuing higher taxes, for example, could discourage investment. And excessive accommodation of developers could compromise national fiscal or environmental interests. No single consideration is paramount, though each interest group tends to insist that its particular interest deserves priority over the others.

Israel can benefit from its resources only if private parties choose to invest. Israel's energy challenge is to make the country attractive for capable and reliable firms willing to risk billions of dollars to find, develop and market these resources. Only private sources can efficiently cover the costs, manage the risks and supply the necessary technical expertise. The alternative model is that of Russia and Venezuela, notorious for mismanagement, corruption, and failure.

Natural gas development can be good for the environment in countries, like Israel, where gas replaces high-polluting coal or gasoline. Though damage to an offshore gas rig caused by accident or attack could do substantial harm, offshore gas production is less environmentally risky than offshore production of oil. Israel can use gas revenues to finance study of the marine environment to identify and mitigate risks.

A key lesson of recent history is that Israel should make its oil and gas regulations transparent and apply them consistently. Changing the rules in the middle of the game hurts Israel's reputation as a country that respects business contracts. Israel has assimilated this lesson by building flexibility into its tax laws.

The way may now be clear for Leviathan's development. Further delay could endanger the project fatally. The longer it takes Leviathan to start producing, the greater the danger that key export markets could be captured by other large gas suppliers - possibly Australia, Egypt, Mozambique, Iran (with sanctions now lifted), or the US (with shale gas exports).

Historically, energy resources have been found and exploited through multiple phases of exploration and development. This has been true for offshore resources in the North Sea, the Gulf of Mexico and elsewhere. It has also been true for inland resources in the United States, Russia, the Arabian Peninsula and elsewhere. No one finds everything all at once. As new companies and new ideas emerge and new technologies are tried, new discoveries are made and new ways are found to make resources usable economically.

Israel may have additional energy resources, perhaps even larger than Leviathan. There have been indications to this effect. The existence of energy resources is providential, of course. But whether any now-hidden Israeli energy resources can be found and used is a question that hinges on Israeli policies.

Iranian oil output stagnates for third month amid OPEC bargaining

Reuters, *09.09.2016*

Iran's steep oil output growth has stalled in the past three months, new data showed, suggesting Tehran might be struggling to fulfill its plans to raise production to new highs while demanding to be excluded from any OPEC deals on supply curbs.

Iran's oil output soared to 3.64 million bpd in June from an average of 2.84 million bpd in 2015 following the easing of Western sanctions on Tehran, adding to a global crude glut which has slashed oil prices. But since June, output has stagnated and reached just 3.63 million bpd in August, according to fresh OPEC data based on secondary sources.

Iran also told OPEC it produced 3.63 million bpd in August, according to an OPEC source. Iran became the main stumbling block to an initiative by OPEC and non-OPEC Russia earlier this year to freeze output globally. Tehran said it needed to first regain market share lost while it was under sanctions. OPEC's largest producer Saudi Arabia insisted all nations should join and the freeze deal collapsed in April.

As Russia and Saudi Arabia are trying to revive the effort to prop up prices again, Iran has signaled it was more willing to cooperate when OPEC and non-OPEC producers meet in Algiers on Sept. 26-28. But it stopped short of saying it would join the freeze. "This (production levels) is a million-dollar question," said a source familiar with Iranian thinking. "The shuttle diplomacy is going on to clear which level is considered an aim for Iran."

Iran has repeatedly said it needs to reach a level of output of at least 4 million bpd before it agrees to any deal, but one OPEC source said on Thursday the latest request from Iran was to set a target as high as 4.2-4.3 million bpd.

The difference between requested levels and current production would amount to over 0.5 million bpd or half a percent of global oil consumption. And even if Iran were unable to produce it immediately, it would give Tehran an upper hand in dialogue with OPEC in the future - if and when Iran manages to bring onboard global oil companies to help it develop its massive oil fields. Meanwhile, Gulf producers led by Saudi Arabia are insisting that for any deal OPEC members should stick to OPEC's secondary sources data to put everyone on a level playing field, the source added.

"If we could not do that and accept one system - which is to use secondary sources - it would complicate things further," the source said. However, it might be a tough task as those figures show Iran has already returned to pre-sanctions output levels, pumping today as much as it was pumping back in late 2011.

That chimes with estimates from the International Energy Agency which believes Iran's production capacity is very close to what it is already producing. For some in OPEC, the issue is settled. Saudi Energy Minister Khalid al-Falih said on Monday Iran's production has already reached pre-sanctions levels.

Iran says too early to discuss oil output freeze at Algiers

Bloomberg, *08.09.2016*

It will be too early for Iran to discuss freezing crude output when the world's biggest producers meet later this month in Algiers, according to an official from the Persian Gulf nation's state-oil company.

Iran will be ready to decide on capping production once output reaches the level it was before international sanctions were imposed on the country, Mohsen Ghamsari, director for international affairs at state-run National Iranian Oil Co., said in an interview in Singapore Thursday. That's "slightly" above 4 million barrels a day, which may be achieved by the end of 2016 or early next year, he said.

The nation is currently pumping about 3.8 million barrels daily. "As soon as we come back to pre-sanction levels, we will be ready to discuss quotas and level of production," Ghamsari said. "Four million barrels a day production level is not very far from our hands. I hope by end-2016 or early next year, we would be able to reach that level."

Iran's position limits the options when producers meet to discuss how to address the persistent crude glut that's weighing on prices. While its comments rule out discussing a production freeze, they may still leave the door open for other ways to rebalance the market such as agreeing on a supply ceiling. Iraq has given other OPEC members a level at which it can cap its output, according to the head of the state oil company. A previous proposal to limit production collapsed in April when Saudi Arabia insisted on Iran's participation.

Oil at $40 to $50 a barrel is "reasonable" and the market is in "stable condition," Ghamsari said. National Iranian Oil Co. can survive with those prices because its production cost is less than $10 a barrel, he said. The nation aims to export 2.2 million barrels a day of crude in 2016 and is expected to reach pre-sanctions levels of 2.35 million daily next year.

"Don't expect anything of substance to be agreed on output at the Algiers meeting," said Victor Shum, Singapore-based vice president at industry consultant IHS Inc. "It will be a non-event and any attempts to manage output won't happen. It will be a dud but that's not a surprise." Brent crude, the global benchmark, was up 1.8 percent at $48.82 a barrel by 4:39 p.m. Singapore time on the London-based ICE Futures Europe exchange.

West Texas Intermediate, the U.S. marker, was 2 percent higher at $46.39 a barrel in New York. Saudi Arabia and Russia, the world’s top two crude-oil producers, this week pledged to cooperate to stabilize global markets, while failing to announce any specific measures to bolster prices.

Producers that destabilized oil markets have the greatest responsibility to steady them, Iranian Oil Minister Bijan Namdar Zanganeh said last month, according to the Shana news service, without identifying any such countries. The nation will support any measures to revive prices “while preserving its national interests” to regain market share, Mehr news agency cited Deputy Oil Minister Amir Hossein Zamaninia as saying this month.

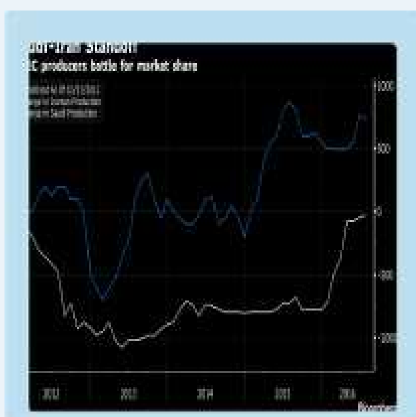
“Of course, it is not so easy to secure demand if we want to increase production,” Ghamsari said on Thursday. “It is difficult as the competition is quite high. A lot of producers are trying to find customers for their own crudes.”

Crude has gained about 10 percent since the Organization of Petroleum Exporting Countries said in August that it will hold talks in Algiers. Producers have been discussing proposals to limit output after a glut cut prices by more than half from two years earlier.

While OPEC adopted a Saudi-led policy allowing members to raise output to protect market share from higher-cost producers in 2014, Iran’s supplies were constrained until this year. The U.S. and European Union tightened sanctions on the Islamic Republic in 2012 over its nuclear program. Cut off from global oil markets, Iran’s production fell to around 2.5 million barrels a day compared with more than 4 million in mid-2008. The country has boosted output quickly since the easing of sanctions in January, though additional increases may be a challenge without international investment and technology.

Four possible outcomes of the OPEC meeting

Oilprice, *08.09.2016*



With oil prices surging on the ‘one-off’ crash in U.S. inventories (as algos run riot once again), overnight remarks from Iran, largely dashing hopes of any freeze agreement in Algiers at the end of September appear to have been forgotten.

However, after two years of a Saudi-led strategy of all-out pumping, adopted to protect market share against the surge in U.S. shale oil, OPEC and Russia are putting cooperation back on the table. Their last attempt to do this - a proposal to freeze output in April - collapsed in acrimony because of rivalry between Saudi Arabia and Iran.

As Bloomberg's Angelina Rascouet details, there may be four potential outcomes from the Algiers talks...

1. Production Freeze

A freeze in production by OPEC and Russia would be the most effective way of stabilizing the market, Alexander Novak, the Russian energy minister, said in a joint press conference at the G-20 summit in China with his Saudi counterpart on Sept. 5. Novak said his country is ready to cap output at the level of any month in the second half of this year, a period that so far has delivered record volumes from both Russia and OPEC.

A freeze at July levels, the most recent month for which data is available, would mean OPEC keeping production at 33.4 million barrels a day, roughly in line with demand for the group's crude in the fourth quarter, according to data from the International Energy Agency. The Paris-based adviser already expects Russia to hold output steady for the rest of this year and into 2017.

The major hurdle to freezing at current levels would be getting Nigeria, Libya and Iran on board, according to London-based consultant Capital Economics Ltd. Those countries' output has been severely constrained in recent years and they all hope to resume lost production. Political divisions have halted Libyan fields, Iran is still restoring exports halted by sanctions over its nuclear program and armed groups have attacked Nigeria's oil infrastructure.

2. Freeze Exemptions

"If they say a freeze at current levels, but making allowances for Iran, Nigeria and Libya, then you're effectively freezing at a couple of million barrels above where you are today," Thomas Pugh, commodities economist at Capital Economics, said by phone. Several countries could potentially add barrels to the market:

Iran is determined to raise production to 4 million barrels a day this year, from about 3.8 million currently, as it recovers market share after years of sanctions.

Nigeria, which produced 1.44 million barrels a day last month according to data compiled by Bloomberg, is seeking to end the militant attacks and get back to the 2 million barrels a day it pumped in January.

Libya is working to reopen its main export terminals, which could boost output to 1.2 million barrels a day by the end of the year, from about 300,000 a day currently.

Iraq and Venezuela are also pumping less crude now than in January, so could seek a higher cap on their output.

Under this scenario, OPEC could in theory get to pump as much as 36.2 million barrels a day by next year, about 2.7 million barrels a day more than the IEA's estimate of demand for the group's crude in 2017. That's a bigger surplus than in 2015, a year in which oil prices dropped more than a third.

3. Production Cut

OPEC has on occasion overcome internal divisions and agreed to radical measures, most notably to slash production during the 2008 financial crisis. Previous cuts worked because Saudi Arabia carried most of the burden, said Spencer Welch, director for oil markets and downstream at IHS Markit in London. Now the kingdom “has been quite clear that they are no longer willing to support prices on their own,” he said.

Since the oil slump began in 2014, Saudi Arabia and its Gulf allies have repeatedly resisted pressure from other members to cut production. Russia has pledged in the past to coordinate cuts with OPEC, but that’s typically come to nothing.

Cuts are the most unlikely scenario, said Capital Economics’ Pugh. If they were to happen, it would have by far the biggest impact on the markets and “you would see prices surge,” he said.

4. Do Nothing

The most likely scenario is that the talks don’t yield any curbs on output, said Pugh. When that happened at the April freeze talks in Doha, prices slid right after the collapsed deal, but the impact was offset by an oil worker’s strike in Kuwait. The market continued to recover in the following months as wild fires shut down output in Canada and attacks in Nigeria cut production.

There may be some downside for OPEC if it fails again to reach an agreement, said David Fyfe, head of market research and analysis at oil trader Gunvor Group Ltd. “At some stage it’s the law of diminishing returns, when you keep talking about a production agreement and not actually reach one,” he said.

For now, it appears the extreme positioning in crude futures has abated and headline-driven squeezes are off the cards but as we draw closer to Algiers, we suspect the headline-hockey will once again erupt.

PETFORM

Saudi oil output said to drop as OPEC debates production freeze

Bloomberg, *08.09.2016*

Saudi Arabia told OPEC that its oil production dropped by 40,000 barrels a day in August to 10.63 million barrels as the group debates a deal to curb output to shore up prices.

The figures were submitted to the OPEC, according a person with knowledge of the data, who asked not to be identified because the information hadn't yet been made public. The country's output declined from an all-time high of 10.67 mbd in July, according to OPEC submissions. OPEC and Russia are putting cooperation back on the table, after two years of a Saudi-led strategy by the producer group to pump flat out to protect market share against the surge in U.S. shale oil.

Their last attempt to do this -- a proposal to freeze output in April -- collapsed after Saudi Arabia refused to proceed without all OPEC states, including regional rival Iran, participating. "The most important issue is whether Saudi Arabia will cut its production to pre-summer levels," said Anas al-Hajji, an independent analyst and former chief economist at NGP Energy Capital Management LLC in Houston. The kingdom's production was 10.22 million barrels a day in March, before the hot summer boosted seasonal local demand.

Iran insists it will be ready to decide on capping production once output recovers to what it was before international sanctions on the country were tightened in 2012. That level is "slightly" above 4 million barrels a day, and Iran may reach it by the end of 2016 or early next year, Mohsen Ghamsari, director for international affairs at state-run National Iranian Oil Co., said Thursday in an interview in Singapore.

Iran's production rose to 3.63 million barrels a day in August from 3.62 million barrels a day in the previous month, according the person with knowledge of the data. Output in Iraq, OPEC's second-biggest producer, rose to 4.638 million barrels a day in August from 4.606 million barrels a day the previous month, the person said. Kuwait also increased, to 2.987 million barrels a day from 2.95 million barrels a day, he said.

Nigeria's production rose to 1.456 million barrels a day in August from 1.27 million barrels a day, the person said. The Niger Delta Avengers, a militant organization, declared an end to attacks on Nigerian oil infrastructure, according to a statement last month on a website that said it represents the group.

Saudi Arabia, Russia agree to new oil pact, but no output freeze

WSJ, *05.09.2016*

Three weeks before a highly anticipated summit of oil producers, Saudi Arabia and Russia signed an oil-cooperation agreement but stopped short of pledging the production limits that some countries have called for.

The accord was a powerful symbol of the pressure bearing down on the world's two largest oil producers as they grapple with fallen petroleum prices and face calls at home and abroad for direct action to prop up the market. Both countries are highly dependent on oil revenue, and Russian President Putin indicated that a so-called output "freeze" by big producers was a good idea.

But without firm commitments, oil traders and oil officials elsewhere were skeptical Monday's pact would mean much. Saudi Arabia and Russia struck a similar agreement earlier this year, but it fell apart in April in Qatar when the Saudis suddenly insisted that Iran take part.

Oil prices rose sharply on Monday morning, by over 5% at one point, on speculation about what the Saudi-Russia oil agreement would say, but those gains almost disappeared after Russian oil minister Alexander Novak and Saudi minister of energy Khalid al-Falih spoke.

Saudi Arabia and Russia are set to play a key role in informal talks in Algiers beginning Sept. 26 among members of the Organization of the Petroleum Exporting Countries, the 14-nation cartel that controls over a third of global oil production. Saudi Arabia is the biggest oil producer in OPEC and Russia the largest outside the group.

The Algiers discussions are expected to revive the idea of the output freeze, setting limits on what countries can produce and theoretically helping reduce a global glut of oil that has weighed on prices. After a joint news conference Monday, Messrs. Novak and Falih sent conflicting signals on a future freeze deal.

Mr. Novak told Russian news agency that an agreement being discussed would freeze oil output for up to six months at levels seen in July, August or September. He also said an exemption should be made for Iran, an OPEC member boosting oil production now that Western sanctions over its nuclear program have been lifted.

Mr. Falih said only that Iran—Saudi Arabia's archrival in the Middle East—should play a "constructive role" in freeze talks. He also said that a production freeze wasn't necessary right now. It is "one of the favorables option but not necessary today," Mr. Falih said in an interview with Al Arabiya.

PETFORM

An Iranian official said Monday that the country still planned to reach its output targets, regardless of the Saudi-Russia agreement. The issue of Saudi and Russian production has been a sensitive one among big producers.

Both are pumping at historically high levels, a departure from past price slumps when Saudi Arabia generally tried to boost prices by cutting output. This time, Saudi Arabia has reckoned that higher production in the U.S. would make production cuts less effective.

Calls for production cuts have grown louder in OPEC member countries like Nigeria and Venezuela, where economic pain is causing civil unrest. Saudi Arabia and Russia didn't mention production cuts or ceilings in their memorandum of understanding on Monday. The countries said they would cooperate by forming a working group to monitor the market and having regular meetings.

The agreement was endorsed by oil ministers from the Persian Gulf, which are generally aligned with Saudi Arabia. "This dialogue confirms that the main oil producers are watching the oil market. to help achieve stability," Kuwait's acting oil minister Anas al-Saleh said in a statement on the state news agency KUNA.

Privately some OPEC delegates were skeptical. "If Saudi Arabia is not committed to a freeze, who is going to freeze? What is the point of meeting in Algiers?," said one OPEC delegate from a region outside the Persian Gulf. The announcement came amid a flurry of diplomatic activity around the idea of curbing output.

Mohammad Barkindo, the secretary-general of OPEC, visited Qatar's Prime Minister Sheikh Abdullah Bin Khalifa Al-Thani, whose country is a member of the cartel. He is also scheduled to meet officials with OPEC member Algeria on Monday before traveling to Tehran for talks with Iran's oil minister Bijan Zanganeh.

Russian bosses say ruble finding groove as float shock ebbs

Bloomberg, *09.09.2016*

War, sanctions and a shift to a free float have sent the ruble on a wild ride over the past two years. Now, some of Russia's biggest companies see better times ahead.

Bosses at Polyus PJSC, the country's biggest gold producer, top coal miner SUEK and the Renova Group conglomerate say they're finally able to count on a stable ruble when planning their businesses as the economy shakes off the longest recession since President Vladimir Putin first came to power in 2000. Traders agree: a measure of anticipated volatility has fallen to the lowest since the Bank of Russia stopped managing the currency in November 2014.

The newfound calm suggests investors are finally putting the Ukraine crisis of two years ago behind them to focus on an improvement in business confidence and an 80 percent decline in capital outflows. Russian assets are also in demand for the relatively high yields they offer in a world of below-zero interest rates, helping offset stagnant oil prices.

“The ruble has finally got its act together,” Viktor Vekselberg, Russia’s fourth-richest man and a collector of Czarist-era Faberge eggs, said in an interview in the Pacific port of Vladivostok. “Should there be no strong fluctuations in oil, the ruble will be at slightly more than 65” per dollar, or close to its level of about 64 in Moscow on Thursday.

Vekselberg, whose Renova Group owns assets ranging from stakes in metals producers to a Swiss equipment company, has a fortune that the Bloomberg Billionaires Index values at more than $14 billion.

Stability in the ruble is already setting in, with the currency of the world’s largest energy exporter climbing steadily from 67 per dollar at the end of the first quarter. It gained faster earlier in the year, and is up 15 percent in 2016, trailing behind only Brazil’s real in emerging markets. That’s even as oil hovers around $50 a barrel, about $10 less than the middle of last year.

That’s quite a change from January, when the ruble tumbled to a record 85.999 as crude prices collapsed, and 2014-15, when the currency lost more than half its value. Confidence is improving after the shock of the free float became Russia’s biggest currency crisis since the debt default of 1998, and contributed to the failure of companies including the second-largest airline.

Implied three-month ruble volatility has fallen to 14.3 percent, data compiled by Bloomberg show. That’s the lowest since about two weeks before the free float was introduced as a way of preserving Russia’s reserves, which were being used to prevent the local currency from tumbling. This year, the ruble has seen the third-biggest drop in anticipated price swings among 21 developing-nation currencies.

“Fluctuations of 15 percent are an absolutely normal thing for any currency in the world that’s in free float,” said Vladimir Rashevsky, CEO of Russian coal producer SUEK, who sees the ruble continuing to trade in a range of 60 to 70 per dollar.

After shrinking 3.7 percent in 2015, Russia’s economy will contract 0.7 percent in 2016 and return to growth next year, according to analysts surveyed by Bloomberg. Net capital outflows slowed to $10.9 billion this year through July, from $53.3 billion a year earlier, according to the Bank of Russia.

As well as improvements in the domestic economy, what’s helped turn the ruble around are the easy-money policies of global central banks. That puts Russian assets in demand as investors seek to take advantage of a benchmark interest rate of 10.5 percent, which when adjusted for inflation is the highest in the world after Belarus. The outlook of Russia’s top executives will allay concerns of a pull-back after the currency’s rally. Unlike other emerging economies such as Brazil, where the central bank has stepped up efforts to limit the real’s appreciation, the Bank of Russia hasn’t bought foreign currency for a year, pledging to avoid intervention unless the ruble’s swings threaten financial stability.

While Putin has in the past sent conflicting signals about the ruble, he said in a Bloomberg interview last week he didn't intend to sway monetary policy. That's despite the stronger ruble straining the budget by shrinking the value of oil sales in local-currency terms.

The currency is "de facto stable," said Polyus Chief Executive Officer Pavel Grachev. "For this year's budget, we projected the ruble at 65 per dollar. It's possible to assume that similar levels will be used for next year."

Shippers slam interruptible gas capacity booking changes

ICIS, *07.09.2016*

Shippers are concerned that a new addition to rules governing how transmission system operators can allocate capacity at border points will severely limit their ability to move gas around the EU.

The European Commission inserted the addition to the CAM network code, which is currently making its way through the EU comitology lawmaking process. Under the change, transmission system operators will not be able to offer interruptible capacity at entry/exit points unless all firm capacity has been sold out first. "Even if a small amount of bundled firm capacity is available, you can't buy interruptible capacity," said expert at a shipping company.

As part of the whole CAM network code, which came into force last year, firm entry and exit capacity must be sold as a bundled product, and no longer can be sold separately. The interruptible capacity addition will be especially limiting for shippers due to the nature of the EU market.

At many interconnection points across western Europe, there is a structural mismatch in the amount of entry and exit capacity available. Both technically, but also due to the nature of some long-term contracts agreed before third-energy package regulations came into being.

"There are a number of shippers with capacity only on one side of the border, which has led to historic mismatches on either side of a border. It is a problem to match up this capacity, and interruptible has been one way of doing that," said another regulatory expert at a large shipping company.

Capacity mismatches are expected to cause problems particularly on the Dutch/German, Dutch/Belgian and German/French entry and exit points, shippers said. Border points with little or no firm capacity would not be affected. "It means you can't use the transport capacity you've booked. The commission would say you can just book a new bundle, but that is too costly. The only option left is that you don't flow gas," said a third regulatory head.

Another reason shippers use interruptible capacity currently is to avoid extra costs under CAM's bundling requirements. Some shippers will already have capacity booked at one side of a border point but not the other. Since CAM came into force they have to pay a second time for that capacity if they wanted to buy the corresponding set at the other side of the border.

The first regulatory expert said the commission's aim was to promote the bundling of capacity, but the restriction on offering interruptible capacity could hinder gas transport and create pockets of unused capacity.

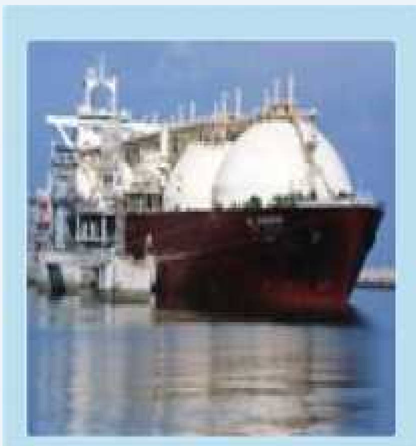
"What they should be doing is harmonising technical capacities. If technical capacity is harmonised the needed unbundled capacity (to match already booked capacity) automatically would become available, or fall free during auctions," he said.

The shippers welcomed the commission's change to rolling quarterly auction timings under the CAM amendment. The change will mean four annual quarterly capacity auctions will be held each year, giving participants more freedom to take part in an auction right before the quarter itself.

The updated text of CAM is expected to be circulated in September, with the second formal comitology meeting scheduled for 15 and 16 September. The comitology process is hoped to be completed by the Madrid Forum on 6 and 7 October. The amendment to CAM will apply from 1 April 2017.

US LNG avoids Europe, flows to higher premium markets

ICIS, *08.09.2016*



Europe has received just 8% of delivered volumes of US LNG since Cheniere's Sabine Pass export terminal in Louisiana came online in February, according to ICIS shipping platform LNG Edge.

The majority of cargoes have instead found a home in South America, where markets have offered exporters a more favourable return than that available based on recent European hub prices. Forward prices suggest the trend of low flows to Europe may persist into the upcoming winter period as well. As of 6 September, ICIS LNG Edge data showed that around 3.4 million cubic metres (mcm) of LNG had been delivered from Sabine Pass via 26 cargoes.

A little more than 57% of total exports have been delivered to South America, with Chile the single biggest recipient having absorbed 28% of the total volume. Since Anglo Dutch Shell began lifting cargoes from Sabine Pass Train 1 earlier this year, there have been seven cargoes delivered from the US to Quintero.

GNL Chile – the buying consortium that comprises state-run refiner ENAP, gas distributor Metrogas and Spanish generator Endesa – receives cargoes through a long-term contract initially concluded with UK-based BG Group, which was acquired by Shell.

Europe's 8% share of the export total comprised single deliveries to both Portugal and Spain. The destination of the first cargoes exported from Sabine Pass is not surprising as South American markets have consistently offered exporters the best returns on a netback basis. ICIS models FOB netback prices for key LNG-producing regions by deducting shipping costs from assessed delivered ex-ship (DES) prices back to the point of loading.

Europe is expected to receive a large portion of US LNG given the region's relative proximity to the Gulf Coast, where the bulk of supply will be produced, but this trend is likely to be gradual as US liquefaction capacity will ramp up steadily out to 2020.

By the end of 2016, Sabine Pass Trains 1 and 2 will be in operation and, by 2017, another three trains from Sabine and Cove Point could start up. Up to five new trains could come online at Cameron, Freeport and Corpus Christi by the end of 2018, with another four trains from Freeport, Corpus Christi and Sabine Pass due online in the following year.

While sellers such as Cheniere or a tolling customer such as Spain's Gas Natural Fenosa will likely intend to sell outright spot cargoes to the highest netback market, which could be South America or the Middle East, the option for placement of cargoes into Europe will be valuable as traders attempt to re-balance oversupply.

Significant LNG import capacity and liquid trading hubs makes Europe an ideal destination for spare cargoes that cannot find a home elsewhere and the continent is widely considered to be an LNG market of last resort for this reason. However, US exporter Cheniere has lined up two supply deals into Europe on a delivered basis to portfolio companies EDF and ENGIE.

Despite no arrivals into northwest European markets so far, US LNG continues to influence liquidity and trading at the key NBP and TTF gas hubs. The depth of liquidity at both hubs makes them a key venue for future off-takers looking to hedge volumes forward, even if Britain and the Netherlands will not be the final destination for many of the cargoes.

In the gas year to-date, far curve liquidity – including trade of calendar year contracts beyond the front year and seasonal contracts beyond the second forward season – in the over-the-counter market is up by 74% at the Dutch TTF and 43% at the British NBP.

Future US export capability has also impacted the shape of the far curve. According to ICIS trade data, the Calendar Year '19 contract at the TTF has traded at a discount to Calendar Year '18 on a number of occasions since late June.

The backwardation on the two products peaked at €0.075/MWh at the end of August and one source said the development was driven by traders hedging LNG volumes forward on the curve coupled with a drop in liquidity in recent months which served to amplify the effect of this selling on prices. The source said the recent backwardation would likely be fleeting, but US LNG is set to continue to affect far curve trading in this way, if only in fits and starts.

Forward price signals at the NBP and US Henry Hub suggest the economics of shipping US LNG to Europe this winter have deteriorated since the start of July. On 6 September, Q4 '16 at the NBP held a $2.06/MMBtu premium to the average price of October-, November- and December-delivery futures at the Henry Hub, down by 18% compared to 1 July.

For Shell – the only off-taker currently lifting long-term contractual cargoes from Sabine Pass – this spread would not be sufficient to recoup all shipping, liquefaction tolling and feedgas expenses although these may considered to be sunk costs for such a large portfolio company as Shell.

The more important question continues to be how competitive prices in Europe are against markets in South America and the Middle East, which have so far proved more economically viable. That said, the supply shortage in Britain as a result of the outage at the Rough storage facility could result in volatile price spikes later in the winter if temperatures prove to be particularly harsh. Mainland European storage sites may be the first port of call for Britain, but there could be opportunities for LNG sellers as well if the price is right.

Shale producers respond quickly to price changes

AA Energy Terminal, *09.09.2016*

Shale oil producers respond much quicker to changes in crude oil prices than their conventional producer counterparts, Martin Craighead, chairman and chief executive officer of oil field services company Baker Hughes, said Thursday.

"As a result, their changes in production impact prices much quicker compared to their counterparts who need longer cycles," he said, speaking at the Barclays CEO Energy-Power Conference in New York. Since shale oil producers' response time is quicker, this causes oil production and prices to move "in a much narrower band" compared to the past, according to Craighead.

When shale oil production in North America, especially in the U.S., increases, oil prices decline suddenly in the global market. For this reason the CEO thinks that shale production "serves effectively as a ceiling on oil prices."

Craighead stressed that incomplete projects and high levels of crude inventory, which can be considered as additional spare capacity for shale producers, can be brought to the market in a relatively shorter timeframe. However, the current low price environment and the existing price recovery cycle are "different than what we had seen in previous downturns," he saif. "Clearly, what's different in this downturn compared to previous ones is the importance of shale producers who play a much more prominent role in influencing supply trends," he said.

And added that in past price recovery periods, “larger and longer cycle projects in conventional and offshore resources came on-stream when oil prices reached and remained at a certain level,” he said.

Craighead noted that he believes oil prices at a minimum of upper $50 a barrel are required for a sustainable production recovery in North America. “The length and volatility of this particular downturn has driven us to be far more cautious than ever before,” he warned.

However, the CEO emphasized that as supply and demand remains unbalanced, and oil prices stay in the mid-$40s a barrel under extreme volatility, he said he expects increases in oil production activity in North America to remain largely limited. “Unfortunately, we haven’t still seen changes in underlying fundamentals that would indicate that the oil market is close to rebalancing in order to support a more meaningful increase in oil prices,” he explained.

Craighead concluded by indicating the substantial crude oil production capacity that is available around the world, in addition to high crude inventory levels, both of which keep a downward pressure on oil prices.

Announcements & Reports

Lithuania's Strategic Use of EU Energy Policy Tools: A Transformation of Gas Dynamics

Source : OIES
Weblink : https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/09/Lithuanias-Strategic-Use-of-EU-Energy-Policy-Tools-A-transformation-of-Gas-Market-Dynamics-NG-111.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

23rd Annual India Oil & Gas Review Summit & International Exhibition

Date : 09 – 10 September 2016
Place : Mumbai, India
Website : www.oilgas-events.com/india-oil-gas/

Rio Oil & Gas Expo & Conference

Date : 14 – 16 September 2016
Place : Rio de Janeiro, Brazil
Website : https://www.whereinfair.com/rio-oil-gas-expo/rio-de-janeiro/2016-Sep/

Operational Excellence in Oil and Gas Europe

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

Iran International Petroleum Congress (IIPC)

Date : 19 – 21 September 2016
Place : Tehran, Iran
Website : www.iranpetroleumcongress.com/

2016 Deloitte Oil & Gas Conference

Date : 21 September 2016
Place : Houston, USA
Website : www2.deloitte.com/us/en/pages/energy-and-resources/events/oil-and-gas-conference.html

Global Oil & Gas - Black Sea and Mediterranean

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

Global Oil & Gas South East Europe & Mediterranean Conference

Date : 28 – 29 September 2016
Place : Athens, Greece
Website : www.oilgas-events.com/Global-Oil-Gas-Black-Sea-Mediterranean-Conference/

Kazakhstan International Oil & Gas Conference (KIOGE) 2016

Date : 05 October 2016
Place : Almaty, Kazakhstan
Website : www.kioge.kz/en/conference/about-conference+

23rd World Energy Congress

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

International Conference on Oil Reserves & Production

Date : 17 - 18 October 2016
Place : London, UK
Website : www.waset.org/conference/2016/10/london/ICORP

15th ERRA Energy Investment & Regulation Conference

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

The 8th Saudi Arabia International Oil & Gas Exhibition (SAOGE)

Date : 17 - 19 October 2016
Place : Dammam, Saudi Arabia
Website : www.saoge.org

21st IENE National Conference “Energy and Development 2016”

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

SPE Russian Petroleum Technology Conference & Exhibition

Date : 24 - 26 October 2016
Place : Moscow, Russia
Website : www.spe.org/events/rpc/2016/

Asia Pacific Oil & Gas Conference & Exhibition (APOGCE)

Date : 25 - 27 October 2016
Place : Perth, Australia
Website : www.spe.org/events/apogce/2016/

International Conference & Expo on Oil & Gas

Date : 27 - 28 October 2016
Place : Rome, Italy
Website : www.oil-gas.conferenceseries.com/

4th Iran Europe Oil & Gas Summit

Date : 01 – 03 November 2016
Place : Berlin, Germany
Website : www.iransummit.com/

2nd International Conference & Expo on Oil & Gas

Date : 02 – 03 November 2016
Place : Istanbul, Turkey
Website : www.oil-gas.omicsgroup.com/

European Autumn Gas Conference 2016

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

21st Annual Oil & Gas of Turkmenistan (OGT) Conference 2016

Date : 16 – 17 November 2016
Place : Ashgabat, Turkmenistan
Website : http://www.ogt.theenergyexchange.co.uk/

Project Financing in Oil & Gas

Date : 21 – 22 November 2016
Place : London, UK
Website : www.smi-online.co.uk/energy/uk/conference/Project-Financing-in-Oil-and-Gas

5th Greek Cyprus Energy Symposium

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