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PETFORM

Turkey, Azerbaijan deal to transfer gas to Europe

Hürriyet Daily News, *27.12.2011*

Ankara and Baku have officially inked a deal to transport 16 billion cubic meters of Caspian gas annually to Turkey. The $5 billion pipeline project aims at both providing gas to Turkey and selling a noteworthy amount to Europe. However, sector professionals believe the deal may kill the long-time lingering Nabbuco project.

Yesterday's landmark natural gas project deal between Turkey and Azerbaijan threatens Nabucco's future, the lingering plan to carry the Caspian resources to energy-hungry Europe, according to many sector professionals.

The $5 billion Trans Anatolian pipeline project does not mean shelving Nabucco, said Turkish Energy Minister Taner Yildiz. "The Trans-Anatolian project does not mean abandoning those projects. This project does not leave any excuse on transportation or feasibility for the producer countries and projects as being an important alternative pipeline," he said during the signing ceremony in the capital city of Ankara. Yildiz was referring to other projects such as Nabucco, the Trans Adriatic Pipeline (TAP) and Interconnection Turkey Greece and Italy (ITGI).

However a number of professionals interviewed by the Daily News disagree. "Nabucco has become of second importance with this project," Tugrul Erkin, energy professional and head of Turkish-Eurasian Business Councils, said. "Both pipelines Trans Anatolian and Nabucco are not viable at least for the next five years. You have to solve the resource problem in the first place." Speaking on the possible three gas resources Erkin said, "Azerbaijan cannot feed the Trans Anatolian pipeline alone as it does not have enough gas." The two other possible suppliers, Iran and Iraq, are not viable either due to stability issues, said Erkin. "You need at least five years to put such projects into operation." Still, it is more possible to realize Trans Anatolia with respect to Nabucco because it is easier for parties to settle on Trans Anatolia, he said.

"At first sight, the Turkish part of Nabucco project will not stay as it was planned," said Cenk Pala, an energy expert and former strategy department head at Turkey's state-run pipeline company BOTAS. "If Libyan and Algerian gas can be transported through Italy to Europe, this will also affect Nabucco negatively." However, a positive move for Iraqi gas in three years' time may revitalize Nabucco, Pala said.

Ferruh Demirmen, a petroleum consultant based in Houston, Texas, wrote in a recent article that the Trans Anatolian project was a blow to Nabucco. "From the outset Nabucco was stymied by lack of throughput gas. Over time, the construction of the pipeline was repeatedly delayed, the cost increased sharply to as much as 14 to 15 billion euros ($20 billion), the potential creditors held back their credit guarantees, and competing projects emerged, ITGI and TAP, both designed to reach Italy."

Trans Anatolia means Azeri gas will be connected to Nabucco not from Georgian but from Bulgarian border, said Yildiz. “We are planning projects not only for Azeri gas, but also other supplies that will still be transferred through Azerbaijan.” “The Trans-Anatolian pipeline will carry 16 billion cubic meters of natural gas of which 6 billion cubic meters are reserved for Turkey,” Natig Aliyev, Yildiz’s Azerbaijani counterpart said. Total capacity could be increased to 24 billion cubic meters soon, he said.

Voicing a similar optimistic view on Nabucco, Mehmet Kazanci, a businessman in the energy sector, told Daily News that “Both Trans Anatolia and Nabucco projects may be viable in the future.” Kazanci also heads the sector association GAZBIR. Citing Europe’s gas need will rise rapidly to 750 billion cubic meters in 10 years from 500 billion today and the shutdowns of nuclear and coal plants on the continent, Kazanci said he believes there will be a vast demand from Europe.

As for the gas supply Kazanci said Turkey can solve any political problems regarding the Trans Anatolia project in the region to sustain supply security and pipelines. Two thirds of the 6,500 kilometers long Nabucco pipeline is planned to cross Turkey. Austria, Hungary, Romania, Bulgaria, Germany and Turkey are cooperating in much discussed Nabucco pipeline project. Trans Anatolia envisages sale of Azerbaijani natural gas in Turkey as well as in Europe via Turkey.

Turk-Russian gas deal follows Azeri accord

Hürriyet Daily News, *29.12.2011*

Ankara puts the finishing touches on a massive new gas deal, signing a historic agreement with Moscow after a similar recent one with Baku.

Just two days after signing a memorandum of understanding with Azerbaijan to build a massive east-west pipeline, Turkey struck another historic gas deal with Russia, allowing the energy giant to develop its plans for future exports to Europe. Premier Vladimir Putin, who received written permission for the South Stream project from visiting Turkish Energy Minister Taner Yildiz, described the approval as “a big event in Europe’s energy sphere,” Russian news agencies reported.

“I would like to thank Turkey for its decision to issue final approval to construct the South Stream pipeline through Turkey’s special economic zone,” Putin said during talks with Yildiz. Along with the deal, Turkey and Russia gained extra time to solve a dispute over the Westline, a pipeline that supplies 6 billion cubic meters of gas to Istanbul and its environs every year.

The South Stream project, which passes through the Black Sea, is scheduled to start operating in 2015. The line will ship up to 63 billion cubic meters of gas annually to Bulgaria, Serbia, Hungary, Slovenia, Austria and Italy in one leg and Croatia, Macedonia, Greece and Turkey in another.

The permission was the final hurdle to the pipeline's construction, and Russian energy giant Gazprom's chief executive Alexei Miller described it as "the most serious proof" that the project would be completed by 2015. "The South Stream project has entered a new phase: construction," Reuters quoted him as saying. "The permission is final."

South Stream, funded by Gazprom, France's EdF, Italy's Eni and Germany's Wintershall, rivals the EU-backed Nabucco pipeline that is slated to ship gas from the Caspian region to Austria. Turkey has said the two projects should complement each other. However, many analysts believe the recent moves by Turkey cloud the future of Nabucco, nearly two-thirds of which is projected to pass through Turkey.

Turkey and Azerbaijan signed a memorandum of understanding on Dec. 26 to establish a venture that will build the Trans-Anatolia pipeline, which stretches across Turkey from east to west, with a capacity of 16 billion cubic meters a year. Socar will work with Turkey's state-owned pipeline operator BOTAS to build the 2,000-kilometer conduit. Socar will hold 80 percent of the venture, Yildiz said. Russia sees the South Stream as the final replacement for the Ukrainian route for Russian gas.

Gazprom said it had also resolved a deliveries dispute with Turkey that saw Ankara revoke a contract with Russia earlier this year. Gazprom said delivery terms for both the Westline to Istanbul and the Blue Stream pipeline under the Black Sea had been agreed through the end of 2012.

Terms of the agreement were not disclosed but the Russian media had earlier reported that Turkey was purposely delaying its approval of the South Stream route in order to bargain for lower prices. The contracts signed with Turkey's BOTAS, the state-run pipeline company, will allow Gazprom to boost exports to Turkey by 2 billion cubic meters next year, Miller said.

"There is no new agreement with Russia concerning the purchase of natural gas from the Westline," Anatolia news agency quoted Yildiz as saying. However, Yıldız said the parties agreed to transfer 3 billion cubic meters of gas that had originally been slated for transport via Blue Stream to Westline until Turkish private companies struck a deal with Russia. BOTAS had withdrawn from Westline due to a price dispute with Russia in September. Since then, Turkish private firms have been bargaining on possible gas exports from Russia. "We have signed a new addendum until private companies sign an agreement for the Westline," Yildiz said.

Discount for Russian gas

Hürriyet Daily News, *30.12.2011*

Ankara scored 'a serious discount' on Russian natural gas after agreeing to allow Moscow to build a pipeline through Turkish waters, Energy Minister Taner Yildiz said. "Turkey is in a better position in terms of natural gas compared with three months ago. The South Stream Project opened a space to improve our strategic partnership with Russia," he told.

The minister said the discount Turkey received on Russian gas would be valid until the end of contract terms in 2021 and 2025. Yildiz added Turkey agreed to the South Stream project to fulfill its task of helping supply Europe's energy demand.

"Although the energy chapter has not been raised in our negotiations with the European Union, Turkey allowed this project to fulfill its requirements regarding energy. After this deal, no project will be left dependent on Turkey's consent. I hope the EU will open the energy chapter in our negotiations," Yildiz said. Turkey will purchase 3 million cubic meters of Russian gas that was originally slated for take-or-pay contracts, he said.

Turkey's state-run pipeline company BOTAS withdrew from Westline due to a price dispute with Russia in September. Since then, Turkish private firms have been bargaining on possible gas exports from Russia. "If private companies sign an agreement for the Westline, they can take the natural gas as of June 2012," Yildiz said.

The energy minister said the Trans-Anatolia pipeline would not overshadow the Nabucco project. Turkey and Azerbaijan signed a memorandum of understanding Dec. 26 to establish a venture to build the Trans-Anatolia pipeline, which will stretch across Turkey from east to west and possess a capacity of 16 billion cubic meters a year. "Trans-Anatolia will not overshadow Nabucco, but if Trans-Anatolia can be carried out, Nabucco would take the natural gas from the Bulgarian border instead of Georgia," he said.

Commenting on oil exploration in the Black Sea, Yildiz said Turkey would not give up drilling for oil in the region. Oil exploration takes a long time, he said. "We will not give up after the seven drilling [operations] – we will continue exploration in the Black Sea. If there are offers from private firms, we will evaluate them."

South Stream pending on additional environmental consent

Today's Zaman (Ismail Altunsoy), *05.01.2012*

Information gained from sources close to the Ministry of Energy and Natural Resources indicates the permission given by the ministry to build the South Stream pipeline in order to enable the passage of Russian gas through Turkish territorial waters in the Black Sea is not sufficient and that the project still must complete an Environmental Impact Assessment to make sure it is built in full compliance with regulations.

The project will also need to receive additional authorization from Turkish officials during the construction process in order to be sure the pipeline is being built in accordance with international security and construction regulations.

Ministry sources said the pipeline will be licensed to operate upon the completion of the requirements. The same sources indicated the Russians have informed the ministry they are willing to complete any required procedures. The sources also said Turkey is only involved in the permissions phase of the project. Russia expected Turkey to give its approval for construction of the pipeline by the end of October 2010, but demands from Turkey for seismic reports on the pipeline route in Turkish territorial waters delayed the project. Upon the completion of reports in April 2011, Turkey approved the project in December. South Stream will transport up to 63 billion cubic meters of gas when it opens in 2015.

Noble finds significant gas offshore Cyprus

Rigzone, *28.12.2011*

The Noble Energy announced a natural gas discovery at the Cyprus Block 12 prospect, offshore the Cyprus. The Cyprus A-1 well encountered approximately 310 feet of net natural gas pay in multiple high-quality Miocene sand intervals.

The discovery well was drilled to a depth of 19,225 feet in water depth of about 5,540 feet. Results from drilling, formation logs and initial evaluation work indicate an estimated gross resource range of 5 to 8 trillion cubic feet (Tcf), with a gross mean of 7 Tcf. The Cyprus Block 12 field covers approximately 40 square miles and will require additional appraisal drilling prior to development.

"We are excited to announce the discovery of significant natural gas resources in Cyprus on Block 12," Charles D. Davidson, Noble Energy's Chairman and CEO, said. "This is the fifth consecutive natural gas field discovery for Noble Energy and our partners in the greater Levant basin, with total gross mean resources for the five discoveries currently estimated to be over 33 Tcf. This latest discovery in Cyprus further highlights the quality and significance of this world-class basin."

Davidson went on to say, "We would like to thank the Government of Cyprus for their productive cooperation and support in achieving an important outcome for the people of Cyprus and Noble Energy. We look forward to working closely with the Government of Cyprus to develop this discovery in a manner that maximizes value for all stakeholders." Noble Energy operates the well with a 70 percent working interest. Delek Drilling and Avner Oil Exploration will each have 15 percent, subject to final approval by the Government of Cyprus.

Syria oil production drops dramatically

EurActiv, *21.12.2011*

Smoke rises over Syria's Homs city on Dec 8 after an attack on a vital refinery. The sanction has pushed oil production down by 30 to 35 percent, officials say.

Syria's oil production has fallen by about 30 to 35 percent as a result of sanctions imposed on the country over its nine-month crackdown on anti-government protests, according to Oil Minister Sufian Alao. The European Union has stepped up its sanctions against Syria's oil industry, including blacklisting state-owned firms. The Arab League has also imposed sanctions on financial and other dealings with Syria.

"We have reduced our production by 30 to 35 percent until we resume exports," he told reporters on the sidelines of an Arab oil ministers meeting in Cairo Dec. 24. He said the current output was about 260,000 barrels per day (bpd). "These are dark sanctions that no other country has been through before. They stopped buying Syrian oil and we are facing difficulties in exports and this has a negative effect on our people," he said. Alao said Syria's production capacity was about 380,000 bpd and its refining capacity was 250,000 to 255,000 bpd.

"We reduced our crude oil production and now we are importing products such as gasoline and liquid petroleum gas, but we are facing problems in dealing with banks," he said. He said European firms had faced bans on operating in Syria, prompting companies such as Shell and Total to stop work there. "Our local companies are capable of continuing." In accordance with EU sanctions, Royal Dutch Shell and Total both said this month they would cease production activities in Syria.

Iran warns West on oil passage in Hormuz

Hürriyet Daily News, *28.12.2011*

Not a single drop of oil will pass through the key oil transit Strait of Hormuz if the West applies sanctions on Iran's oil exports, Vice President Mohammad Reza Rahimi warned.

The threat was reported as Iran conducted navy war games near the Strait of Hormuz, at the entrance of the oil-rich Gulf. "If sanctions are adopted against Iranian oil, not a drop of oil will pass through the Strait of Hormuz," Rahimi said. "We have no desire for hostilities or violence but the West doesn't want to go back on its plan" to impose sanctions, he said. "The enemies will only drop their plots when we put them back in their place," he said.

The threat underlined Iran's readiness to target the narrow stretch of water along its Gulf coast if it is attacked or economically strangled by Western sanctions. The Strait of Hormuz is of strategic significance as the passageway for about a third of the world's oil tanker traffic. Beyond it lie vast bodies of water, including the Arabian Sea and the Gulf of Aden. The U.S. Navy's Bahrain-based Fifth Fleet is also active in the area to ensure that passage remains free.

Iran is currently carrying out navy exercises in international waters to the east of the Strait of Hormuz. Ships and aircraft dropped mines in the sea yesterday as part of the drill, according to a navy spokesman. Although Iranian war games occur periodically, the timing of these is seen as a show of strength as the United States and Europe prepare to impose further sanctions on Iran's oil and financial sectors. The last round of sanctions, announced in November, triggered a pro-regime protest in front of the British embassy in Tehran during which Basij militia members overran the mission, ransacking it.

Saudis pledge more oil after Iran’s Hormuz threat

Today’s Zaman (Reuters), *28.12.2011*

Iran has threatened to shut the Strait of Hormuz to oil tanker traffic if its oil exports are also covered by a set of sanctions the West imposes on the Islamic Republic, lifting the crude oil price over $101 a barrel on Tuesday but the upward pressure was somewhat eased when a high ranking Saudi official calmed markets when he said the other Gulf states are ready to offset Iranian oil loss in the global market.

“Closing the Strait of Hormuz for Iran’s armed forces is really easy ... or as Iranians say it will be easier than drinking a glass of water,” Iran’s navy chief Habibollah Sayyari told.

“But right now, we don’t need to shut it as we have the Sea of Oman under control and we can control the transit,” said Sayyari, who is leading 10 days of exercises in the Strait. The Saudi oil ministry official told the Associated Press, however, that OPEC kingpin Saudi Arabia and other Gulf producers were ready to step in if necessary. He did not say what other routes the Gulf nations could take to ship the oil if the strait was closed off. The official spoke late Tuesday on condition of anonymity because he was not authorized to discuss the issue.

They slipped back on Wednesday in thin trade and as the market dismissed it as rhetoric. “The threat by Iran to close the Strait of Hormuz supported the oil market yesterday, but the effect is fading today as it will probably be empty threats as they cannot stop the flow for a longer period due to the amount of US hardware in the area,” said Thorbjoern bak Jensen, an oil analyst with Global Risk Management.

The Strait of Hormuz is “the world’s most important oil chokepoint”, according to the US Department of Energy. The State Department said there was an “element of bluster” in the threat, but underscored that the United States, whose warships patrol in the area, would support the free flow of oil. It was not immediately clear what Sayyari meant by controlling the Sea of Oman, but the Iranian navy has been developing its presence in international waters since 2010 for counter-piracy operations and also to show off its naval power. Iran’s international isolation over its defiant nuclear stance is hurting the country’s oil-dependent economy, but Iranian officials have shown no sign of willingness to compromise. Iran dismisses the impact of these penalties, saying trade and other measures imposed since the 1979 Islamic revolution toppled the US-backed shah have made the country stronger.

During a public speech in Iran’s western province of Ilam on Wednesday, President Mahmoud Ahmadinejad implied Tehran had no intention of changing course. “We will not yield to pressure to abandon our rights ... The Iranian nation will not withdraw from its right (to nuclear technology) even one iota because of the pressures,” said Ahmadinejad, whose firm nuclear stance has stoked many ordinary Iranians’ sense of national dignity.

Some Iranian oil officials have admitted that foreign sanctions were hurting the key energy sector. Though four rounds of the UN sanctions do not forbid the purchase of Iranian oil, many international oil firms and trading companies have stopped trading with Iran. So far, big trade partners of Tehran -Russia and China- have blocked a ban on Iran's oil exports at the United Nations. Iran's arch-foes Israel and the United States have not ruled out military action if diplomacy and sanctions fail to rein in Iran's nuclear work. The presence of US naval forces in the Gulf to secure a free passage for oil has increased concerns over a possible military conflict if Iran tries to block the waterway.

Analysts say Tehran could retaliate against any military strike by launching hit-and-run attacks in the Gulf and by closing the Strait of Hormuz. About 40 percent of all traded oil leaves the Gulf region through the strategic waterway. An Iranian analyst who declined to be named said the leadership could not reach a compromise with the West over its nuclear activities as it "would harm its prestige among its core supporters". "Iranian officials are showing their teeth to prevent a military strike," said the analyst. "Closing off the Strait of Hormuz will harm Iran's economy that will be very dangerous for the establishment ahead of the parliamentary vote."

Europe agrees to ramp up pressure on Iran

EurActiv, *05.01.2012*

European governments have agreed in principle to ban imports of Iranian oil, EU diplomats said, dealing a potentially heavy blow to Tehran just months before an Iranian election.

The prospective embargo from the European Union along with tough American financial measures signed into law by President Barack Obama on New Year's Eve, form a concerted Western campaign to impose sanctions over Iran's nuclear program. Iran says its nuclear program is strictly peaceful, but Western countries say a November UN report shows it has sought to build an atomic bomb. Talks between Tehran and major powers broke down a year ago.

Diplomats said EU envoys had held talks on Iran in the last days of December, and that any objections to an oil embargo had been dropped - notably from crisis-hit Greece which gets a third of its oil from Iran, relying on Tehran's lenient financing. Spain and Italy are also big buyers. "A lot of progress has been made," one EU diplomat said, speaking on condition of anonymity. "The principle of an oil embargo is agreed. It is not being debated anymore."

EU diplomats in Brussels said member countries had not yet agreed on how soon the embargo should take effect and were still debating other possible sanctions. France has said it wants the embargo and other sanctions agreed at a meeting of the EU's foreign ministers at the end of this month.

Paris also seeks a ban on transactions with the Iranian central bank, similar to what Washington has imposed. Prime Minister Mario Monti said Italy was ready to back an oil embargo as long as it was imposed gradually and deliveries to repay Tehran's debts to Italian energy firm ENI were exempted.

US State Department spokeswoman Victoria Nuland called the EU moves "the kinds of steps that we would like to see not just from our close allies and partners in places like Europe but from countries around the world". "We do believe that this is consistent with tightening the noose on Iran economically," she said. A US Treasury official said Tehran's oil revenues could be choked off without disrupting global oil markets. The embargo will force Tehran to find other buyers for oil. EU countries buy about 450,000 barrels per day (bpd) of Iran's 2.6 million bpd in exports, making the bloc collectively the second largest market for Iranian crude after China.

Tehran insisted it would have no trouble: "We could very easily replace these customers," said S.M. Qamsari, international director of the National Iranian Oil Co. But the new US sanctions have already made it difficult for Iran to keep its customers, and could force it to offer steep discounts to countries willing to risk doing business with it, hurting its revenues. Biggest trading partner China, driving a hard bargain, has cut its orders of Iranian oil by more than half this month.

Western countries have imposed various sanctions on Iran for years with little impact. But the latest measures are qualitatively different, directly targeting Iran's oil industry, which forms 60% of its economy. Most traders expect Iran will still find buyers for its crude, mostly in Asia, but it is going to have to offer substantial discounts, cutting back the revenue that the state relies on to subsidize basic goods for its citizens.

Tougher sanctions appear to be having an impact already on Iran's streets, where prices for foodstuffs are soaring. The real currency has lost 40% of its value against the dollar over the past month. Currency exchanges have shut in Tehran and Iranians have queued to withdraw their savings from banks and buy dollars. That economic hardship is being felt by the public two months before a parliamentary election, Iran's first since a disputed 2009 presidential vote that led to massive street demonstrations, put down violently by Iran's rulers.

Iran's leaders are anxious to prevent any popular unrest, especially after the Arab Spring revolts last year showed the vulnerability of Middle Eastern governments to street protest. Iran has warned that any steps to cut its oil exports could cause havoc in international oil markets at a time of global economic pain. In recent weeks it has also resorted to increasingly aggressive military saber-rattling.

Turkey to seek waiver from US on Iranian oil

Hürriyet Daily News, *30.12.2011*

Turkey is considering whether to seek a waiver from Washington to exempt Turkish Petroleum Refineries Corporation (Tüpras), Turkey's biggest crude oil importer, from new United States sanctions on institutions that deal with Iran's central bank.

An Energy Ministry official was to visit the U.S. Embassy late in the afternoon yesterday when Daily News went to press to inquire about the details of the sanctions. Ankara has been evaluating the content of the new U.S. law and has not decided yet to seek waiver from the U.S., diplomatic sources said.

"Tüpras purchases a great amount of oil from Iran. As of today, trade with Iran continues. This commercial relation will continue until a new development takes place," Energy Minister Taner Yildiz told. Yildiz said Iran was one of the countries from which Turkey imported crude oil and they had not yet received any information about widening the scope of international sanctions against Iran. Turkey gets about 30 percent of its oil from its neighbor. Iran announced that it had extended its crude export contract with Turkey for 2012. EU governments have reached a preliminary agreement to ban imports of Iranian crude to the EU but have yet to decide when such an embargo would be put in place, EU diplomats said. "A lot of progress has been made," one EU diplomat said. "The principle of an oil embargo is agreed. It is not being debated anymore."

The U.S. has recently adopted tough measures targeting financial institutions that deal with Iran's central bank. The law, signed by President Barack Obama, allows the U.S. to exempt institutions in a country that has significantly reduced its dealings with Iran. The U.S. president may also grant waivers deemed to be in his country's national interest or otherwise necessary for energy market stability. Asked if any country asked a waiver to be exempted from sanctions so far, U.S. State Department spokeswoman Victoria Nuland told they were not at that stage. "The stage that we are at now is consulting with allies and partners around the world about the implications of this legislation and working with our allies and partners together to tighten sanctions that already exist on Iran and to encourage countries around the world to decrease their dependence on Iranian oil," she said.

Turkey argues only U.N. sanctions bind it and insists it is not obliged to follow non-U.N. sanctions. Turkey opposed the last round of measures in 2010. Turkish officials discussed alternative ways of oil supply in the last meeting of the National Security Council in case Iran blocks oil transfer through the Strait of Hormuz.

Iraq delays energy bidding round

Rigzone (Dow Jones), *04.01.2012*

Iraq has postponed by a month its fourth oil-and-gas bidding round, to April 11-12, when it will auction 12 promising exploration blocks to international companies, a senior Oil Ministry official said Wednesday. It had previously said that the fourth auction would be held March 7-8.

“We have decided to delay...in response to requests from companies to give them more time to study conditions of the licensing round and the draft contract model,” Abdul Mahdy al-Ameedi, head of the Oil Ministry’s Petroleum Contracts and Licensing Directorate, told.

Ameedi said that 37 international firms, including some of the world’s largest, have paid participation fees and bought data packages for the 12 blocks. He named only two of nine firms that didn’t buy these packages—Japan’s Itochu and TNK BP. Some 46 energy companies have qualified to participate in the bidding round, which is expected to add 29 trillion cubic feet of gas and 10 billion barrels of oil. The ministry will make some slight changes to the draft model contract after receiving requests from companies.

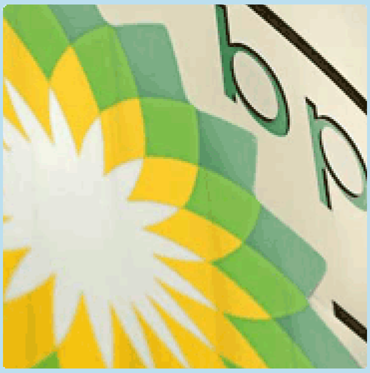
“The main provisions of the service contract will remain as they are, but we may make slight changes to other provisions,” Ameedi said, without elaborating. He said the final model contract will be ready in February. Prequalified companies will compete based on fees that they will charge for exploring in these untouched blocks. One category will be allowed to bid as operators for the blocks; a second category will be allowed to participate in consortia led by operators.

Although international companies would prefer production-sharing contracts for exploration blocks, Iraqi oil officials said the deals would be based on a service contract, which means winning companies will be paid a flat fee for their services rather than be given a share in the resources. But it would be slightly different from the 20-year service contract offered in the previous three bidding rounds, they said.

Among those qualified for the auction are BP, Shell, ExxonMobil, Lukoil, Total, China National Petroleum Corp., or CNPC, Eni, Occidental Petroleum Corp. and Chevron. Seven of the blocks are believed to contain natural gas, and five are believed to contain crude oil, and the blocks range in size from 5,500-9,000 square kilometers, officials said.

BP to use additional drilling rig on Shah Deniz

Rigzone (Trend), *29.12.2011*



By late 2012, British BP may use a semi-submersible Heydar Aliyev drilling rig within the second stage of the development of gas condensate Shah Deniz field in the Azerbaijani sector of the Caspian Sea, a source on the oil and gas market told news agency Trend.

The source said that much work was conducted within the second stage. It is necessary to use the additional drilling rig. "The launch of the operations will depend on the completion of contractual obligations within the drilling of the exploration well on the Absheron field," the source said. "Probably, the rig will start working on Shah Deniz by late 2011."

Earlier, the parties signed a medium-term contract that provides drilling operations in the framework of contracts implemented by BP in Azerbaijan. Most of the work will be on pre-drilling under the second stage of Shah Deniz field development. Insufficient number of drilling rig impedes drilling a large number of wells that are provided within the framework of Shah Deniz full field development. So, BP is keen to engage the Heydar Aliyev drilling rig. Under the Shah Deniz full field development two offshore platforms will be installed and 26 underwater wells will be drilled.

Peak production is forecasted at over 8.6-9 billion cubic meters. It is planned that in the second stage of field development, gas production can be brought up to 24 billion cubic meters a year. The Shah Deniz field's gas reserves are estimated at 1.2 billion cubic meters, while condensate - 240 million tons. The contract to develop the offshore Shah Deniz field was signed June 4, 1996. Participants to the agreement are: BP (operator) - 25.5 percent, Statoil - 25.5 percent, NICO - 10 percent, Total - 10 percent, LukAgip - 10 percent, TPAO - 9 percent, SOCAR-10 percent.

Kashagan 2nd phase to be completed by 2018 - 2019

Rigzone, *27.12.2011*

The second phase of the Kashagan development project may be completed by 2018-2019, said Kazakh Vice Minister of Oil and Gas Lyazzat Kiinov. The stakeholders of the North Caspian Project and the Kazakh government have not reached agreement on the second phase of the Kashagan project.

"We think that the second phase of the project will be completed by 2018-2019," Mr Kiinov told the newspaper Litter in an interview published on December 9. According to the vice minister, Kashagan is a complicated oil project.

"That is true, the project is progressing rather difficultly and the stakeholders and the government are currently discussing possibilities of cutting down the costs, for if the costs are too high the project will not produce the results that are expected by the government," he added. North Caspian Operating Company (NCOC, the operator of the North Caspian Project) said earlier that the design review for Phase II for Kashagan Phase II in Kazakhstan's Caspian offshore sector, was planned for completion in the later half of 2011,

"Early Front End Engineering Design (FEED) activities for Kashagan Phase II commenced in 2009. In parallel to this activity, a comprehensive review of various design options was initiated. Once selected in the latter half of 2011, the preferred design option will be presented to shareholders and the Authority," Philippe Charlez, NCOC Stakeholder Relations General Manager, told Interfax-Kazakhstan in early April this year. If approved, FEED for Phase II will then continue, in order to further refine cost, schedule and design of the chosen design option, the company said.

The Kazakh Oil ad Gas Ministry planned to turn down the program for the second development phase of Kashagan citing its inefficiency. The Telegraph newspaper reported that Kazakhstan planned to suspend the main phase of the Kashagan project for three years because of the lack of agreement on the Phase II budget concept.

The North Caspian Project, which also includes Kashagan, is managed by North Caspian Operating Company (NCOC). The shareholders of NCOC are: Agip Caspian Sea B.V. (16.81%), KMG Kashagan B.V. (16.81%), Conocophillips North Caspian Ltd. (8.4%), ExxonMobil Kazakhstan Inc. (16.81%), Inpex North Caspian Sea Ltd. (7.56%), Shell Kazakhstan Development B.V. (16.81%) and Total E&P Kazakhstan (16.81%). Before January 2009 the Kashagan field had been developed by Agip KCO. Agip KCO is a subsidiary of Eni SpA, which operates on the basis of the Production Sharing Agreement for the North Caspian Sea concluded in 1997.

Phase II entails production boost 375,000 barrels per day a period of at least three years. Agip oversee offshore projects, Shell and Exxon manage onshore works and drilling. Commercial production at the Kashagan field is slated to commence in December 2012 - June 2013. During Phase I the oil production is expected to be about 370,000 barrels of oil a day, which may later go up to reach 450,000 barrels.

In accordance with the Production Sharing Agreement, the company holds licenses for drilling operations at the Kashagan, Kalamkas, Aktoty and Kairan fields, which are comprised of 11 blocks with a total area of 5,600 square kilometers. NCOC estimates the recoverable oil reserves of Kashagan at 11 billion barrels and the total oil in-place at 35 billion barrels. The bulk of the work at the onshore and offshore facilities had been completed by the end of 2009, as agreed with the Kazakh government, with a view to starting production at Kashagan at the end of 2012.

Russian oil output at new post-Soviet high

Hürriyet Daily News, *04.01.2012*

Oil output in Russia edged up 1.2 percent to reach a new post-Soviet high of 10.27 million barrels per day (bpd) last year, as the world's top crude producer eased tax burden and launched pipeline flows to China, the Energy Ministry said.

That is a bit more than the 10.26 million bpd, expected by an analyst poll compiled a year ago, though the increase in 2011 has slackened from a 2.2 percent rise in 2010 when the country produced 10.145 million bpd, up from 9.93 million bpd in 2009 and 9.78 million bpd in 2008. Russia aims to maintain annual oil production at around 510 million tons, or just over 10 million bpd, in the next 10 years. It also sees its crude oil export flat at 250 million tons in 2012.

The main driver behind the increase was the new Vankor oilfield, developed by the country's top crude producer Rosneft, which reached a production target of 15 million tons (300,000 bpd) in 2011. The field is slated as the main source of Russia's pipeline exports to China via the East Siberia - Pacific Ocean (ESPO) link, which is shipping 300,000 bpd of oil to Daqing in China from Russia's Skovorodino.

In 2012, Russia plans to finish the second stage of ESPO, which will terminate at the Pacific port of Kozmino. This year is also expected to see the launch of the Baltic port of Ust-Luga, which has been delayed from November 2011 due to heavy infrastructure damage during construction. Ust-Luga may handle 10 to 20 million tons of oil from the Baltic Pipeline System-2. Natural gas production in Russia increased to 670.544 billion cubic meters (bcm) in 2011 from 650.311 bcm in 2010. Gas output at Gazprom, Russia's top natural gas producer, rose to 509.664 bcm last year from 508.471 bcm in 2010.

Russia, Ukraine arm-wrestling over pipelines

EurActiv, *03.01.2012*

In a sign of mounting Russian pressure on Ukraine to share its pipeline network, Gazprom's chief executive has warned that procrastination in talks would result in a bad deal for Kyiv as construction of a competing pipeline would lead to a price slump.

The value of the Ukrainian gas transportation system could drop significantly in the near future, Gazprom's Alexei Miller was quoted as saying by the Russian and Ukrainian press. He added that it would be 'twice as cheap' to transport gas to Europe via the planned South Stream pipeline.

Miller's remarks should be seen in the context of his meeting with Prime Minister Vladimir Putin, held on the same day. The Russian government's website conspicuously published a transcript of the meeting. At the beginning of the meeting, Putin enquired about the status of South Steam, the Gazprom project designed to transport Russian gas to the Baumgarten pipeline hub in northern Austria. South Stream is also seen as a political project, intended to weaken Nabucco, the EU-favoured project to supply Baumgarten from sources other than Russia (see background).

Miller reported that Turkey had agreed to laying the South Stream pipes through its Black Sea economic zone. "We hope to complete all project and design work on the Black Sea shelf before the end of 2012. We are planning to start building the marine section in early 2013, that is, in a little more than a year, and to complete it in December 2015. We hope to supply the first commercial gas to Europe in late 2015," Miller is quoted as saying.

Putin replied: "I think it would be better to start next year, at the end of next year. It's not such a big difference, but it would still be better to start in 2012." Miller answered: "OK, Mr Putin, that's what we'll do." Putin and Miller also discussed the cost of South Stream, which the Gazprom chief estimated at "a little over €15 billion", of which the Russian state monopoly would pay half. "The financial burden is distributed between the partners in proportion to their shares in the project: 50% belongs to Gazprom, 20% to Eni and the rest to Électricité de France and the Germans. Under the plan, 30% will be paid by our shareholders and 70% will come from credit financing," Miller said.

Putin and Miller discussed the demands of Ukraine for a reduced gas price. On 20 December, Putin and his Ukrainian counterpart Mykola Azarov failed to achieve a breakthrough in talks in which Russia links the issue of price reduction to a stake in Ukraine's gas pipeline network. According to Miller, Kyiv estimates the price of the Soviet-era gas pipeline network across the country at $20 billion (€15.4 billion). But he added that it remains unclear how much the modernization would cost, citing sums between $3 billion to $8 billion. He said that Kyiv asked for a gas price discount of $9 billion (€6.91billion) a year.

Ecuador court upholds $8.6 billion ruling against Chevron

CNN, *04.01.2012*

An Ecuadorian appeals court upheld an $8.6 billion ruling against oil giant Chevron stemming from claims that the company had a detrimental impact on Amazonian communities where it operated.

The judgment against Chevron is the latest in 19 years of litigation between Amazon residents and Texaco, which was later purchased by Chevron. A three-judge panel handed down the ruling Tuesday, nearly a year after receiving the case. In addition, the appeals court ruled that Chevron must publicly apologize to Ecuador, and if it fails to do so, the fine will be doubled to nearly $18 billion, Andes reported.

In a statement, Chevron said the appeals court ruling "is another glaring example of the politicization and corruption of Ecuador's judiciary that has plagued this fraudulent case from the start." The company alleges that reports and evidence against it were fraudulent, and that bribes and corruption led to the original decision against it. "Chevron does not believe that the Ecuador ruling is enforceable in any court that observes the rule of law. The company will continue to seek to hold accountable the perpetrators of this fraud," the company said in a statement.

When an Ecuadorian court handed down the original ruling last year, both Chevron and the Amazonian residents appealed. Chevron argued the verdict was the product of fraud and the plaintiffs said the size of the award was too small in comparison to what would be needed to do a real clean-up. The case, Aguinda v. ChevronTexaco, was originally filed in New York in 1993 on behalf of 30,000 inhabitants of Ecuador's Amazon region. The suit was eventually transferred to the Ecuadorian court and Ecuadorian jurisdiction. The lawsuit alleges that Texaco used a variety of substandard production practices in Ecuador that resulted in pollution that decimated several indigenous groups in the area, according to a fact sheet provided by the Amazon Defense Coalition.

According to the group, Texaco dumped more than 18 billion gallons of toxic waste into Amazon waterways, abandoned more than 900 waste pits, burned millions of cubic meters of gases with no controls and spilled more than 17 million gallons of oil due to pipeline ruptures. Cancer and other health problems were reported at higher rates in the area, the group says.

Chevron says Texaco was partnered with an Ecuadorian oil company when it operated in Ecuador, and that it spent $40 million on remediation efforts to clean up roughly one-third of the sites in which it worked -- an amount reflective of its 37% share of the oil-producing consortium with Petroecuador. It says its cleanup efforts were certified and approved by the Ecuardorian government and blames Petroecuador for any ongoing pollution at sites where it was the sole operator, according to documents on the Chevron website regarding the lawsuit and its history of operations in the South American country.

Shtokman delays investment decision until March 2012

Rigzone (Dow Jones), *30.12.2011*

Shtokman Development AG said it has decided to delay the final investment decision for the giant Shtokman gas project until the end of March 2012.

The project shareholders, Gazprom, Total and Statoil, had previously targeted a final decision by the end of 2011. But discussions have been hung up after Total and Statoil pressed for tax breaks from Russian authorities. The shareholders "consider that some additional time is required to achieve the necessary conditions to take the Final Investment Decision (FID)," Shtokman Development said in a statement following a board meeting on Thursday.

Development of the field, which was discovered in 1988 in the Barents Sea and which holds 3.9 trillion cubic meters of gas--or enough to supply world demand for one year--has already been delayed on two occasions. Statoil spokesman Bard Glad-Pedersen said that progress has been good on the technical side over the last year, but that "there is still work outstanding on the commercial side" to make the project economically viable. "With this decision, the partners will have more time to work on this and get more clarity on the fiscal framework for this pioneering offshore project," Glad-Pedersen said.

The first phase of the Barents Sea gas project Shtokman is being implemented by Shtokman Development AG. It was established in February 2008 and is controlled by Russian gas producer Gazprom, with Total and Statoil as minority shareholders.

Shtokman Development will own and operate the project infrastructure during phase 1, for a period of 25 years, according to the company's website. The production from Shtokman is to commence in 2016, and an LNG plant is scheduled to be commissioned in 2017. In phase 1, the Shtokman field is set to produce 23.7 billion cubic meters of natural gas per year.

PdVSA to pay Exxon $255M, not $908M, in arbitration verdict

Rigzone (Dow Jones), *02.01.2012*

Venezuelan state oil giant Petroleos de Venezuela said Monday it will pay ExxonMobil $255 million over the next 60 days after an international arbitration court ruled against it in the U.S. oil major's suit over nationalized assets.

Over the weekend, Exxon said it had been awarded $908 million by the arbitration panel at the International Chamber of Commerce, a substantially lower amount than the $7 billion that company was seeking for oil assets nationalized by Venezuelan President Hugo Chavez in 2007. However, PdVSA said that it will subtract from the verdict a series of debts owed by Exxon for the financing of the Cerro Negro project.

The company, which called the verdict a "successful defense of Venezuela" also will deduct the $300 million Exxon had frozen in PdVSA's New York bank accounts during the early phases of legal actions in 2007. Both parties are still awaiting a decision on a separate suit filed by Exxon's local subsidiary, Mobil Cerro Negro Ltd., before the World Bank's International Centre for Settlement of Investment Disputes where the Chavez administration is facing around 20 pending cases..

The court decision came four years after Exxon left Venezuela in a spat with the country's government, which decreed that the state oil monopoly would have the majority stake in joint ventures with foreign partners. By law, PdVSA now holds at least 60% of all oil projects. Exxon has said that it invested around $750 million into the Cerro Negro facility. The company reduced its claim to $7 billion from an initial claim of $12 billion.

Eni eyes full Libyan output by June

Upstream Online, *30.12.2011*

The chief executive of Eni said the company expected to return to full capacity in Libya by June of next year. "We see no reason to think we cannot return to full production capacity before June 2012... We are already satisfied we have recouped 80% of production," Paolo Scaroni said.

Scaroni told earlier this month the company's Libyan output was averaging about 200,000 barrels of oil equivalent per day, more than two-thirds the pre-revolution level.

Afghanistan signs major oil deal with China's CNPC

Reuters, *28.12.2011*

Afghanistan signed a deal with China National Petroleum Corp (CNPC) for the development of oil blocks in the Amu Darya basin, a project expected to earn the war-torn state billions of dollars over two decades.

The deal covering drilling and a refinery in the northern provinces of Sar-e Pul and Faryab is the first international oil production agreement entered into by the Afghan government for several decades. "In 30 days from now they will shift their experts and equipment to the site," Mining Minister Wahidullah Shahrani told a news conference, referring to the CNPC.

"The practical work will start in October 2012." The contract is valid for 25 years. It marks the second major deal for China in Afghanistan after Metallurgical Corp of China signed a contract in 2008 to develop the huge Aynak copper mine south of Kabul, which is due to start producing by the end of 2014. State-owned CNPC and joint venture partner Watan Group, a diversified Afghan company, will explore for oil in three fields in the basin Kashkari, Bazarkhami and Zamarudsay which are estimated to hold about 87 million barrels of oil.

For now, CNPC has only rough estimates of how much it is likely to invest in the project, said Lu Gong Xun, president of CNPC's international branch. "We can only give you a rough number for initial investment. Based on my experience it should be around ... minimum of $400 million," he said.

Under the contract, CNPC will agree to pay a 15 percent royalty on oil, a 20 percent corporate tax and give up to 70 percent of its profit from the project to the Afghan government. CNPC will also pay rent for land used for its operations. "If the oil price stays at around $100 dollars over the next 23 years and if oil found in those fields is 87 million barrels, we estimate that our income from this project will be at least $7 billion," the Afghan mining minister said.

Announcements & Reports

► *Minimum Capital Amounts for 2012 in Natural Gas Market*

Source : Energy Market Regulatory Authority
Weblink : www.epdk.gov.tr/documents/10157/b6e92520-0e9d-444e-8a43-84e0adc0b74f

► *EMRA's Resolution on Amendments in the Network Code*

Source : Energy Market Regulatory Authority
Weblink : http://www.epdk.org.tr/documents/10157/0e372c1c-ba93-47c9-a750-33549e34dbd8

► *Turkey Power Generation Capacity Projection (2011 - 2020)*

Source : Turkish Electricity Transmission Company (TEIAS)
Weblink : http://www.epdk.org.tr/documents/10157/8edb1470-7667-4ce1-8ce5-21d1ce4e4761

► *Natural Gas Annual*

Source : US Energy Information Administration
Weblink : http://www.eia.gov/naturalgas/annual/pdf/nga10.pdf

Upcoming Events

► *European Gas Conference*

Date : 24 – 27 January 2012
Place : Vienna – Austria
Website : www.europeangas-conference.com

► *Global Tight Oil Summit*

Date : 31 January – 1 February 2012
Place : Houston – USA
Website : http://www.theenergyexchange.co.uk/the-global-tight-oil-summit/s13/a314/

► *6th Africa Economic Forum*

Date : 5 – 7 March 2012
Place : Cape Town – South Africa
Website : http://www.petro21.com/events/?eventid=728

PETFORM

► *Iraq Energy Expo 2012*

Date : 23 – 26 April 2012
Place : Baghdad – Iraq
Website : http://www.iraqenergyexpo.com/2012/index.php

► *Oil & Gas Pipelines in the Middle East 2012*

Date : 20 – 23 May 2012
Place : Abu Dhabi – UAE
Website : http://www.theenergyexchange.co.uk/oil-and-gas-pipelines-in-the-middle-east-2012/s13/a170/

► *4th African Gas – LNG*

Date : 21 – 24 May 2012
Place : London – UK
Website : http://www.petro21.com/events/?eventid=735

► *25th World Gas Conference 2012*

Date : 3 – 8 June 2012
Place : Kuala Lumpur – Malaysia
Website : www.wgc2012.com

► *Iraq Future Energy – 2012* ***(in Turkey)***

Date : 24 – 26 September 2012
Place : Istanbul – Turkey
Website : http://www.theenergyexchange.co.uk/iraq-2012-future-energy/s13/a255/