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Privatization board to hold BaskentGaz tender in July

Today's Zaman, *19.06.2011*

Turkey's Privatization Administration (OIB) plans to hold a tender for the privatization of a majority stake in Turkey's second largest natural gas distribution grid, BaskentGaz, in July, the administration announced on Saturday.

The OIB cancelled the sale as winner of an earlier bid failed to come up with the promised financing. In May the OIB cancelled a $1.2 billion deal on the acquisition of 80 percent of Ankara's natural gas distributor BaskentGaz by MMEKA. The decision was made following a failure by MMEKA to fulfill its commitment to a share sale agreement to be signed with Cankaya Dogalgaz, a company MMEKA established to take over the Ankara natural gas grid.

Last year in August, a MMEKA private venture of Turkish businessmen Mehmet Emin Karamehmet and Mehmet Kazanci offered the top bid of $1.2 billion for an 80 percent stake in BaskentGaz, which distributes more than 2 billion cubic meters of gas to 1.2 million homes in Ankara every year. Finance Minister Mehmet Simsek earlier announced that he "gave the OIB necessary instructions" to complete the grid's privatization by the end of this year.

Vehicle sales jump in Turkey while fuel consumption falls

Today's Zaman, *23.06.2011*

From 2003 through 2010 vehicle sales in Turkey rose by 70 percent while gasoline and diesel consumption in the same period increased by only 20 percent, recent data have shown.

According to Turkish Petroleum Industry Association (PETDER) data, vehicle sales from 2003 to 2010 surpassed fuel consumption in Turkey. The gap was more significant between 2007 and 2010, when total vehicle sales totaled 1.33 million units while fuel consumption fell by 575,000 cubic meters. A number of experts cite as the reason for this gap the increase in oil smuggled from neighboring countries and a rise in the use of Number 10 oils.

Turkish Fuel Station, Oil and Gas Company Employers' Union (TABGIS) President Ferruh Temel Zülfikar is one expert who holds this opinion on the gap. "Number 10 oils are cheap. The government should reduce the taxes on gasoline and diesel or prevent the use of these fuels [Number 10 oils]," he told. PETDER Secretary General Erol Metin has expressed similar views, saying that Number 10 oil consumption surpassed 1.5 million tons in 2010.

Other experts underline that oil smuggling and Number 10 consumption can explain the difference between the increasing vehicle sales and lower fuel consumption, but they also say new cars are more fuel-efficient and that higher oil prices keep people from using their cars.

IEA to release 60m oil barrels

Upstream Online, *23.06.2011*

International Energy Agency have agreed to release 60 million barrels of oil in the coming month in response to the ongoing disruption of oil supplies from Libya, the group's head, Nobuo Tanaka, said today. The decision will see 28 countries release 2 million barrels of oil per day from their emergency stocks over an initial period of 30 days.

Within the 30 days the agency will again review the impact of its action and decide on possible future steps. The news immediately sent the oil price tumbling. Brent crude futures for August fell $8.49 to a low of $105.72 a barrel by 1352 GMT, after settling $3.26 a barrel higher at $114.21 yesterday.

The IEA said it estimates that the unrest in Libya has removed around132 million barrels of oil from the market as of the end of May. Although there are huge uncertainties, analysts generally agree that Libyan supplies will largely remain off the market for the rest of 2011. In its 37-year history the IEA has released stocks only twice to fill lost supplies – in 1990 when Iraq invaded Kuwait and in 2005 after Hurricane Katrina when it released mostly refined products from Europe for the US.

"Today, for the third time in the history of the IEA, our member countries have decided to release stocks," said Tanaka. "I expect this action will contribute to well-supplied markets and to ensuring a soft landing for the world economy."

The agency has been urging producing countries to boost supply to relief the market of 'elevated' prices which it says are harming the global economy. The move comes after a failure by OPEC to agree on an increase in its output earlier this month and despite OPEC's biggest producer, Saudi Arabia, agreeing to pump more. Total oil stocks in IEA member countries amount to over 4.1 billion barrels, of which 1.6 billion barrels are public stocks held exclusively for emergency purposes. Oil importing countries of the IEA are legally required to hold emergency reserves equivalent to at least 90 days of net oil imports. Current stock levels are well above this minimum amount at 146 days of net imports, said the agency.

U.S. to release oil from strategic reserve

CNNMoney, *23.06.2011*

The U.S. Department of Energy said Thursday it will release 30 million barrels of oil from the Strategic Petroleum Reserve to alleviate Libyan supply disruptions -- driving already sinking prices lower. The release, which will be done over 30 days, represents half of a 60 million barrel supply hike announced by the International Energy Agency, which includes the United States as one of its 28 member nations.

The world consumes 87.5 million barrels of oil a day. Of that total, the United States consumes about 19 million barrels per day, according to Tom Kloza, chief oil analyst at the Oil Price Information Service.

The United States produces about 9.8 million barrels so it winds up importing about half of what it produces. The Energy Department said the reserve is at a ‘historically high level’ of 727 million barrels.

“We are taking this action in response to the ongoing loss of crude oil due to supply disruptions in Libya and other countries and their impact on the global economic recovery,” said Energy Secretary Steven Chu. “As we move forward, we will continue to monitor the situation and stand ready to take additional steps if necessary.”

Libya is still locked in civil war, as rebels, aided by NATO airstrikes, try to unseat Moammar Gadhafi. Oil prices, which were already sliding Thursday, fell even further after the announcement. “Oil prices are getting assaulted on two fronts today,” said Kloza.

In fact, oil and gas prices have been falling for the past several months. The price of a gallon of gas nearly broke $4 in May. Gas prices were selling at $3.61 a gallon Wednesday, according to motorist group AAA. Most experts attribute the price declines to expectations of weaker demand as the economic recovery continues to slow.

On Wednesday, Federal Reserve Chairman Ben Bernanke gave a grim assessment. “Bernanke’s statement about the ‘slowing pace of recovery’ was the key to this down move,” said Dan Dicker, a former oil trader and author of “Oil’s Endless Bid: Taming the Unreliable Price of Oil to Secure Our Economy.”

Oil prices plunged $4.39, or more than 4%, to $91.02 per barrel and a four month low after the news about the supply increase. At one point, they plummeted more than 5% to less than $90 per barrel for the first time since Feb. 22. “There is plenty of supply,” Kilduff Group partner Mike Fitzpatrick told CNNMoney. “They want to push prices down to help the U.S. economy. Saudi Arabia called for this at the last OPEC meeting.” The price of Brent crude declined by nearly 5%, with prices sliding $5.59 per barrel to $108.62.

Nabucco chances grow as Europe's atomic future dims

Hürriyet Daily News (Reuters), *21.06.2011*

Until the Fukushima Daiichi nuclear power plant disaster in Japan, the Nabucco pipeline project was struggling with rising costs and political uncertainties. Now, as Europeans shun nuclear energy, EU plans to link the Caspian and Austria have gained new appeal challenged by cheaper rivals and lingering supply questions, the up-and-down Nabucco pipeline project may have a new lease on life following Germany's decision to switch off nuclear power.

Nabucco's backers in May said it would open two years later than planned and cost more than its target of 7.9 billion euros ($11.4 billion).

Several setbacks this year mainly due to talks with gas producers have deepened doubts about the project, which has been under discussion since 2002 and has not signed any supply deals. But Germany's decision to kill atomic power by 2022 in the wake of Japan's Fukushima nuclear disaster and progress in talks with supplier Azerbaijan have revived Nabucco.

Analysts say it has become more attractive to countries wanting to avoid atomic power or heavy reliance on high-polluting coal. "The new German energy strategy will be a push for Nabucco," said Claudia Kemfert, an energy analyst at the Berlin-based DIW institute. "It seemed almost dead but the nuclear decision has revived it." She said it was the most obvious way for Europe to reduce dependence on Russian gas and that it was important for Germany, which in the meantime may be forced to boost its share of Russian gas supply through Gazprom's Nord Stream pipeline.

EU Energy Commisioner Guenther Oettinger has said Germany will lose 23 percent of its electricity production when its nuclear power plants go off line. This translates into a 6 percent gap in the EU's electricity supply, he said. But while Europe may want more gas from outside Russia as energy demand rises, talks with suppliers have dragged on as their governments weigh advances from several competing plans. A January joint statement between the EU and Azerbaijan requiring the provision of a 20 bcm per year dedicated export pipeline from Baku to Europe could be key.

This may put Nabucco ahead of other smaller European projects such as the Interconnector-Turkey-Greece-Italy and the Trans Atlantic Pipeline, which are also competing for Azeri gas. Azerbaijan's Shah Deniz field is being developed by BP and Statoil as well as Azeri state energy firm SOCAR and some others. It is estimated to contain 1.2 trillion cubic metres of gas. Production began in 2006, and the second phase is expected to begin by 2017. Azerbaijan has been in talks with more than 20 firms and consortiums looking to buy gas from Shah Deniz II and has said it wanted to conclude negotiations this year. State energy giant Gazprom signed a deal with SOCAR in September 2010 to buy 2 billion cubic meters of gas in 2011 and even more from 2012.

Iraq’s $77 billion electricity project promising for Turks

Hürriyet Daily News, *14.06.2011*

Iraq’s Electricity Minister says his government will flow some $77 billion into a long term project to improve electricity production and distribution. Iraq plans to finalize a $22 billion portion of the investment until 2015.

The Iraqi government is planning to invest $77 billion in country-wide projects to generate and distribute electricity in a bid to repair and develop its war-hit network and meet increasing power demands. Several Turkish companies are interested in this new project, Al’a Disher Zamil, the Iraqi electricity minister told on the sidelines of a meeting in Istanbul.

Economically reviving northern Iraq, which is desperately in need of power, is one of the regions being prioritized, Zamil said at the Iraq Power, Gas Projects conference held by the Foreign Economic Relations Board of Turkey, or DEIK, and Middle East Business Intelligence, or MEED. “The ministry aims to generate and transfer the electricity that economically emerging regions, especially northern Iraq, desperately need,” said Zamil.

The Iraqi government plans to invest an initial $22 billion in the beginning phase of the project, which will last until 2015, he said. Many Turkish firms are eyeing opportunities that lie in the fast-developing Middle East region, the minister said, adding that Turkey’s Calik, a leading energy and construction, was also interested in the project. Last month, Calik laid the foundation for Iraq’s Karbala Al-Khariat power plant, which is expected to produce 2,000 megawatts of energy. “Extra capacitors are required, mainly in Dohuk in the north, to achieve satisfactory voltages,” said Jeff Larkin, country manager of Parsons Brinkerhoff in Iraq. “Currently, seven transmission lines are overloaded and Dohuk is deficient in generation, so more power transfers from Iraq via the Mosul Dam and Turkey were required to meet increased demand,” he told the Hürriyet Daily News. Turkey exports electricity to Dohuk.

Still, according to Larkin, the situation might change in the near future. “After the billion-dollar investments in the region, northern Iraq could also export electricity to Turkey,” Larkin said. He also said Turkey was able to manufacture almost all the products needed at the electricity grids, including transformers. “Most of the investors in the region will purchase the products from Turkey as the logistics and manufacture costs are lower than many countries.”

Azerbaijan ready to supply gas to Bulgaria

News.Az, *24.06.2011*

Azerbaijan is ready to provide Bulgaria with natural gas supplies from 2014, the Bulgarian Economy Ministry has announced. The announcement followed talks between Azerbaijan's minister of industry and energy, Natig Aliyev, with Bulgaria's minister of the economy, energy and tourism, Traicho Traikov, in Brussels.

Azerbaijan can start shipping natural gas to Bulgaria – about one billion cubic metres per year – via Georgia, Turkey, and Greece – as soon as Bulgaria completes its gas network interconnections with the networks of its southern neighbours, according to a report from the Bulgarian Economy Ministry.

Azerbaijan's future natural gas exports for Bulgaria are supposed to come before the realization of the second phase of the exploitation of the Shah Deniz deposit. "For two months Bulgartransgaz and the State Oil Company of Azerbaijan (SOCAR) will continue talks on the routes of natural gas supplies to Bulgaria and Southeastern Europe," the ministry statement says.

During the meeting, Traikov again raised the issue of Azerbaijan's support for the Nabucco gas pipeline. Traikov and Aliyev also discussed a project for the delivery of compressed liquefied natural gas from Azerbaijan via Georgia and the Black Sea to Bulgaria. Bulgartransgaz (Bulgargaz) and SOCAR have completed a joint economic feasibility study for this project, and are expected to start a preliminary survey for its realization. Back in 2010, Bulgarian Presidents Georgi Parvanov and his Azerbaijani counterpart, Ilham Aliyev, agreed that Bulgaria should receive its first natural gas supplies from Azerbaijan in 2011.

Ilham Aliyev backed a proposal of Georgi Parvanov to organize a trilateral meeting of Azerbaijan, Bulgaria, and Turkey in order to negotiate the specifics of the new project to deliver Caspian gas to Bulgaria and the Balkans, a meeting which has failed to materialize to date. In the autumn of 2010, Bulgaria entered negotiations with Georgia for the transit of two billion cubic metres of natural gas from Azerbaijan. This was confirmed after a meeting of the prime ministers of Bulgaria and Georgia, Boyko Borisov and Nikoloz Gilauri.

Bulgaria wants to buy the compressed liquefied natural gas from Azerbaijan through Georgia and the Black Sea, PM Borisov said. Energy Minister Traikov said Bulgartransgaz was very close to reaching a deal with SOCAR, and that once this happened, the next step would be striking a contract for a transit solution. A formal agreement, however, has not been reached. Back in 2010, Traikov also alleged that by 2012 Bulgaria hopes to have a working transit of natural gas from Azerbaijan via Georgia and the Black Sea as one of its options for diversified natural gas supplies. In this respect, however, Bulgaria is lagging behind its northern neighbour Romania, which already has agreements with Azerbaijan and Georgia for the purchase and transit of liquefied natural gas in the so called Azerbaijan-Georgia-Romania Interconnector (AGRI) project.

JP Morgan and Goldman Sachs cut oil price forecasts after IEA

Reuters, *23.06.2011*

J.P. Morgan and Goldman Sachs slashed forecasts for crude prices in the third quarter after the International Energy Agency announced the release of 60 million barrels of oil next month to shore up the economic recovery.

J.P. Morgan cut its average forecast for Brent crude to $100 a barrel in the third quarter, down from its previous projection of $130. Goldman Sachs expects Brent prices to fall to $105-$107 a barrel by the end of July. "If pursued rigorously, the 60 million-barrel sale over 30 days is a sufficient volume to cause a very substantial drop in the oil price," J.P. Morgan analysts led by Lawrence Eagles said in a note to clients.

Oil bounced back a dollar on Friday after tumbling to a four-month low in the previous session on news the world's top consumers planned to release emergency oil reserves for only the third time ever. By 0111 GMT, Brent crude rose 84 cents to $108.10 a barrel, after settling at its lowest since February on Thursday. U.S. crude gained $1.06 to $92.08 a barrel. In a note to clients, Goldman's energy team, led by David Greely in New York, said, "We estimate that a 60 million barrel release by the end of July has the potential to reduce our three-month Brent crude oil price target by $10-$12 a barrel, to $105-$107 a barrel."

"We would expect the release to have less of an impact on prices further out the curve, as the oil would be absorbed to meet current demand. Net, we would expect that the potential impact on Brent crude oil prices in 2012 to be closer to $5-$7 a barrel on average." The analyst team stopped short of an official price revision, saying they wanted to know whether the release would be through a direct sale of crude and oil products from IEA member countries or whether they would operate an exchange.

"We would expect that if the emergency release is implemented through an exchange program there will be less of an impact on crude oil prices for 2012 and beyond than if it is implemented through a direct sale, which would leave more uncertainty over when the government would choose to refill the SPR (U.S. Strategic Petroleum Reserve)," the note said.

J.P. Morgan analysts said the offer of strategic oil inventory "should be seen not only as a stop-gap due to insufficient global supply, but also as an injection of stimulus into the world economy, and result in a significant shift in world oil pricing dynamics in the third quarter." J.P. Morgan said the new forecast was the same it had before the disruption to Libyan supplies. "IEA countries have replaced OPEC as the supplier of the marginal barrel to the market, with significant pricing power conferred to the U.S. by virtue of its large contribution to the release pool," J.P. Morgan said.

Goldman rocked commodity markets in April when the long-term price bull suddenly turned cautious on the outlook, saying speculators had pushed prices ahead of fundamentals as Brent crested a post-2008 peak near $125 a barrel. After oil prices fell in May, the bank again turned bullish and said the large correction provided a good buying opportunity, raising its year-end Brent forecast to $120 a barrel. Its current three-month forecast is $117 a barrel and its forecast for 2012 is $130 a barrel. Goldman is a long-term bull on oil and has said the 2008 peak of more than $147 a barrel could be surpassed in the coming years.

Greely told Reuters on Wednesday that while a large production increase from Saudi Arabia could limit the size of any global stock draw in the second half of this year, they expected spare production capacity in OPEC to be “effectively exhausted” by rising demand in 2012. The plan to tap U.S. emergency oil reserves had been under way for nearly two months, but President Barack Obama held off in order to consult with other consuming nations and key OPEC producers, an administration official told Reuters on Thursday.

Schlumberger bags Iraq drill deal

Upstream Online, *20.06.2011*

Schlumberger has bagged a large drilling deal in Iraq from a consortium led by Russia’s Gazprom Neft. The value of the contract to drill 11 wells at the Badrah field has not, however, been disclosed by the Moscow-based oil giant.

Schlumberger will drill the wells over a three-year period at the field, south-east of the capital Baghdad. The consortium - led by oil giant Gazprom Neft but also including Petronas, Kogas and Turkish Petroleum (TPAO) – has its eye on drilling a total of 17 wells at the field by 2017. It is not clear from today’s announcement, however, if Schlumberger has retained options for the six remaining wells.

Drilling of the first batch of appraisal and development wells is expected to be completed by early next year but no mention was made of a first spudding date. Nobody was immediately available for comment at Gazprom Neft while Schlumberger has yet to announce the deal.

Gazprom Neft’s deputy chief executive for exploration and production, Boris Zilbermints, wrote: “The formation of operating well stock will enable us to meet the primary objective of the consortium’s participants: to begin production at the oil deposit in 2013, as stipulated in the service agreement”. That service agreement, aimed at developing the 109-million-barrel field, was penned in early 2010. Gazprom Neft holds a 30% stake in the consortium with Kogas grabbing 22.5%, Petronas 15% and TPAO 7.5%. The Iraqi government retains the balance of 25%.

Russia and China fail to reach 30-year gas supply deal

Reuters, *17.06.2011*

Russia failed to agree on a 30-year gas supply deal with China in time for signing on Friday because of differences over the price of a deal, which could be worth up to $1 trillion.

Russian President Dmitry Medvedev and Chinese President Hu Jintao had hoped to sign the deal, which would help power Beijing's booming economy and allow Moscow to diversify exports away from Europe, at an investment forum in St Petersburg. Russian officials said talks were expected to continue. Hu, speaking at the official opening of the forum, appeared to play down the dispute without mentioning it directly.

"To lend new impetus to our economic growth, we will deepen mutually beneficial cooperation in investment, energy, nuclear energy, aerospace ... in particular we will expand cooperation in new energy ...," he said. Russian Energy Minister Sergei Shmatko also sounded upbeat on the prospects for eventually reaching an agreement between Russian state-controlled gas export monopoly Gazprom and China National Petroleum Corp (CNPC). "There should be no rush. We had a good chance to sign a deal during President Hu Jintao's visit to Russia, but both sides must show flexibility," he told reporters. "We expect talks to continue."

A source close to the talks said the two sides had not been able to close the gap on price terms, with the Chinese seeking a fixed price and the Russians pushing to uphold the oil market link that underpins Gazprom's existing export contracts.

The failure to get the deal over the line came after five years of talks between Russia, the world's largest energy producer, and China, the largest consumer. The deal would have foreseen Russia exporting up to 68 billion cubic meters of gas per year to China, compared to expected export volumes to Europe of more than 150 billion cubic meters this year.

"It is good that we are holding these talks at the top level, which signals that everything is going to be fine," said Deputy Prime Minister Viktor Zubkov, who is also Gazprom's chairman, predicting a 'viable' result. Hu has courted Russia as a way of boosting energy security as robust economic growth increasingly forces China to look abroad for oil and gas.

For Russia, the deal would offer Gazprom an alternative market, assuaging Prime Minister Vladimir Putin's concern of over-reliance on European customers. But while Hu has made securing energy for the world's second-biggest economy a diplomatic priority, relations with Russia have not been smooth.

Negotiations have long been stuck on the issue of price, with Gazprom saying it will not accept a lower effective price than it receives from its core European customers. Negotiators for CNPC have signaled that they will pay no more than $250 per thousand cubic meters, sources at Gazprom said on Wednesday. Russia's gas export monopoly is still targeting a price that will make deliveries to China as profitable as those to European clients, who Gazprom says will pay $500 per thousand cubic meters in the fourth quarter of this year.

Industry officials and analysts said that, given the wide differences on price, political will alone was insufficient to get the deal done, with Russia concerned that offering easy terms to China would undermine its market position in Europe. "The difference on price was huge," said Mikhail Slobodin, executive vice-president for gas at TNK-BP. "China is very pragmatic. It doesn't matter about the visit of the Chinese president – it's a question of economics."

Zha Daojiong, a professor of international relations at Peking University, said it was not surprising a deal proved elusive given the complex interests at stake, but the sides would keep talking. "The deal is not off. In an absolute material sense, China will need Russian gas," Zha said.

Under early terms agreed over five years by negotiators, Russia would deliver 30 bcm per year from fields on the Arctic Yamal peninsula, the same fields which supply Europe -- via pipeline through the Altai region to northern China. China would also like to contract an additional 38 bcm from yet untapped fields in East Siberia. The combined income over three decades, assuming a price of $500 per thousand cubic meters, would generate some $1 trillion.

First horizontal shale gas well drilled in Poland

Oil & Gas Journal, *21.06.2011*

Poland's first horizontal shale gas well has been drilled, logged, cased and awaits extensive stimulation in the third quarter of 2011, said 3Legs Resources PLC.

The company drilled and cased the Lebien LE-2H well from the same location as its Lebien LE-1 vertical well. Lebien LE-2H went to 4,080 m measured total depth including a 1,000-m horizontal section placed in a 5-m target zone in organic-rich Lower Paleozoic shales. The well encountered high gas saturations throughout the horizontal section. The rig will move to drill the company's Warblino LE-2H horizontal well on its Damnica license, scheduled to spud in third quarter.

TNK-BP to invest $1.8B in Ukraine shale gas by 2017-18

Rigzone (Dow Jones), *24.06.2011*

BP's Russian joint venture TNK-BP Ltd. plans to invest $1.8 billion in unconventional gas projects in Ukraine over the next six to seven years, the company's vice president for gas and power supply Mikhail Slobodin said.

Investing $1.8 billion into six Ukrainian shale deposits until 2017 or 2018 will allow TNK-BP to produce up to 3 bcm of gas a year, with initial production lower than that, Slobodin told. Unconventional gas sources such as shale gas have caught the interest of major players on the European market. U.S. oil major Chevron has recently acquired shale gas acreage in Poland and Romania.

"Even though they had success with shale gas in the United States, it doesn't mean we will have the same success in Ukraine or Poland," Slobodin said. "No-one really knows." Ukraine's eastern Donetsk region may hold considerable shale deposits, an unconventional source of natural gas produced by a method known as hydraulic fracturing. TNK-BP, a joint venture between U.K. oil major BP and a group of Soviet-born billionaire investors, is targeting six licenses containing unconventional tight gas in Ukraine.

BP plans to build 300 wells in Oman

Rigzone (Dow Jones Newswires), *22.06.2011*

BP aims to develop 300 natural gas wells in Oman, Chief Executive Bob Dudley said. "Today we have just the three wells (in Oman), the plan is to have 300," Dudley said. Developing tight gas resources in the Gulf State "will be one of the largest projects in BP's portfolio."

Dudley's comments follow a recent report that BP is considering investing $15 billion over 10 years to develop the Block 61 tight gas fields in the country. Citing the vice-president of BP Oman, the company will submit a field development plan to the government early next year, which includes a 1.2 billion cubic-feet-a-day gas processing plant, with production seen starting by early 2017.

IEA sees OPEC's effective capacity at just 3.15 million b/d

Platts, *20.06.2011*

The International Energy Agency (IEA) the week ended June 17 published its latest set of medium-term forecasts, including projections for OPEC spare capacity. The oil producer club has already seen its spare capacity dip to 4.15 million b/d from 5.76 million b/d in 2010, largely because of the need to compensate for the loss of Libyan crude, the IEA says in its latest set of medium-term forecasts.

But these are notional figures, the IEA adds, pointing out that effective spare capacity tends to be lower to the tune of about 1 million b/d. So OPEC's effective capacity is closer to 3.15 million b/d.

That figure is projected to increase steadily over the period to 2016, when it is forecast to average 4.36 million b/d. OPEC's overall production capacity is forecast to rise by 2.13 million b/d to 37.85 million b/d by 2016, but this year it's on track to hit a four-year low as a result of the loss of Libyan supply, the agency says. "Severely constrained Libyan production through 2012 highlights the lack of light crude spare capacity held by the majority of OPEC members," it says, noting that of the cartel's OPEC's 12 members, only Iraq, Angola and the UAE are "realistically" planning significant capacity expansions by 2016. And Iraq is set to provide more than 70% of the net increase.

The IEA is particularly pessimistic about the prospects for Iranian production capacity, which it sees falling by 20% from 2010 levels over the forecast period. Iran is set for an 810,000 b/d drop in crude production capacity over the next few years that will see its output fall just below the 3.1 million b/d level by 2016, the IEA says. Much broader sanctions targeting financial transactions, including the banking and insurance industries, have largely choked off foreign investment as well as the ability of Iranian companies to procure equipment and materials for their oil projects. Iran has several projects coming on stream over the next several years, including Yadaveran with 85,000 b/d next year, Paranj with 50,000 b/d in 2013 and Darkhovin with 120,000 b/d in 2016. "However, planned additions fall well short of offsetting natural decline, which is conservatively estimated at 8-10% per year," the IEA says.

Furthermore, constant management changes have left the oil ministry and state oil company NIOC short of experienced industry hands and "long on political appointees." "Ultimately, a financial imperative to reverse the production decline may emerge but, for now, relatively high oil prices are mitigating the impactof declining output," the IEA says, adding: "That said, our projections necessarily assume a continuation of the status quo over the forecast period." But, running counter to the dismal outlook for its crude production, Iran's gas liquids capacity is on track to see steady increases over the same period, largely because of projects which have been planned for a long time. By 2016, the IEA says, Iran's production of NGLs and condensate is set to rise by around 340,000 b/d to 868,000 b/d.

EIA: OPEC may earn $1 trillion this year from oil exports

Oil & Gas Journal (Eric Watkins), *17.06.2011*

The Organization of Petroleum Exporting Countries, which last week failed to agree new output targets, stands to earn a record $1.034 trillion from exports this year and even more in 2012, according to the US government.

The US Energy Information Administration said that based on projections from its June Short-Term Energy Outlook (STEO), "OPEC members could earn $1,034 billion of net oil export revenues in 2011 and $1,117 billion in 2012." EIA said OPEC last year earned $778 billion in net oil export revenues, a 35% increase over 2009, with Saudi Arabia earning the lion's share at $225 billion, representing 29% of total OPEC revenues.

The forecast of revenues topping the $1 trillion barrier comes shortly after the June 8 OPEC meeting in which Saudi Arabia was unable to convince an Iranian-led majority of fellow members to boost production in an effort to reduce prices.

OPEC Sec.-Gen. Abdullah El-Badri has since said oil prices will rise and could harm the economy if an expected supply shortage materializes later this year. "This shortage of 2 million bbl, if it materializes, in the third quarter and the fourth quarter, then the price will go up for sure," Badri told the Reuters Global Energy and Climate Summit. "We don't want to see a very high price. We don't want to see a very low price. We would like to see a moderate price," he said. "We think high prices will affect world growth." "I don't think we will see $147[/bbl]," he said. "I think now we have spare capacity. I think if consumers will go to member countries and ask for more oil, I'm sure they will sell it to them."

But El-Badri drew a line at recent lobbying by the International Energy Agency, which represents 28 industrialized countries and has long engaged in cooperation talks with OPEC. "We never interfere in the IEA and really we don't want them to interfere in our business. They should do it in a professional manner. We should not talk to each other through the media," he said.

Ahead of their next scheduled meeting in December, El-Badri said OPEC members would carry out the group's mandate of moderating prices and would reach agreement. "I think the ministers will go back and discuss the outcome of the meeting and they will explain to their governments what happened," El-Badri said, referring to the acrimonious end to OPEC's most recent meeting. "I am sure they will educate themselves more and come up with a decision that will be approved by all the member countries," he said.

Meanwhile, Saudi Arabia's decision to increase output unilaterally to 10 million b/d is reported to be widening the price gap between undersupplied light crude and abundant lower-quality oil, and will force producers to offer their heavy grades to customers at deeper discounts.

European Commission renews push for 2030 renewables target

EurActiv (Arthur Neslen), *17.06.2011*

The European Commission has put its full weight behind a new target to raise the share of renewables in the continent's energy mix by 2030.

The security that this would provide to potential investors was "more important than ever", EU Climate Action Commissioner Connie Hedegaard told a launch of the Intergovernmental Panel on Climate Change (IPCC)'s renewable energies report in Brussels. Hedegaard spoke favourably about a recent call by the renewables industry for a legally-binding target of 45% renewables by 2030, but stopped short of endorsing it.

"Where exactly the figure will be, we should discuss and analyse," she said. "But I will say that I will do whatever I can to get this discussion reflected in the energy roadmap that will come out later this year for 2050." In March, Energy Commissioner Günther Oettinger told EurActiv that in this document, the Commission would propose "a long-term target for 2030 and 2040 and 2050 and there will be a higher target for renewable energy".

Speaking in a videotaped address to the conference, he said that Brussels had to consider renewables targets for 2030 if clean energy growth was to be continued. "The renewable energy industry has already called for 45%," he said. "Our current work will review all the literature and explore different possible pathways for the European Union." The European Commission's president, José Manuel Barroso, added his voice to the fray, telling the meeting that "2020 is already around the corner and we need to think of intermediate steps up to 2050". "We need not only to think but to act," he added.

The EU's Low Carbon Roadmap for 2050 already has a non-binding target for 40% CO_2 emissions cuts by 2030 and Hedegaard called on EU ministers to approve this "absolutely crucial" milestone at the EU Environment Council next week. There was even a hint that she would push for it to be made binding. "I don't think it is a coincidence," she said, "that we are on track when it comes to the binding [2020] renewables target but [not] the non-binding energy efficiency target. That indicates how important binding targets are."

Renewable energy associations have long called for targets to be firmed up for 2030, so as to ring-fence investment and lock Europe into a strategy for containing global warming to 2°C, above which its effects could be catastrophic. Their efforts may have been indirectly aided by a recent study indicating that CO_2 cuts in the developed world have been illusions bought at the expense of outsourced pollution elsewhere.

EU countries put brakes on transport emissions goal

EurActiv, *17.06.2011*

A proposed objective to cut the EU's transport emissions by 60% by 2050 was considered 'too ambitious' by a majority of the bloc's transport ministers, who stressed that the goal should remain aspirational.

Meeting in Luxembourg, the EU's 27 transport ministers cautioned that the European Commission's proposals, outlined in March this year, should not disadvantage European companies compared with their competitors in Asia or the US. "In order to maintain the Union's competitiveness, similar commitments should be sought at international level," they said.

A proposed objective to cut transport emissions by 60% by 2050 compared to 1990 levels was dismissed as too difficult to attain. "In the opinion of many delegations, the 60% reduction objective is too ambitious and should be considered an indicative target, not a binding one," said the Hungarian EU Presidency in a statement. Some countries stressed that such a target could only be met at the cost of "a complete change in the transport sector," which is today almost totally dependent on fossil fuels. "Today there are no alternative to fossil fuels [that is] competitive in terms of technology and price," ministers admitted in a statement.

The newer EU members from Eastern Europe were the most vocal in rejecting a binding 60% target, while others such as Austria argued that they were achievable and should even be increased, said an EU official close to the talks. Eastern members particularly highlighted wide disparities in transport infrastructure between East and West as a major obstacle to a one-size-fits-all objective on transport emissions. "Some member states point out that, although the White Paper mentions differences between the transport infrastructure in different EU regions, no initiatives or measures are specifically proposed to eliminate these differences," notes the Council's conclusions.

France, Germany and the other countries of 'older' Europe were not opposed but cautious, the official said, adding that the 60% objective was "generally accepted" as long as it remained indicative. The European Commission itself stresses that the 60% goal is not binding as such but would be met with a combination of other measures, including freeing cities from oil-fuelled cars by 2050. But some countries underlined that such an objective is directly linked to technological breakthroughs and should therefore not be taken for granted.

Marjeta Jager, the European Commission's director-general for transport and mobility, warned earlier in May that it would be a "fatal mistake" to postpone measures to reduce oil dependency. "If action is delayed, in the not-too-distant future we may be forced to drastically reduce all our mobility and import technological solutions from other part of the world," Jager said.

Saudi Arabia and US debated oil reserve swap before OPEC

Reuters, *15.06.2011*

In the weeks leading up to the failed June OPEC meeting, U.S. and Saudi officials met to discuss surprising the market with an unprecedented arrangement: exchanging urgently-needed high-quality crude oil stored in the U.S. emergency reserve for heavier, low-quality oil from Saudi Arabia, according to people familiar with the plan.

The idea involved shipping some of the light low-sulphur, or 'sweet,' crude out of the U.S. Strategic Petroleum Reserve to European refiners, who needed it after the war in Libya cut off shipments of its premium crude varieties coveted for making gasoline and diesel.

In return Saudi Arabia would sell its heavier high-sulphur or 'sour' crude at a discount back to the United States to top up the caverns that hold America's emergency stocks. It was a striking suggestion, one that would have demonstrated Washington's readiness to put the SPR to extraordinary use and Riyadh's willingness to work creatively with consumers to quell high prices. But it did not make it past the drawing board, four sources familiar with the talks confirmed. The sources disagree on which country proposed the plan. Two said it fell apart because Riyadh was not willing to subsidize European or U.S. customers by discounting its crude prices below market value. An Obama administration official said Washington did not see a benefit to changing the composition of the U.S. reserves.

The swap idea illustrates a recently deepening engagement between Saudi Arabia and the United States on oil affairs under President Barack Obama, and shows how high the stakes were ahead of the meeting of the Organization of the Petroleum Exporting Countries on June 8 in Vienna. With gasoline prices topping $4 a gallon in many parts of the United States, Obama was seeing his support ebb in opinion polls, just as the White House was beginning to focus on the 2012 election.

The Saudis were concerned about the health of the global economy with oil prices surging above $100 a barrel. Riyadh knew that high prices, while good for short-term income, would cut fuel demand over the longer term. Washington had pressed Saudi Arabia to boost oil production at least twice ahead of the OPEC meeting that ended in failure, sources told Reuters.

After war broke out in Libya and its oil output fell, the Saudis complied with the initial request, but they weren't happy when European refiners didn't jump to buy their crude, even a 'special brew' of lighter quality, an Arab official said. "We need someone to take our crude. We don't just want to store it," the official said.

Industry sources described a ‘difficult’ Riyadh meeting that a U.S. delegation held about a month ago with Saudi Oil Minister Ali al-Naimi. “They were told, ‘If you’re going to find us extra refineries that are asking for demand, we’ll supply that,’” the Arab official said.

Deputies from the U.S. Energy and Treasury departments also visited Riyadh to make the case for stepped-up oil production, a source close to the Saudi government said, although the timing of this meeting was unclear. Jonathan Elkind, Principal Deputy Assistant Secretary for Policy and International Affairs at the Energy Department, did not attend that meeting, as a previous source had said. An administration official said Elkind had not been in Saudi Arabia since February.

Within days of the Riyadh meeting, however, Elkind was in Paris for a regular meeting of the board of governors of the Paris-based International Energy Agency, which speaks for 28 industrialized oil consumer countries. After that meeting, the governing board released an unusually blunt statement urging OPEC to raise output and announcing that it would consider using ‘all the tools’ at its disposal - a clear reference to emergency reserves. The U.S. State and Energy Departments would not comment on whether the meetings took place or offer other details, while the White House has acknowledged regular talks with producers without being specific about their content.

Set up in 1974 to protect oil consumers after the Arab oil embargo, the IEA has held an open and cordial dialogue with OPEC ever since the Gulf War in 1990-1991, one of only two times it has authorized a global release of strategic stocks.

But the May 20 missive suggested a new cooling in the relationship between the world’s big oil consumers and producers, and provoked a backlash from some in OPEC. “Strategic reserves should be kept for their purpose and not used as a weapon against OPEC,” OPEC Secretary General Abdullah al-Badri told the Reuters Global Energy and Climate Summit on Tuesday. “We never interfere in the IEA and really we don’t want them to interfere in our business. They should do it in a professional manner. We should not talk to each other through the media.”

Washington appears to have mostly heeded that comment, and kept quiet about its engagement, in contrast to previous administrations. In April, Obama - who has several times blamed speculators for the run-up in prices - made a rare public call for world oil producers to boost production. “We are in a lot of conversations with major oil producers like Saudi Arabia,” he said in a Detroit television interview.

The tension within the cartel boiled over last week in Vienna, when seven members of the group balked at a Saudi-led plan to increase production. While ministers said the breakdown was caused by differing views over the market outlook in the second half of this year, Iran blamed unspecified consumer countries for influencing the debate.

“What happened shows OPEC is an independent organization,” OPEC governor Mohammad Ali Khatibi told Reuters. “If one wants to exert pressure to make the others give up - no.” The Kingdom declared it would go it alone. Sources say Saudi Arabia is raising production in July by nearly 1 million bpd to around 10 million bpd, although Brent crude oil prices have continued to press higher, reaching a five-week peak of more than $120 a barrel on Tuesday.

The Strategic Petroleum Reserve can be a powerful tool, but in the past it has been reserved almost exclusively to aid U.S. refiners caught in a genuine shortage of supply; the last SPR release came after the Katrina hurricane in 2005, when Gulf Coast oil fields and refiners were idled. Its storage caverns in Texas and Louisiana have more than 700 million barrels of oil but most importantly they contain nearly 300 million barrels of sweet crude, which gives refiners a better yield of low-sulphur automotive fuels. That's theoretically enough to meet total U.S. demand for more than two weeks.

The idea of swapping oil of differing qualities from the U.S. strategic reserves is not completely novel. Royal Dutch Shell made a similar proposal to exchange its own sweet crude for heavy oil from the SPR a number of years ago, at a time when the premium for sweet crude had surged to a record high versus Gulf sour oil. The idea gained no traction with the Bush Administration, and the need for such a swap today appears to some even less relevant. While the premium for Nigeria's light-sweet Bonny Light crude surged to a record over $4 a barrel in the weeks following the halt in Libya's 1 million bpd of exports, it has since then dropped by half. While oil prices remain high, traders say, the argument that it is due to a shortage of a specific sweet type of oil is difficult to make. "It's a moot point," said a senior trading official with a major oil company. "U.S. Gulf is soggy with West African crude."

Sudan threatens to block southern oil pipeline

Today's Zaman, *23.06.2011*

Sudan's president threatened to block pipelines in the south if the government there doesn't pay to transit oil or share it with Khartoum, the official news agency reported.

Southern Sudan voted overwhelmingly in January to secede from Sudan and become an independent country in July. That vote was part of a 2005 peace deal that ended more than two decades of war. The two governments are still negotiating how oil wealth will be shared between the north and the south. President Omar al-Bashir's comments in the port city of Port Sudan seem to be hardening his side's negotiating position, particularly in the context of borders clashes.

Al-Bashir said the southerners "have one of three options: either we share the oil, or they pay fees and taxes for every single barrel that passes through the north or we will shut down the pipeline." Relations between the two partners remained rocky throughout the transitional period. Oil is at the center of the fraught relations, as most of it lies in the south, but all the pipelines and the transporting port are in the north. The south, which does not have any refineries of its own, relies on oil for more than 95 percent of its budget. Even so, al-Bashir said his country still wants good relations with the south. Troops from northern Sudan moved into the disputed central Abyei region last month, sending tens of thousands of people who are aligned with the south fleeing.

Goldman Sachs says Libya oil exports may rise, near-term prices ‘choppy’

Bloomberg, *22.06.2011*

Libyan oil exports could rise by as much as 355,000 barrels a day in the short term from the opposition-controlled part of the country after rebels pledged to resume shipments, according to Goldman Sachs Group Inc.

Libya has seen production drop from about 1.6 million barrels a day in January, before fighting started between opposition forces and troops loyal to leader Muammar Qaddafi, to 200,000 barrels in May, according to Bloomberg estimates. Libyan rebels expect to produce 100,000 barrels of oil a day from fields they control, Ali Tarhouni, the rebel finance minister, said.

“Over the short term, the opposition forces could resume about 200,000 barrels a day of crude exports as some fields and their related export terminals are largely intact,” Goldman analysts including New York-based David Greely, said in a report dated June 21. “A further 155,000 barrels a day could potentially be exported at a later stage from a second loading port under their control.”

Exports could climb as high as 585,000 barrels a day if Qaddafi is removed from power and production is resumed from western fields currently held by the government, the bank said. Bringing back the remaining 1 million barrels a day of exports will be “much more challenging”, according to the report. “Not only are the export terminals currently under the control of the Qaddafi government, but news reports also suggest that some of the installations have been severely damaged,” the analysts wrote in the report.

The loss of light, low sulfur crude from Libya has driven the price of similar supplies higher relative to other global benchmark grades. Refiners favor this type of oil because it yields a larger proportion of gasoline and diesel after basic processing than heavier crude.
Brent, the European marker grade, has climbed to a record $22.29 a barrel over New York’s West Texas Intermediate oil futures and to a premium of $8.35 to Middle East Dubai, the highest for data going back to August 2006.

Oil prices are likely to remain “choppy in the near-term” before rising over the second half of the year, according to the report. New York futures have dropped 5.8 percent since June 14 on concern that the U.S. economy is slowing and Europe’s debt crisis is threatening growth. “Our economists view the current slowdown as largely transient and we expect upward pressure on oil prices to increase in the second half of 2011 as slower, but sustained, oil demand growth draws on inventory and OPEC spare capacity,” the analysts wrote.

Norway and Russia cross the line

Upstream Online, *23.06.2011*

Norway and Russia have signed an intentional pact for dialogue on joint management of oil and gas resources in their recently delineated area of the Barents Sea.

The new memorandum of understanding paves the way for co-operation between the two countries on future field developments in the Arctic frontier region following final ratification of their maritime border treaty earlier this month. They also agreed that the award of licences to develop offshore deposits in the Barents Sea and Arctic Ocean could begin as early as 2013-2014.

Norwegian Oil & Energy Minister Ola Borten Moe said after signing the MoU yesterday with his Russian counterpart Jurij Trutnev that such a co-operation was important to ensure “sustainable development” in the north that is in line with strict environmental and safety standards. Moe said the delimitation treaty has raised his optimism for future prospects in the formerly disputed region in the southern Barents. “The right conditions are now in place for us to establish a co-operation at all levels, not least between Norwegian and Russian companies,” he said.

“Looking ahead, I can envisage joint projects on both the Norwegian and Russian sides between oil companies and the supplier industry. Petroleum activity here can play a significant role in local and regional employment,” he added. Both countries have great expectations for the hydrocarbon potential in the maritime border area, where Norway intends to start shooting seismic shortly as part of an impact assessment study before opening up for exploration licensing.

Meanwhile, Russian oil company Zarubezhneft reportedly is looking to develop the massive Fedinsky High structure, which is thought to hold massive hydrocarbon deposits. A number of prospective structures in the region straddle the new median line and will therefore require joint development by the two countries.

Announcements & Reports

► *Medium-Term Oil and Gas Markets 2011*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=404

► *MENR Natural Annual Report – 2010*

Source : Republic of Turkey Ministry of Energy and Natural Resources
Weblink : http://www.enerji.gov.tr/yayinlar_raporlar/2010_faaliyet_raporu.pdf

Upcoming Events

► *International Electricity Summit* ***(in Turkey)***

Date : 14 – 16 September 2011
Place : Ankara – Turkey
Website : http://www.energy-congress.com/

► *GeoPower Turkey* ***(in Turkey)***

Date : 20 – 21 September 2011
Place : Istanbul – Turkey
Website : http://www.greenpowerconferences.com/geopowerturkey

► *Iraq Future Energy 2011* ***(in Turkey)***

Date : 26 – 29 September 2011
Place : Istanbul – Turkey
Website : http://www.theenergyexchange.co.uk/3/13/articles/255.php?