Oil & Gas Bulletin

▶ *22.02.2013*

Turkey inks gas deal with KRG

Natural Gas Europe, *21.02.2013*

In a development that could strain relations between Turkey and the central government of Iraq, Ankara has inked energy agreement with Kurdish Regional Government (KRG).

Turkey and Iraqi Kurds have reportedly agreed recently to build a natural gas pipeline to transport at least 10 billion cubic metres of gas annually. However, Turkish officials have not publically confirmed this development. The agreement could raise eyebrows in Washington, where there are concerns that deals such as these could tip the volatile country towards disintegration and push an increasingly isolated Baghdad into Iran's embrace.

Analysts say energy-hungry Turkey's dependence on expensive energy imports from Iran and Russia are pushing it to find cheaper sources, and northern Iraq appears to be the best provider. "Iraqi sources are the cheapest and it is a way for Turkey to diminish its energy dependence," Mete Göknel, former director of Turkey's state-owned pipeline company BOTAS, told AFP.

Turkey: Hunting for hydrocarbons

Financial Times, *22.02.2013*

Normally the announcement of a small find of natural gas by a small independent oil company wouldn't rate much media coverage. But the announcement by Turkey's Merty Energy that a well it has drilled in Turkey's European province of Thrace has tested positive for commercial quantities of natural gas made headlines in the local media.

Not because it was huge find – it wasn't. According to Merty CEO Ongun Yoldemir, once testing is completed on this field and two others, he expects to have reserves of around 2bn cubic metres of gas to extract – small compared to Turkey's gas imports which are this year expected to top 48bn cu m.

According to government figures, Turkey's own gas production was only around 700m cu m in 2010, with reserves of around 6bn cu m. Oil output was 2.5m tones, with reserves of 43m tones. Every discovery makes a splash because of Turkey's high dependence on imported oil and gas means energy is the country's single biggest import with a $50bn-plus bill for oil and gas that accounts for pretty much the whole of the current account deficit.

Turkey is in a particularly difficult position, with ministers and officials regularly reminding critics of Turkey's "unorthodox" monetary policy mix that a $10 per barrel rise in the oil price adds as much as $4bn to the current account deficit and 0.5 percentage points to the inflation rate. With imported gas used to generate 42 per cent of Turkey's electricity last year and power demand growing at up to 8 per cent pa – every little bit of domestic production helps.

Merty is not alone in prospecting for gas in Turkey. Last week saw Royal Dutch Shell sign a joint venture agreement with Turkey's state upstream operator TPAO to prospect offshore from Turkey's Black Sea coast. TPAO has already drilled one well and reported finding gas but further seismic surveys and test drilling are needed to determine how much, and whether it can be extracted commercially. It's not a given. BP, Petrobras, ExxonMobil and Chevron have all partnered TPAO in prospecting deepwater blocks in the Turkish sector of the Black Sea, and all have left without reporting commercial finds. With the most recent departee, Chevron, opting to pay a $100m penalty rather than incur the cost of drilling further wells their contract called for.

Shell though appears confident that Turkey does hold untapped reserves of something, somewhere, having last year signed joint ventures to work with TPAO prospecting offshore from Turkey's Mediterranean coast and to drill for shale gas in the Dadas basin in Turkey's south eastern province of Diyarbakir. Not surprisingly given shale gas finds in the US and Europe, hopes are high that Turkey's shale beds will prove more productive than its Black Sea littoral with estimates of possible reserves being discussed at a shale gas conference in Ankara this week varying wildly between a few billion cu m, up as far as 20tn cu m or more.

On the record, company and government officials are more circumspect, with Shell stressing that nothing will be known for sure until test drilling is completed later this year and Turkish energy minister Taner Yildiz commenting only that he is hopeful that gas can be found in Diyarbakir and in three other shale beds in Konya, Ankara and Kirsehir. Efforts by TPAO and the state mineral authority MTA to identify reserves are being fast-tracked.

If efforts at extracting shale gas prove unsuccessful Turkey still has other options in the shape of an estimated 13bb tones of low-grade coal. Last year saw production start at a test facility for producing syngas from coal from the Kütahya basin in western Turkey, with plans for commercial operation at this and a second plant already underway. Similarly the past year has seen intensified efforts to increase the use of coal for power generation.

The announcement last last year by deputy prime minister Ali Babacan year that generous incentives would be offered to companies developing new power plants burning domestic coal, was followed in late December by the signing of a huge joint venture MoU between Turkey's state power generator EUAS and Abu Dhabi power company Taqa for the development of as much as 8GW of new plant burning coal from the Afsin-Elbistan coal field in south east Turkey, which holds around 40 per cent of the country's reserves.

But with Turkey's energy demand set to continue rising rapidly in line with economic growth expected to rise to 4 per cent this year many are warning that as well as diversifying its energy portfolio, Turkey desperately needs to learn to use the energy it has more efficiently. A report released late last year by Turkey's Koc University warns that in terms of energy efficiency Turkey lags behind OECD countries and suggests that better policies and better technology could improve efficiency by as much as 20 per cent over the next decade.

Turkey's shale gas hopes draw growing interest

Upstream Online, *18.02.2013*

Turkey is hoping to find shale gas reserves big enough to help reduce its energy import dependency and is in talks with foreign firms about widening exploration after encouraging early signs, industry officials said.

The government is hoping that major shale gas reserves lie in Thrace basin and officials say several firms are keen to explore. With domestic gas consumption rising and its geographic location meaning it is also well-placed to supply international markets, major exploitable reserves could be a game changer for Turkey's economy and highly lucrative for whoever finds them.

"We are keen to exploit this method and we must make economic use of shale gas," Energy Minister Taner Yildiz told, saying it would be a priority for the near future. Shell is drilling for shale gas in the region around the southeastern city of Diyarbakir, while Canadian firm TransAtlantic Petroleum is also active in the region. "Companies from the UK, US and Canada are keen on shale gas production in Turkey," said one senior energy ministry official, declining to be named because talks with potential partners were ongoing. "These firms are in close contact with Turkish companies to obtain licenses and to collaborate with them. They are also talking to state firms and are drawing up projections on possible sites and what can be done in the near future."

At least one foreign company was expected to sign an agreement for shale gas exploration this year, officials said. Estimates of how big Turkey's shale gas reserves might be varying wildly. One senior energy official said data from some international bodies suggested Turkey could have a massive 20 trillion cubic metres (cbm) of total reserves. Another industry expert said proven reserves so far stood at just 6-7 billion cbm.

That compares to an estimated 1.2 trillion cbm, according to the US Energy Information Administration, in Ukraine, where Shell signed a landmark $10 billion shale gas deal last month. "At present it is not possible to predict Turkey's shale gas reserves," Shell's Upstream International Director Andy Brown told in Ankara, adding Shell would complete its exploration in Diyarbakir by the end of the year. "We will be able to make an assessment only after we complete the first well, and then we'll be able to see the full picture," he said.

AME raises US$ 20 million in new equity from 4D Global Energy Advisors SAS

Aladdin Middle East Ltd., *22.02.2013*

Aladdin Middle East Ltd. (AME) announced that it has raised US$20 million in new equity from 4D Global Energy Advisors SAS (4DGEA), a Paris-based private equity investor. The equity financing will enable AME to finance its committed and contingent work programmes and working capital to build on its asset base in Turkey.

Cem Sayer, Chairman of the Board and President of AME, commented: "Over the past two years, we have focused on restructuring AME to realize the value in AME's promising oil and gas assets and to enable us to use that existing asset base to accelerate growth in the company."

"In particular, we exited the drilling services sector, enabling us to concentrate solely on E&P projects. We are extremely pleased to welcome 4DGEA into AME, and we believe their investment will prove to be profitable both for 4DGEA and for our other investors."

Mr. Sayer added, "AME is uniquely positioned as the oldest independent oil and gas company in Turkey, with in-depth knowledge, data and expertise in the region, and will look to continue to develop its core business, participating in several existing Joint Ventures in South East Turkey, exploiting its new oil discoveries, and participating in new projects in Turkey and the surrounding region. AME, strengthened by 4DGEA, is well positioned to capitalize on both conventional and unconventional oil and gas production opportunities in Turkey, and to benefit from the country's favorable fiscal terms. This is indeed a new and exciting chapter in AME's long history."

Tighe Noonan, the founding partner of 4DGEA, said, "We are extremely pleased at the prospect of working together with Cem and his team both at the Board and Shareholder levels, and of bringing our experience and industry knowledge to the Company as Cem seeks to grow the business. Under his leadership, we are confident that AME will be able to fully deploy its exceptional asset base and to fulfill the aspirations of its visionary Founders."

Mr. Tighe Noonan and Mr. Emmanuel Bazin, also of 4DGEA, have joined the Board of Directors of AME. Murphy Richards Capital LLP, a London based, FSA regulated corporate finance house introduced 4DGEA and advised AME on the transaction.

SOCAR signs deal with Delta-Rubis to sell bunker fuel at Ceyhan

Platts, *19.02.2013*

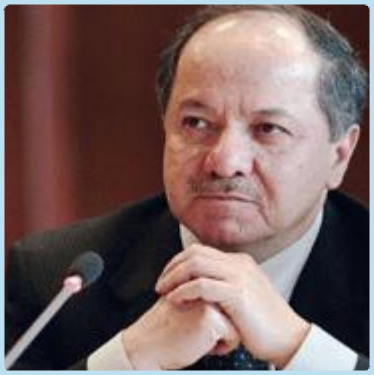
SOCAR signed an agreement with Turkish fuel storage company Delta-Rubis to sell bunker fuel to tankers loading at Turkey's east Mediterranean oil hub of Ceyhan, a spokeswoman for SOCAR's Turkish subsidiary SOCAR Turkey Petrol Enerji told.

The spokeswoman confirmed that SOCAR Turkey Petrol Enerji has been awarded a 15-year license to distribute petroleum products in Turkey and has begun operations by signing the agreement with Delta-Rubis to distribute and market bunker fuel to tankers at Ceyhan.

SOCAR Turkey Petrol Enerji's license runs from January 10, 2012, to January 10, 2028. Delta-Rubis announced last year that it was investing in a three-phase expansion of its Ceyhan storage terminal. The first phase, completed last year, saw the construction of a new tank farm to handle petrochemical feedstocks, bunker fuel and other imported petroleum products. The second phase will see the expansion of the terminal's jetties to handle up to six vessels simultaneously, which is expected to be completed in 2014. The third phase involves the construction of another tank farm with a capacity of 350,000 cu m, to start in 2014.

Barzani says Gazprom Neft signs new oil deal

Reuters, *19.02.2013*

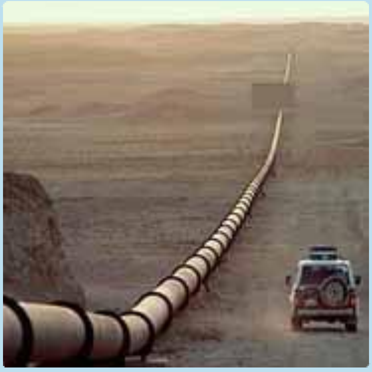


The leader of the Kurdish Regional Government (KRG) was quoted as saying that the autonomous region of Iraq had signed new agreements in recent days with Russia's fifth-largest oil producer, Gazprom Neft.

The deals may increase friction between KRG and Baghdad, which insists that only it has the authority to grant oil contacts and control crude exports in the country. "We are satisfied with Gazprom Neft's work in the region. New agreements have been reached with this Russian company in recent days," Masoud Barzani was quoted as saying by news agency Interfax, which didn't report any details.

Jordan and Israel discuss gas

Natural Gas Europe, *21.02.2013*



Jordan's Arab Potash Company (APC), one of the world's largest potash producers, "is in contact with its Israeli counterpart through the American oil and gas firm Noble Energy to examine the possibility of importing gas," Jordan's Minister of Energy said in a statement.

The Israeli gas would power a potash plant on the Jordanian side of the Dead Sea. The plan is to deliver the gas through the Israeli gas pipeline that serves Israel Chemicals' plant in Sodom on the Israeli side of the Dead Sea. The operation of linking Arab Potash Works with Israel Chemicals Ltd should be therefore technically simple.

"The gas available in the Dead Sea area is a clean and inexpensive source of fuel and the company seeks to use it for its factories on the Dead Sea. But no agreement has been reached so far," added the Minister of Energy, dismissing unfounded rumors alleging the secret nature of the talks.

Historically, Jordan and Israel heavily depended on Egyptian gas. Since 2008, Israel had been importing most of its gas from Egypt via an underwater 60 mile pipeline - the Arish - Ashkelon pipeline (sales made by a private company that has been granted the right by the Egyptian authorities to export gas from Egypt to Israel). Given the history of tense relationships with its Arabic neighbors and the constant fear of supply denial from Egypt, Israel happily welcomed the new option of being able to satisfy solely a growing domestic demand. And Israel was right. The contract was unilaterally cancelled by the Egyptians in April 2012 following the Muslim Brotherhood gain of power, but renewed with Jordan.

Jordan on the other hand has been importing around 3 billion cubic meters of natural gas from Egypt around 80% of its domestic gas consumption with the kingdom importing a total of around 95% of its energy needs at a cost of nearly a quarter of its GDP via a pipeline through Sinai. After Mubarak was forced from office and as the street protests in Egypt intensified, anti-Israel Islamists attacked the A-A pipeline for the first time on 5 February 2011. Gas stopped flowing from Egypt for 200 days costing the Israeli economy USD 2.5 million a day and considerably increasing the use of diesel and fuel oil. The gas supply to Jordan has also suffered several disruptions due to Egyptian revolution in spring 2011 the flow has dropped from 250 million cubic meters to 130 million cubic meters due to attacks to the Egyptian pipeline. Like Israel, Jordan was forced to burn more expensive fuels at its power stations. The total cost amounted to $5.6bln for electricity production, forcing the government to increase subsidies by $1.6 bln to avoid doubling the price of electricity.

By entering talks with Israel, Jordan is seeking a cheaper and more stable alternative that would satisfy its energy needs. Jordan is also considering Qatari and Iraqi gas, as well as the possibility of importing liquefied gas by ship. Alternative solutions might be wise given the political sensitivity of the move. Despite being in a severe energy crisis, the Kingdom must not ignore the possible political problems that an Israeli gas deal would entail.

Iraq Cabinet says Oil Ministry can negotiate pipelines with Iran and Syria

Platts, *19.02.2013*

Iraq's Cabinet authorized the Oil Ministry "to sign an agreement of principles" on two key oil and natural gas pipeline projects with neighboring countries, according to a statement from the Cabinet.

The Council of Ministers decision contained little detail. It only said it authorized the Ministry to sign "an agreement between the Iraqi Oil Ministry and the Iranian Oil Ministry and the Syrian Oil and Mineral Resources Ministry about a gas pipeline construction project through Iran-Iraq-Syria-Europe and the agreement would be effective from the date signed."

Iraq has been in talks with Iran and Syria to build a gas pipeline network transporting Iranian and eventually Iraqi gas west. The proposed oil pipeline from Basra in southern Iraq to Haditha in western Iraq and onward into Syria and the Jordanian port of Aqaba is a massive project intended to send 1 million b/d to Aqaba by 2016. According to a project presentation given to potential investors late last year, Iraq will wait until political uncertainty and violence in Syria is quelled before building a spur into that country.

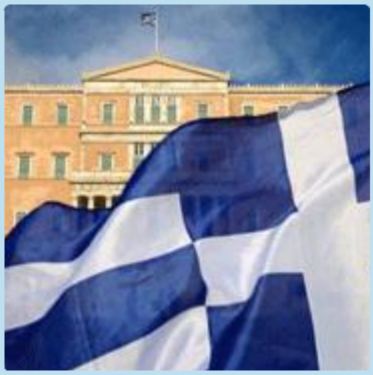
Iraq is currently expanding its oil and gas production with dozens of contracts signed with international oil companies. Contractually, Iraq plans to increase oil production to 13 million b/d in six years from about 3.2 million b/d currently. Insiders in the Iraqi government put that realistically at much lower as the companies and government adjust to the realities of global market demands and Iraqi capability. Deputy Prime Minister for Energy Affairs Hussain al-Shahristani told that a more realistic target is around 9 million b/d. The presentation Iraqi-hired project consultant SNC-Lavalin gave to potential investors in the oil pipeline said that, "Fundamental to this increase in production is an increase in Iraq's existing export pipeline infrastructure, in particular access to alternative export routes."

The Basra-Haditha-Aqaba pipeline would be 1,680 kilometers according to the presentation. It would cost an estimated $5 billion. The 2.25 million b/d Basra-Haditha leg would be built under an engineering, procurement and construction contract. The Haditha-Aqaba leg would be 1 million b/d under a build, own, operate and transfer contract. Iraq has almost no dry gas production and the majority of associated gas, mostly in southern Basra province, is flared due to a lack of infrastructure to capture and utilize the gas. Iraq has massive demand, however, for power production, domestic gas product usage and petrochemical and industrial plants.

It is likely that the first gas from the proposed Iran-Iraq-Syria pipeline will be Iranian gas, feeding Iraqi power plants and Syrian demand. Iraq has plans to be a net exporter of oil, gas and fuels, though it would have to invest tens of billions of dollars in infrastructure. Iraq in July 2011 signed a memorandum of understanding with Iran, but has given few details about timeframe and capacity.

Greek natural gas privatization struggles ahead

Natural Gas Europe, *19.02.2013*



The privatization process of DEPA & DESFA struggles ahead, amidst corporate and international antagonisms. Recently, Greek Premier Antonis Samaras held a special meeting with the Ministers in charge together with the head of the Greek privatization agency (TAIPED).

Samaras ordered that the binding offers for the two entities should be submitted no later than the 12th of April. Concurrently, the Greek Premier met with a delegation lead by the Russian Ambassador to Greece, which expressed its concerns over alleged involvement by American diplomatic authorities in attempting to obstruct a potential winning bid from Russian based suitors Gazprom and Sintez-Negusneft.

The whole issue has stirred spirits in Athens lately with all leading media citing a frenzy of diplomatic activity and pressure on the Greek government from both Washington and Moscow, whilst Brussels and Greece's biggest lender, Germany, are urging the country to finish off the competition as soon as possible so Greece can raise amounts needed for its stabilization program. Presumably, that course is now been followed by the Greek government, who seems content to wait until April and then make its final decisions based on a mixture of financial and political considerations.

An interesting point is that TAIPED, which is responsible for the privatization process, has changed one of the terms of the competition and allowed previous contesters to partner with the existing ones (Gazprom, Sintez, PPF-GEK, SOCAR, M&M). That change occurred as the Greek government wanted to raise the competition level (and perhaps generate a higher bid), and also to ease diplomatic tensions by shuffling once more the contesters.

Nevertheless, previous participants such as Gas Natural, GDF, Mitsui, Israel Corp. did not decide to re-enter the contest by joining one of the final four contenders. Unofficially it is speculated that the Italy's Eni is indeed in talks with Gazprom, a move which can be considered as natural since both companies cooperate closely and most importantly in South Stream natural gas pipeline project. In the case a Eni-Gazprom partnership cements, it will be a definite favorite for the competition given their combined size and potential for submitting an all-inclusive binding offer that would be hard to be refused by Athens.

Gazprom has decided to decrease the price for gas sales to Greece for 2013 and is also in negotiations for further cuts, a move that is also part of its Pan-European trial to hold on to the EU’s liberalized market, whilst playing the card of the reliable supplier in light of the privatization process. At the same time, Moscow is subtly increasing pressure on Greece by both offering great investments (like those mentioned by Sintez recently of 2 billion euros for the companies plus 5 billion euros investments) and by reminding Greece of its further interest in transport, tourism and infrastructure privatizations that would be lost if Greece succumbs to “outside political pressure.” The Moscow Times presented such views by stating that Greek-Russian business relations depend nowadays on the natural gas privatization.

Regarding the alleged American pressure on Greece not to accept Russian offers regardless of price, a high-ranking Greek state official with direct knowledge who wishes to remain anonymous, stated to Natural Gas Europe “there have been indeed several unofficial initiatives by US State Department officials that cited geopolitical reasons against Russian gas investments in Greece. On a formal inter-state level though there has been no involvement...the Greek side has asked its American partners through unofficial diplomatic channels why there are no American companies interested, but there was no reply. The EU is the only one that actually pressures Athens right now into the direction of raising as much money as possible in order to showcase to the European taxpayers that the stabilization program is actually a success.”

Finally it’s likely that the Greek government in a bid to exaggerate the importance of DEPA-DESFA to the potential buyers is overplaying the “Geopolitical card,” whilst local business interests that are afraid to lose their traditional privileged relations with the public gas sector, are also trying to obstruct the privatization process via a variety of lobbying methods. The only factor that has been corroborated, is the intention by the so-called “Northern Alliance” of the Eurozone to push forward with the selling of Greek gas sector, in light of the general elections in Germany and Austria in September 2013, where debate will be generated on the success (or not) the Greek fiscal issue, which in turn is impacted by the success of the privatizations in terms of monetary revenue acquired.

India pays for Iran oil in rupees, Turkey's Halkbank route halted

Reuters, *18.02.2013*

India is now paying Iran only in rupees for its oil after it lost another payment route in euros due to tougher sanctions from February 6, sources at local refiners said, leaving Tehran struggling to use the Indian currency.

The rupee is only partly convertible, limiting its international acceptability, although Iran can use the currency to buy non-sanctioned goods and services from India. Turkey's Halkbank had been handling payments for Iranian oil in euros from India since July 2011 after other conduits were choked by earlier sanctions, but the latest U.S. measures effectively prevent this, bankers said.

India is Iran's second-biggest client after China but, the world's fourth-largest oil importer India has been reducing imports and so secured a waiver from earlier sanctions that would have impeded its access to global banking networks. The European Union and United States are using sanctions to force Iran to curb its disputed nuclear program, which the West believes is aimed at making a bomb but Iran says is for civilian use. Sources at two Indian refiners said they received an email from Halkbank on February 5 that it will not be able to handle Iranian oil payments from February 6. "We will not be able to execute your general instructions issued in July 2011 from the date of February 6, 2013," said one of the sources, reading out the letter sent by Halkbank. The second source confirmed receiving a one-sentence email from Halkbank. "Halkbank is history now," he said. The tighter U.S. sanctions are also killing off Turkey's own gold-for-gas trade with Iran.

India had been paying through Halkbank for about 45 percent of its massive Iranian oil bill since April 2012 with the rest in rupees. The two nations had been trying to find goods for Iran to buy from India, to smooth a huge trade imbalance. India's total exports to Iran in April-September 2012 amounted to $1.4 billion, a quarter of the value of its imports from Iran during the period, according to Indian government data. There have been several visits by trade delegations to try to boost exports from India, especially of foodstuffs which are not prohibited under sanctions, but few deals have got off the ground. Iran has bought sugar from India but attempts to sell wheat to Tehran have faced quality issues. The two sides have yet to find another way to settle their oil trade and Indian refiners are currently retaining 55 percent of their payments to Tehran. "In this kind of scenario, do you think it is easy to find out a new payment mechanism?" asked the first source.

HPCL-Mittal Energy Ltd (HMEL), part-owned by steel tycoon Lakshmi Mittal may now be able to clear its dues in rupees, built up after India said it could only pay 45 percent in rupees and Halkbank refused to open a euro account for the private refiner. HMEL bought a total 4 million barrels of oil from Iran between September and October 2012. India plans to reduce imports from Iran by another 10-15 percent in the next contract year starting April 1, sources have said. In the first nine months of the contract year 2012/13, India imported 270,700 barrels per day from Iran, about 7.5 percent of total purchases by the country, which depends on imports for 80 percent of its oil needs.

Statoil ditches the theory, beating Gazprom in practice

Platts, *18.02.2013*

Norway's gas exports to the EU have been displacing Russia in a weak market. Perhaps not coincidentally, the state-controlled producer Statoil, which accounts for most of them, has shown greater flexibility in its approach than Gazprom in amending its long-term supply contract terms.

Gazprom typically meets a quarter of European gas demand, with Norway as the second largest. But last year, Gazprom accounted for more than 12 bcm of the estimated 16 bcm decline in European gas imports, "which is an abnormal 75%, in our view, while another big gas supplier to Europe, Norway, in fact increased its deliveries," VTB analysts said.

VTB said Gazprom was going to stick to its strategy on the European market, which left the company with lower but still not competitive prices and lower export volumes last year, after an investor's day presentations that saw Gazprom's share price hit a three-year low. Long term contracts with oil indexation do not reflect the reality of today's liberalized market. They were drafted in the days when each merchant had a captive market and did not compete with its neighbor. Today, oil indexed gas is more expensive than hub-based gas, as energy demand has fallen below the levels that the buyers had expected when the contracts were signed, while oil prices have risen. That mismatch might have been manageable on its own, but there are more suppliers than before in Europe; retail customers are free to move around and there are competing fuels cheaper than gas.

The European hubs are some way below the price of purely oil indexed gas, while the BAFA price reflects the coexistence of oil indexed gas with a growing percentage of gas that is traded at hubs. Admittedly, the gas at the hubs comes mostly from Russia anyway, but by the time the molecules have reached the hub, in an oversupplied market, they are simply surplus to requirements and that is reflected in the price. This price difference has also hammered the fortunes of its customers many of which are the former incumbent national or regional monopolists such as E.ON, RWE, GDF Suez, OMV and Eni. Take or pay commitments mean that they must pay the oil-indexed price for gas they have not contractually received, until they can negotiate a lower one.

The high price of gas has forced the closure of even their most efficient gas-fired power generating plant and encouraged the greater use of coal a perverse outcome in a European Union that is striving to cut its carbon emissions. So in this tough environment, producers have had to compete on price. But while Statoil has been busy 'modernizing' its contracts behind closed doors with its customers, Gazprom has taken a very different approach. It has decided to adhere to the ideology underlying long-term contracts, but let its gas exports fall, and then to issue its customers with back-dated credits that reflect the amount of gas at stake, and the length of time their contracts were out of the money. These run into the billions of dollars, in aggregate.

Gazprom refunded $2.7 billion in 2012 and plans another $4.7 billion in potential price cuts this year as it aims to keep its pipeline gas prices competitive with spot prices. Gazprom has also engaged in a public argument with the Oxford Institute of Energy Studies, which claims that Gazprom is jeopardizing the future of gas in Europe by its rigid adherence to the principle of oil indexation. Gazprom Export's pricing group, under the direction of Sergei Komlev, has produced a number of papers explaining the history and the continuing need to use oil indexation to fund upstream production. His most recent, in English, came out in January.

It argues that hubs are too illiquid and shortsighted to generate any kind of meaningful signal; that it is unreasonable to burden producers with both the pricing and the reservoir risk; that in Europe, only the UK's National Balancing Point is meaningfully liquid; and hub prices are anyway a function of oil indexed prices, so lowering the latter would inevitably lower the former even more; and the production costs of gas and oil are roughly similar, but gas costs about thirty times more to store and transport than oil. But however compelling these and other arguments that Gazprom has deployed, may be, they have no calorific value and its customers are simply not buying them.

Indeed, this failure to meet its customers' requests could have long-term repercussions for gas itself. Academics Jonathan Stern and Howard Rogers said that Gazprom Export was jeopardizing the future of gas, by pricing it out of the market. Without a rapid adjustment to hub prices, gas will become a "sunset industry" in Europe, they claim. Stern and Rogers have consistently said that hubs are the way forward, and oil indexation is no longer rational. Even in Asia, they say, its hold is weakening. In their latest paper they state that market developments since 2007, "when we first published research on this subject, provide ample evidence that Continental European gas prices are moving inexorably in this direction."

The difference between day-ahead prices at different hubs is now very small. The Italian gas bubble has finally burst, and the oversupply of contracted gas has hit the market. Capacity has been freed up, enabling plenty of participants to trade at the Italian hub and so discover the true price of gas. They said Komlev had confused the relationship between oil and gas price levels with the case for maintaining formal contractual linkage to oil product prices in long term supply contracts. However, "until genuine competition and substitution between oil products and gas is re-established, there is no case for a formal contractual linkage between oil and gas prices," they said.

Europe to get its first EU-wide offshore oil and gas law

Reuters, *13.02.2013*

The EU proposed its first law to regulate safety in offshore oil and gas drilling across the 27-member bloc and prevent any repeat of BP's catastrophic Gulf of Mexico spill. Some environmental campaigners said the law, which still needs final endorsement from member states and the European Parliament, was not robust enough. Others argued it could help to protect Arctic waters from oil spills.

Politicians from Britain were among the first to welcome it. They argue British standards of safety are already excellent and the new law would oblige others to follow suit.

"These rules will make sure that the highest safety standards already mostly in place in some member states will be followed at every oil and gas platform across Europe," EU Energy Commissioner Günther Oettinger said in a statement. "Past accidents have shown the devastating consequences when things go badly wrong offshore. Recent 'near-misses' in EU waters reminded us of the need for a stringent safety regime."

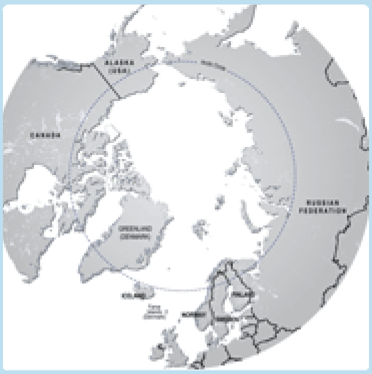
The Commission reviewed existing national safety rules in the aftermath of the U.S. Gulf of Mexico accident and said it wanted to guarantee the world's highest safety, health and environmental standards throughout the EU. The legislation covers the criteria for awarding operating licenses and penalties for breaching safety standards, which could lead to loss of license. Companies will also have to carry out emergency planning and risk assessment and will be fully liable for any environmental damage up to about 370 km from the coast. Although the new rules will only apply to EU waters, the Commission says it will work with international partners to promote such standards across the world.

In a statement, Green members of the European Parliament urged the assembly not to give final approval. Austrian Green politician Eva Lichtenberger said the new legislation did not close all the gaps in safety regimes. "It also fails to call for a moratorium on drilling in sensitive or extreme environments (like the Arctic)," she said. But environmental campaigning group Greenpeace said the preliminary deal was positive and its demand for risk assessment could deter unscrupulous operators. "This deal on the EU safety law for offshore drilling would go some way to ensuring that oil companies think long and hard before they embark on a risky adventure in the Arctic," Greenpeace EU climate policy director Joris den Blanken said. "Unfortunately, this deal still leaves too much wiggle-room in its implementation," he added.

Britain was among those who campaigned for the law to be a directive, meaning each member state is left to transcribe it into its own domestic legislation, rather than an EU regulation that would automatically apply across the 27 members once approved. British Conservative members of the European Parliament said they had headed off EU proposals that could have lowered standards in the North Sea.

Russia spells out Arctic strategy

Oil & Gas Eurasia, *22.02.2013*



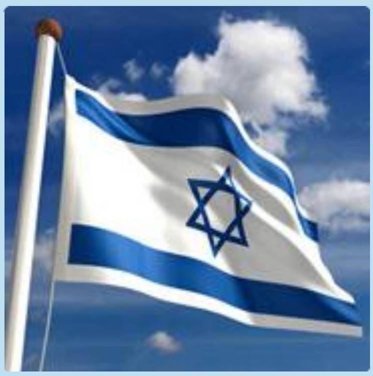
UPI reports that Russia has announced a development agenda for its Arctic territories that embraces energy development under the premise of national security interests.

Russian President Vladimir Putin signed off on the 10-page “Strategy of the Russian Arctic Zone Development and National Security until 2020”. The document calls for the “secure fundamental growth of arctic-sea occurring mineral deposit balanced reserves by implementing national programs for studying and exploration of the continental shelf of the Russia and also starting work to explore oil and gas deposits in the Russian Federation Arctic Zone.”

Warmer weather patterns have left parts of the arctic ice-free for longer periods. The U.S. Geological Survey estimates that as much as 80 percent of the world’s undiscovered oil and 20 percent of the undiscovered natural gas may lie in arctic regions. US supermajor Exxon Mobil and Russian energy company Rosneft last year signed a deal to develop parts of the Black Sea and the South Kara Sea in the Russian arctic. There may be as much as 85 billion barrels of oil in the Kara Sea. Environmental groups have expressed concern over the threat of environmental damage. Both companies said they're committed to ensuring the arctic environment is protected, however.

Israel starts oil exploration in Golan Heights

Ria Novosti, *21.02.2013*



The Israeli government has issued the first license to explore for oil on the Golan Heights, the plateau in south-western Syria captured and annexed by Israel, the license holder Genie Energy said. The license allows Genie Energy’s Israeli subsidiary to conduct oil exploration on an area of almost 400 km in the plateau’s southern portion.

“The company believes that the newly-issued license area may contain significant quantities of conventional oil and gas in relatively tight formations, the development of which would entail significantly different technical approaches and project timelines than the other projects,” Genie Energy said.

Announcements & Reports

► *Analysis on Issues Related to Competition under the Energy Charter Treaty*

Source : Energy Charter
Weblink : http://www.encharter.org/fileadmin/user_upload/Publications/Competition_study_2012_ENG.pdf

► *OPEC Monthly Oil Market Report (Feb 2013)*

Source : Organization of the Petroleum Exporting Countries
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_February_2013.pdf

Upcoming Events

► *6th International Petroleum Technology Conference*

Date : 26 – 28 March 2013
Place : Beijing – China
Website : http://www.iptcnet.org/2013/

► *LNG17 – International Conference and Exhibition on Liquefied Natural Gas*

Date : 16 – 19 April 2013
Place : Houston – USA
Website : http://conferencehound.com/conference/lng17-international-conference-and-exhibition-on-liquefied-natural-gas/53874

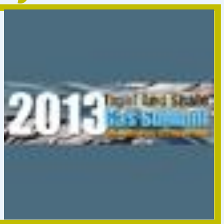
► *Offshore Technology Conference*

Date : 6 – 9 May 2013
Place : Texas – USA
Website : http://www.gshtx.org/en/cev/908

Supported by PETFORM

► *Tight and Shale Gas Summit 2013* ***(in Turkey)***

Date : 15 – 16 May 2013
Place : Istanbul – Turkey
Website : http://www.wplgroup.com/aci/conferences/eu-eug2.asp



► *12th Moscow International Oil & Gas Exhibition*

Date : 25 – 28 June 2013
Place : Moscow – Russia
Website : http://mioge.com/about/upstream.aspx

► *Oil and Gas Conference and Exhibition 2013*

Date : 3 – 6 September 2013
Place : Aberdeen – UK
Website : http://www.offshore-europe.co.uk/page.cfm/Link=1/t=m/goSection=1

Supported by PETFORM

► *All Energy Turkey* ***(in Turkey)***

Date : 11 – 12 September 2013
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/?lang=tr

► *Texas Oilfield Expo*

Date : 6 – 7 March 2013
Place : Texas – USA
Website : http://www.gshtx.org/en/cev/906

► *21st Kazakhstan International Oil & Gas Exhibition and Conference*

Date : 1 – 4 October 2013
Place : Almaty – Kazakhstan
Website : http://www.kioge.com/2013/upstream2013.html

► *Deep Offshore Technology International Conference & Exhibition*

Date : 22 – 24 October 2013
Place : Texas – USA
Website : http://www.biztradeshows.com/trade-events/deep-offshore-technology.html

► *World Shale Gas Conference & Exhibition*

Date : 4 – 7 November 2013
Place : Texas – USA
Website : http://www.biztradeshows.com/trade-events/world-shalegas-exhibition.html