Oil & Gas Bulletin

► 28.10.2011

Turkey and Azerbaijan sign landmark gas transit agreement

Platts, *25.10.2011*

Turkey and Azerbaijan signed a long awaited agreement to allow the transit of some 10 bcm of Azeri natural gas to Europe, resolving one of the final obstacles preventing the opening of a southern corridor to allow gas to flow from the Caspian to the EU.

A Turkish energy ministry spokesman said the agreement has now been signed. Azerbaijan's President Ilhan Aliyev arrived in Turkey early Tuesday to attend the groundbreaking ceremony for a new feedstock refinery being built in Aliaga and had been expected to sign the gas deal at a meeting with Turkish Prime Minister Recep Tayyip Erdogan.

Turkey and Azerbaijan have been in talks for nearly two years over a far-reaching new gas deal to allow for up to 10 Bcm/year of gas produced from the second phase of Azerbaijan's Shah Deniz field to be exported to Turkey and onto Europe. In addition, Turkey had been hoping to take a further 6 Bcm/year of Azeri gas for its own needs and to finalize a new pricing agreement for existing contracts signed in 2001. Under those contracts, Turkey takes up to 6.6 Bcm/year of gas from the first phase of the Shah Deniz field, which Turkey has been receiving since 2007. A transit deal for Azeri gas to cross Turkey en route to Europe was a pre-requisite for any of the planned Southern Corridor gas pipelines.

On October 1, the BP-led consortium developing the second phase of Shah Deniz gas field received formal proposals from three planned export pipelines. The contenders are: the 31 Bcm/year Nabucco pipeline; the 10 Bcm/year Interconnector Turkey-Greece-Italy (ITGI) link; and the 10-20 Bcm/year Trans Adriatic Pipeline (TAP).

The Azeri government wants a dedicated pipeline through Turkey that will enable them to export gas not only from Shah Deniz 2 but from a cluster of other gas fields, some of which they believe can be brought online in much the same time frame as the giant phase two of Shah Deniz in 2017. The three projects have upped the public relations offensive in recent weeks as the deadline nears. But while Nabucco, ITGI and TAP have spent years trying to convince BP and Azerbaijan of their credentials, BP has also proposed a fourth plan should none of the three meet its needs.

The proposal, which emerged last month in Baku, is simply to supply Shah Deniz 2 gas through Turkey to exit points on Turkey's borders with Greece and Bulgaria and then rely on limited upgrades to existing pipelines -- and to current or planned EU local interconnectors -- to create a market in southeast Europe that will absorb all the 10 Bcm/year of Shah Deniz 2 European exports.

Ankara and Baku put $5 bln in refinery

Hürriyet Daily News (Gökhan Kurtaran), *25.10.2011*

Turkish energy company Turcas and the State Oil Company of Azerbaijan Republic (SOCAR) have poured nearly $5 billion into a refinery at their Petkim Petrokimya Holding joint venture in Izmir, making it Turkey's largest private sector investment. The refinery is scheduled to begin operating in 2015 with a capacity to process 10 million metric tons of crude oil.

The deal is the result of the strong cooperation between Turkey and Azerbaijan, Prime Minister Recep Tayyip Erdogan said during the refinery's groundbreaking ceremony.

The construction process will create 10,000 temporary jobs, while 1,000 permanent jobs will be created following the opening of the Aliaga Petrochemical Peninsula, Erdogan said. "We have previously connected Baku oil to the world through the Baku-Tbilisi-Ceyhan pipeline," the prime minister said. Azerbaijani natural gas is also transported to the eastern province of Erzurum via the Baku-Tbilisi-Erzurum natural gas pipeline.

Erdogan also said a Baku-Tbilisi-Kars railway would also be completed soon to connect the people of the three countries. The privatization of Petkim reinforced the economic relations between Turkey and Azerbaijan by creating an economic partnership stemming from Turkish-Azeri friendship, Azerbaijani President Ilham Aliyev said, adding that the deal followed the logic of the "one nation, two states" mantra shared by Turkey and Azerbaijan.

Yildiz: No natural gas problems in Van

Hürriyet Daily News, *26.10.2011*

Energy and Natural Resources Minister Taner Yildiz has commented on the state of gas pipelines in the quake zone in eastern Turkey, stating that there were "no problems in Van," a Hürriyet Daily News correspondent reported.

"We are inspecting both private and state gas companies," Yildiz said. "There is still a lot to be done by local and central government agencies."

Third seismic ship sets sail for East Mediterranean

Today's Zaman, *23.10.2011*

A new Turkish seismic research ship is scheduled to set sail for the Mediterranean to explore for sources of hydrocarbons, Turkish Energy and Natural Resources Minister Taner Yildiz announced.

Turkey has hired a new seismic research ship for oil and gas exploration, and the ship is scheduled to leave for the eastern Mediterranean, Yildiz announced. Opposing claims that Turkey only had one research ship in the eastern Mediterranean, there were two Turkish ships the Piri Reis and another ship which have currently been conducting research off the coast of the Turkish Republic of Northern Cyprus.

Yildiz explained that the confusion surrounding the existence of a second ship was related to the exploration activities not being "overly publicized" to avoid pressure being put on the international company Turkey hired the ship from. Yildiz further clarified that the ship that was expected to set sail would be the third and that it was hired from a Norwegian company.

"As of Monday morning, a seismic research ship will leave Antalya to conduct three-dimensional exploration over the course of 40 days in a 1,100-kilometer zone," Yildiz was quoted as saying by the NTV news channel on Sunday. The Piri Reis and the second ship were capable of conducting two-dimensional studies, Yıldız also noted, but refrained from disclosing further information about the second ship. The ships, in line with a delineation agreement Turkey signed with the KKTC back in September, will be able to conduct research in the southern, northern and western coasts off the Cypriot island, Yildiz stated. "By Monday, we will have three ships in the eastern Mediterranean doing exploration studies on hydrocarbon sources, which in a way constitutes the beginning of an era of drilling in the Mediterranean for us," Yildiz said.

The Piri Reis set out from Turkey late in September with a mission to reciprocate Greek Cypriot drilling off the island of Cyprus to explore for natural gas and oil reserves under the seabed, a move that constituted the most recent crisis between Turkey and Greek Cyprus. The use of the ship, one of a kind in Turkey, has come under public criticism due to its old age, but Turkish officials bent on responding to the Greek Cypriots' refusal to halt their drilling project insist that the ship can do its job.

Turkey and Greek Cyprus have been deadlocked over territorial disputes for decades. Yildiz said Turkey has been conducting seismic research in the Mediterranean in cooperation with an international company for 40 days, but did disclose who the company was. Cyprus is divided into a Greek Cypriot south and a Turkish Cypriot north. The southern administration began exploratory drilling for oil and gas in mid-September, prompting strong protests from Turkey, which does not recognize the Greek Cypriot administration.

Turkey seeks up to 1.21 million tonnes oil products for 2012

Today's Zaman (Reuters), *25.10.2011*

Turkey is seeking up to 1.21 million tonnes of oil products through a term tender for next year, industry sources said on Tuesday.

The country is seeking 90,000 to 500,000 tonnes of jet fuel, 90,000 to 500,000 tonnes of 10 ppm sulphur diesel, 30,000 to 60,000 tonnes of 0.1 percent sulphur gas oil and 50,000 to 150,000 tonnes of gasoline. The volumes for jet fuel and 0.1 percent sulphur gas oil sought are significantly more than under current term contracts, the source said. But no specific details were available.

The oil products are to be delivered over January to December, they said. The tender, issued by Austrian oil and gas group OMV, which bought Turkish petrol retailer Petrol Ofisi in 2010, closes on Nov. 2. This is the first time the company is negotiating a term contract for the 10 ppm sulphur diesel since Turkey lowered its sulphur specification to 10 ppm in January this year to match European Union standards, industry sources said.

Petrol Ofisi, Turkey's leading refined oil products marketing company, active both in retail and commercial business, currently has a term contract to buy jet fuel from the Middle East's Independent Petroleum Group (IPG), though details on the existing term contract are unclear. The 0.1 percent sulphur gas oil imported through the term tender will likely be used to blend into the ultra low sulfur diesel, traders said. Turkey halted sales of environmentally polluting high-sulphur diesel by April 15, 2011 in line with European Union directives.

"The country has been self-sufficient for high sulphur gas oil but when they switched to 10 ppm, they have been importing spot cargoes so that local refineries are able to meet demand and cover any potential shortfalls," said a source familiar with the Turkish market.

Libya was once a key supplier of jet fuel to the region, exporting around 30,000 barrels per day to Europe before the uprising against the rule of Muammar Gaddafi. But Libya's exports remain at a standstill, while other refineries in the Mediterranean have reduced runs as high oil prices have eaten into profit margins. Supply has been further limited by industrial action in Greece, where social unrest hit Hellenic Petroleum's refineries and output has stopped and started.

Fuel tax income to reach 33.6 bln liras

Hürriyet Daily News, *23.10.2011*

Turkey's special consumption tax (SCT) on fuel and natural gas, used as a major instrument to boost the country's budget, is expected to generate 33.6 billion Turkish Liras by the end of this year.

Total tax revenues generated through the SCT on fuel and natural gas is expected to reach 36.5 billion liras by the end 2012, thus marking an 8 percent increase compared to the forecast for 2011. The Turkish state collected nearly 22.2 billion liras from SCT on oil and gas in 2007, 23.9 billion liras in 2008, as well as 25.6 billion liras and 31.7 billion liras in 2009 and 2010 respectively.

Including estimated special tax revenues for this year and 2012, the country will generate 173.5 billion lira in the six-year period between 2007 and 2012. The Turkish government is expected to collect nearly 5.9 billion liras from the special tax on motor vehicles by the end of this year. SCT revenues from motor vehicles are also expected to see a 14 percent rise in 2012, compared with this year reaching to 6.76 billion liras in total. The government uses tax revenues for taming the country's chronic current account deficit problem, which is likely to peak at 9.4 percent of gross domestic product this year. The government plans to reduce the gap to 8 percent next year and further to 7.5 percent in 2013 and 7 percent by 2014.

Fear, wrangling hamper Libyan oil recovery

Upstream Online, *27.10.2011*

A speedy return of Libyan oil output to pre-war levels is facing new obstacles as foreign firms struggle to negotiate who will provide security for workers vulnerable to attacks in the desert and in cities bristling with weapons, a report said.

The largest contractors working on Libya's oil fields say most foreign companies still have no timeframe in place for returning evacuated staff, and few have volunteered to return. Libya, holder of Africa's largest oil reserves, is currently pumping around 500,000 barrels per day and industry sources doubt it can quickly triple output to pre-war levels, which represented around 2% of global oil consumption.

"Foreigners are not coming back any time soon. At the moment we are planning with a Libyan workforce, with the exception of a few expats who have opted to come back," a manager at one of Libya's largest oil services companies told the news wire. Before the war, foreign workers, many with crucial expertise, made up as much as a quarter of the staff at some oil services companies. Not only foreigners but some locals with expertise are also unwilling to return to the fields without a substantial pay rise or are demanding a change in management, industry sources say.

Foreign oil workers want protection by Western companies, believing they will provide better security. They are also reluctant to wait for the government to provide the troops required to secure vast and remote outposts in a process they say could take months. "The companies we all speak with say they are insisting on having their own security that is up to Western standards, and this is a requirement for doing business," said a western security contractor.

But Libya's National Oil Corp. (NOC) and ruling National Transitional Council (NTC) are opposed to letting foreigners add to the array of fractious and heavily armed forces keeping the country under control. "The NTC does not want expats used as security forces in the field, but more in a training role," said Chris Penketh, a UK-based consultant for the oil and gas industry, in Benghazi. "Before there was no real market for international security companies - oil and gas operations here had armed guards but they were Libyan military or local oil company employees."

The oil service company manager said he did not expect a significant number of foreigners back before March 2012 at the earliest. Adding to the difficulty of assessing the threat to workers and who should provide security, firms are wrangling over the costs of guarding vast stretches of desert and face demands from skilled workers for more money to return to vulnerable areas. Negotiations can be frustrating and last for weeks. Some companies say they are resigned to covering the bulk of the extra expenses in post-war Libya, at least until an army is assembled and deployed to oil fields.

"Contractors coming from abroad are asking for more, for their firms and their workers, with rises of 30% to 50%," said one contractor for a major oil firm. "But Libyans are totally unreceptive to the need to increase pay and the increase has to be entirely absorbed by the foreign party," he added. He said that Germany's Wintershall had already agreed to wage increases, while others, including Italy's Eni, were engaged in endless discussions over the terms of reactivated contracts. Others appear to have found the procedure more harmonious and another manager at a major oil services company said the security cost issue had so far been an area where his firm was able to find a compromise with the Libyans. "We say we cannot put our staff in danger, but the result will vary by agreement and volume of work," he said.

Even when both parties are cooperative, the scale of operations, which require assessing numerous and vast fields across remote parts of Libya's desert, will take a long time. In the west of the country and in areas south of Mesla the majority of sites have yet to be checked. "We can start in places that require less security, some fields are in very remote places and huge and that will take more time," the manager said. The possibility of the country relapsing into war is also deterring oil companies from committing to the expensive process of sending back foreigners, and eventually their families. "They need to make laws and put security in place, and I'm talking about security in general. Like in cities full of guns, the last thing that we want is a stray bullet killing one of our employees," said the manager at one of Libya's largest oil services companies.

EU crackdown on oil firms will not extend to overseas operations

EurActiv, *26.10.2011*

European plans to crack down on oil companies, with orders to improve safety to prevent a spill like that in the Gulf of Mexico last year, will be unveiled. The European Commission has stopped short of extending the tougher new rules to the overseas operations of EU-based companies, after pressure from oil companies and the UK government.

The measures, from the European Union's energy commissioner, Guenther Oettinger, will force companies drilling in EU waters to release details of their safety procedures, place new liabilities on them in the event of an accident, and require them to prove they have the money to clean up any spills that do occur.

"Oil companies have to be fully liable," Oettinger told the Guardian. "We want to make sure that the highest standards are put in place." At least 486 UK installations will be covered by the new rules, more than in all of the other member states combined. The rules apply to all drilling sites within 200 miles of the coast, the first time EU regulations on oil drilling have been extended so far. Previously they were limited to 12 miles. They would cover the boundary with international waters where the legal standing of wells is unclear, and mean virtually all offshore oil drilling operations within the EU will be covered.

Oil drillers will have to use a higher standard of equipment, and will have to prove they can pay for any damage they cause, either through an obligation to buy sufficient insurance or by paying into a fund – it will be left to member states to decide which one. Companies will also have to submit to independent third party auditing. However, the commission will not force European companies to adhere to the same standards in their overseas operations, a step some activists had called for in order to improve the sometimes woeful safety record of European oil companies in developing countries.

For instance, this year the Guardian uncovered in Nigeria evidence of oil leaks for which Shell was partly liable, amounting to a greater volume of spillage than in the Gulf accident. If the EU had extended its rules as urged, Shell would be forced to reveal details of its practices and prove it was using the same stringent safety controls it uses in the North Sea.

Oettinger said such a sweeping change was outside the scope of the current directive, and extension would be hard to formulate in legal terms as it would involve complex areas of international law. But he vowed to put pressure on companies to pursue 'best practice' and to co-operate with other countries to achieve this, particularly around the Mediterranean. If European companies did not voluntarily extend their EU safety practices to other areas, he indicated, this issue could be looked at again.

The EU will stay out of rows over where drilling should be allowed to take place. At present, several companies are seeking to explore areas near the Shetland Islands and in Greenland where their wells would be in far deeper water than normal, and potentially in environmentally sensitive areas. Activists oppose these operations, warning of the dangers of leaks occurring where they are difficult to reach, and where they could damage pristine habitats. Greenpeace has mounted several protests against Cairn Energy this year in an attempt to stop its operations in Arctic waters.

The new energy directive may face a difficult ride through the rest of the legislative process, as the UK government is known to be wary of some of the plans. If it is accepted, it could be in force by the end of next year. The Department of Energy and Climate Change said:

“Today the UK has a robust, proven national regime with decades of experience in regulating the offshore industry. The lessons of Piper Alpha led to a dramatic improvement in the regulatory system in the UK and more generally in Europe. We know that the commission is considering proposals which might result in a greater regulatory burden on the UK industry. We will continue to work with the commission towards a pragmatic approach which does not reduce the standards of the very robust regulatory system which we already have here.”

Gazprom, Wintershall in asset swap deal

Upstream Online, *28.10.2011*

Gazprom in getting its hands on some of Winterhall’s North Sea assets as the pair pen a framework asset swap deal also covering field development in Russia. The deal, hatched on Friday, will see the two energy giants jointly develop another two blocks in the Achimov formation at the Urengoy field in western Siberia.

Germany’s Wintershall is to take a 25% interest in developing Blocks IV and V at Urengoy with an option to bump its holding up to 50%, a statement from parent company, BASF, read.

In return Russian gas giant Gazprom is getting half of Wintershall’s stakes in some North Sea interests. Although BASF did not identify which interests are being considered, or if any had yet been nominated, it did indicate that they are in the UK and Netherlands North Sea regions. BASF did not put any value on the deal but said that Gazprom would “receive interests of equal value” in Wintershall North Sea projects as a result of the deal in Siberia. Friday’s framework asset swap agreement was penned in the German city of Ludwigshafen by Gazprom chairman Alexei Miller and his counterpart at BASF, Kurt Bock.

IEA top economist calls for bonfire of the fossil fuel subsidies

EurActiv, *25.10.2011*

The chief economist of the International Energy Agency (IEA) has urged the world to slash hundreds of billions of dollars of fossil fuel subsidies or face the prospect of a catastrophic 3.5 degrees Centigrade rise in global temperatures.

“Today $409 billion equivalent of fossil fuels subsidies are in place which encourage developing countries - where the bulk of the energy demand and CO2 emissions come from – [towards a] wasteful use of energy,” Fatih Birol told EurActiv in an exclusive interview. The sum represents a $110 billion increase on the 2009 level.

According to Birol, cutting such subsidies in major non-OECD countries is “the one single policy item” which could help re-orient the world towards a trajectory of 2 degrees global warming. It would also reduce CO2 emissions and help renewable energies such as solar and wind power to get a bigger market share, according to the IEA’s World Energy Outlook 2011 report which will be released on 9 November.

Analysis in the report “indicates that the door for a 2 degrees trajectory may be closing if we do not act urgently and boldly,” Birol said. “In our central scenario, seven countries introduce some form of carbon pricing which brings us to a 3.5 degree trajectory,” he added. “But if we want to keep the temperature increase to 2 degrees, many more countries need to do so. The most important condition is that there’s coordinated international action in place.”

A 3.5 degree temperature rise would cause “irreversible impacts” according to the Inter-governmental Panel on Climate Change (IPCC), including the mass extinction of an estimated 40%-70% of the world’s species. To avoid this nightmare scenario, Birol said that the upcoming Climate Change conference in Durban, South Africa, could be “very important and in fact one of the last opportunities if we are serious about limiting temperature increase to 2 degrees Celsius.” “However, looking at the current international policy debate on climate change I would say that the wind is not blowing in the right direction,” he warned.

Outside of the talks, an international consensus already exists on the need to try to cut CO2 emissions by providing start-up finance to renewable energy firms through loans, tariffs, guarantees, and incentives. But research by Bloomberg New Energy Finance in 2010 found that governments around the world were spending twelve times more on fossil fuel subsidies than on those for renewable energy. “Since fossil fuel prices are heavily subsidised, renewable energies have to compete with a low price fossil fuel energy production, which is definitely unfair,” Birol said.

By 2020, the IEA expects global fossil fuel consumption subsidies to reach $660 billion, or 0.7% of global GDP. If the aid was phased out, growth in energy demand would be cut by 4.1%, oil demand would fall by 3.7 million barrels a day and CO2 emissions would be cut by 1.7 gigatonnes. Some developing world economies are unenthusiastic about removing aid to money-spinning fossil fuel industries that are trying to compete with their already well-established (and previously subsidized) Western counterparts.

Christopher Burghardt, the Vice President of a leading US solar energy firm, First Solar, said that the issue for him was “less about levelling [fossil fuel] subsidies than ending them”. “Such a step would be a critical one on the way to an electricity market in which renewable and traditional generation can compete on a level playing field,” he added In an interview with EurActiv earlier this year, Achim Steiner, the executive director of the United Nations Environment Programme also argued that state aid to fossil fuel industries was incentivising greenhouse gas emissions.

Transneft launches Purpe – Samotlor pipeline

Oil & Gas Journal (Eric Watkins), *25.10.2011*

Russia’s state-owned OAO Transneft reported commissioning of the 430-km, 500,000 b/d Purpe-Samotlor oil pipeline, boosting the country’s export potential.

“The commissioning of the Purpe-Samotlor line allows Russia to react quickly on market situations and diversify crude supplies westward and eastward,” said Russia’s Energy Minister Sergei Shmatko. The Purpe-Samotlor line forms a section of the Zapolyarye-Purpe-Samotlor oil pipeline that links fields located on the Yamal Peninsula with the East Siberia-Pacific Ocean (ESPO) pipeline.

The new line also connects Russia’s refineries and international markets to fields in northern areas of East Siberia’s Krasnoyarsk region and West Siberia’s Yamal-Nenets Autonomous regions. The Purpe-Samotlor line is joined to Russia’s national pipeline network, facilitating the transport of oil into the country’s inland Druzhba pipeline and on to Europe.

The line also can be used to transport oil to export terminals at Primorsk on the Baltic Sea, Novorossiisk and Tuapse on the Black Sea, and into the ESPO pipeline which runs from Taishet in East Siberia to Skovorodino in Russia’s far eastern Amur region. From Skovorodino, Russia then transports 300,000 b/d of ESPO crude by rail to the export terminal of Kozmino on the Pacific Coast, while a further 300,000 b/d goes to China via a 70-km pipeline spur. Earlier this month, Transneft briefly halted supplies along the ESPO line after a 6.1 magnitude earthquake in the Amur region, some 20 km from Skovorodino. Operations resumed on Oct 14 after a few hours’ delay, with no damage to the line, according to Transneft.

Announcements & Reports

► EMRA Board Resolution on Western Line

Source : Energy Market Regulatory Authority
Weblink : www.epdk.org.tr/documents/10157/893dbe17-7307-49d2-bb0b-cc5693dcbb0f

► IEA Journal (Autumn 2011)

Source : International Energy Agency
Weblink : http://www.iea.org/IEAEnergy/IEAEnergy_Issue1.pdf

► Energy Policies of IEA Countries – Greece

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=408

Upcoming Events

► Shale Gas Environmental Summit

Date : 2 – 3 November 2011
Place : London – UK
Website : http://www.smi-online.co.uk/events/overview.asp?is=5&ref=3742

► Shale Gas World Europe 2011

Date : 28 November – 1 December 2011
Place : Warsaw – Poland
Website : http://www.terrapinn.com/2011/shale-gas-conference/

► GeoPower Europe

Date : 6 - 7 December 2011
Place : Milan – Italy
Website : http://www.greenpowerconferences.com/