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Turkey could double gas imports from Iran if price issue resolved

Natural Gas Asia, *02.02.2014*

Turkey's imports of Iranian natural gas could double if price related issues could be settled, Turkey's Energy Minister Taner Yildiz told news agency Reuters on Thursday.

Yildiz was on a visit to Iran where natural gas related issues were discussed. However, according to Reuters, two countries are still far from finding common ground on price of gas. Turkey has claimed that price of gas exported by Iran is high so much so that the Turkish state-owned Petroleum Pipeline Corporation (BOTAS) applied to an international court of arbitration in 2012 to help reduce the price of Iranian gas.

But Iran has offered to sell more gas to energy-hungry Turkey, and the offer is being considered, Yildiz told Reuters. "We have not found their price offer satisfactory at this stage. Obviously, without the price being agreed upon, we can't sign such a deal. Our teams will continue to work on this," Yildiz said.

Turkey to consume less gas this year

Hürriyet Daily News, *05.02.2014*

Turkey consumed 45.2 billion cubic meters of gas in 2012 and 47 billion cubic meters in 2013. Estimation for 2014 is at 46.5 billion cubic meters. Turkey consumed 45.2 billion cubic meters of natural gas in 2012 and 47 billion cubic meters in 2013. Estimation for 2014 is at 46.5 billion cubic meters.

Turkey's total domestic gas consumption for 2014 is estimated to be 46.5 billion cubic meters, a decrease of 0.5 billion cubic meters compared to last year, according to the Energy Market Regulatory Authority (EPDK). Turkey consumed 45.2 billion cubic meters of natural gas in 2012 and 47 billion cubic meters in 2013.

Turkey's energy import bill decreased by 7 percent in 2012, falling to $55.9 billion from $60.1 billion the previous year. Russia has become Turkey's largest natural gas supplier, importing more than half of its annual 45.2 billion cubic meters from Russia's energy giant Gazprom. Gazprom sold 162.7 billion cubic meters of natural gas to Europe last year, out of which 26.6 billion cubic meters, 16 percent, was sold to Turkey.

Iraqi Parliament speaker in bid for 'joint Iraq decision' on oil exports to Turkey

Hurriyet Daily News, *06.02.2014*

Iraqi Parliament Speaker Osama al-Nujaifi has underlined the importance of reaching a joint decision by the federal government in Baghdad and the Iraqi Kurdish Regional Government (KRG) on the controversial issue of planned pipe oil exports to Turkey.

Al-Nujaifi described the aim of his visit as being to normalize bilateral relations between the two neighbors, adding that "he had succeeded in bringing the views of the two countries closer to each other." "The agreements on the issue of oil are as yet at their first stages and we will see the results of the talks".

The absence of a final resolution on this issue and having no agreement made in Iraq will embarrass approval of the general budget in Parliament," he was quoted as saying in an interview with Anadolu Agency posted late on Feb.5, noting that approval of the general budget had already been much delayed. "We need fast steps to be taken on this issue," said al-Nujaifi, who earlier in the day held separate talks with both Turkish Prime Minister Recep Tayyip Erdogan and Foreign Minister Ahmet Davutoglu.

"I guess the views of the parties are very close to each other. The oil agreement has not yet been finalized but there are predictions about this. I'm trying to help too. It will be right to have a decision made by Iraq. I believe that an 'Iraq decision' arising from an agreement between KRG and Baghdad will be appropriate. Turkish officials also conveyed that they will not impede if an agreement between the KRG and Baghdad is struck, and said they would support it," al-Nujaifi said.

Meanwhile, Davutoğlu initiated a telephone conversation with his Iraqi counterpart, Hoshyar Zebari, in order to extend condolences to him on the latest terror attacks in the neighboring country, diplomatic sources told Anadolu late on Feb. 5. As of Feb. 2, the KRG Alliance in the Iraqi Parliament confirmed that progress had been made in the talks between the federal government and KRG regarding the export of Kurdish oil. Last month, Iraqi Prime Minister Nouri al-Maliki threatened to cut central government funding for the KRG if the Kurds pursued a drive to pipe oil exports to Turkey without Baghdad's approval. In the following days, al-Nujaifi had to suspend a parliamentary session due to the lack of quorum after the withdrawal of KRG Alliance before the presentation of the budget law.

Turkey to get $2 billion from Iran, says energy minister

Today's Zaman, *03.02.2014*

Turkey will most likely receive more than $2 billion from a lawsuit against Iran for imposing higher prices in a natural gas deal between the two countries, Energy and Natural Resources Minister Taner Yildiz said on Monday.

"We came to the table (to meet) with Iran Islamic Republic. We spoke in a friendly manner and told them that we will file a suit against Iran, and we are in fact doing so. We are 99 percent sure that we will receive our money (paid out due to high prices on natural gas). It is more than $2 billion. I trust the decision of the arbitration board," said the minister Taner Yildiz.

In 2012, Turkey took major energy trading partner Iran to an international court of arbitration over the high price imposed by Iran on Turkey's natural gas imports, a price that is already higher than what Turkey pays to any other trading partner. In 2012, Turkey paid Azerbaijan $330 for every cubic meter of gas imported and $400 to Russia for the same amount. However, Iran sells its gas to Turkey at $505 per cubic meter, which increased Turkey's natural gas bill by an extra $800 million annually. The price of a cubic meter of natural gas is sold for $400 in international markets. Much of the problem in the gas trade between Tehran and Ankara derives from a "take or pay" condition that requires Turkey to import predetermined amounts of natural gas -- 10 billion cubic meters per year -- according to a gas deal signed in August 1996 and valid for 25 years. Commenting on the natural gas agreement, Yildiz said the deals were signed during the government of Recai Kutan, a former leader of the Felicity Party (SP), and that every three years; state parties have the right to revise the agreements.

Gazprom top natural gas supplier of Turkey

Hürriyet Daily News, *03.02.2014*

Russian state-owned energy giant Gazprom accounted for more than half of Turkey's gas imports last year, providing 26.6 billion of 45 billion cubic meters of imported gas.

Gazprom is the leading provider of natural gas to Turkey, which imported 16 percent of the company's gas supplied to Europe. Gazprom sold 162.7 billion cubic meters of gas to Europe last year, out of which 26.6 billion cubic meters, or 16 percent, was sold to Turkey. Energy-hungry Turkey, which produced 47 billion cubic meters of gas on its own in 2013, relies on contracts with gas suppliers such as Iran, Russia, Azerbaijan, Algeria and Nigeria to feed its soaring need.

Gazprom signed a long-term deal last November to export gas to private companies in Turkey. The Russian firm covers a quarter of Europe's gas needs, with more than 150 bcm of exports a year. European buyers have struggled to find alternatives to the Russian gas producer, whose contracts link prices to oil, generally making it expensive compared to the spot market.

Greek seismic vessel ignores Turkish navy

The Oil and Gas Week, *05.02.2014*

The Greek Cypriot government has accused the Turkish navy of ordering a seismic vessel to change course on Saturday while it was surveying gas reserves in the Exclusive Economic Zone offshore southern Cyprus.

Turkish authorities claim the vessel had strayed into Turkish waters. The Greek Cypriots say that the vessel is licensed to operate in the region within the bounds of maritime law and that it did not change course as instructed, instead continuing with its survey work. "Ankara's provocative behaviour does not afffect our plans for exploitation of hydrocarbon reserves" Victor Papadopoulos said.

This is the latest incident in an ongoing dispute between the Turks, Turkish Cypriots and Greek Cypriots over the sovereign rights to substantial quantities of natural gas discovered in the Eastern Mediterranean in 2012 by US company Nobel and Israeli companies Delek and Avner. Estimates put the reserves at 102 bcm-170 bcm (3.6 tcf-6 tcf).

Greek Cyprus to complain to UN over Turkish expulsion of gas-seeking ship

Hürriyet Daily News, *04.02.2014*

Greek Cyprus will complain to the United Nations, it said on Feb. 3, after the Turkish navy expelled a ship looking for gas in disputed waters in the eastern Mediterranean. Turkey disputes Greek Cyprus's rights to a swathe of sea to the island's south and southeast that are rich in natural gas reserves, adding to long-standing tensions between the neighbors.

The Turkish military said that one of its ships radioed a Norwegian vessel sailing in what it described as its maritime zone, ordering it to leave the area on the night of Feb. 1. There was no further incident.

The ship was carrying out research for Total, one of three hydrocarbon companies licensed by Greek Cyprus to search for gas, Greek Cypriot authorities said. "We will continue to monitor the area very closely," a Turkish official said. Greek Cyprus says the waters are part of its own offshore area, where it has awarded research concessions to France's Total, U.S. company Noble Energy and South Korea's Kogas. "This provocative behavior by Ankara in no way affects plans to exploit the hydrocarbons of our country," a government spokesman said. Greek Cyprus said the ship incident did not bode well for a rapid resumption of long-stalled reunification talks. "I think they should seriously consider whether, under these circumstances, the climate is conducive to starting talks," said Greek Cypriot Foreign Minister Ioannis Kasoulides.

Turkey has strongly protested against Greek Cyprus' energy exploration in the Mediterranean, branding the moves illegal and starting its own exploratory drilling off Turkish northern Cyprus. The Turkish government says all revenues obtained from the drilling operations off the coast of Cyprus should be distributed between Greek Cyprus and Turkish Cyprus and have frequently warned that Turkey would undertake unilateral drilling in the event of any failure to equitably share revenues. Ankara had also warned companies could be shut out of future Turkish energy investments if they become involved in Greek Cypriot energy exploration work.

Iraq hires law firm to target buyers of 'illegal' Kurdish oil

Today's Zaman, *02.02.2014*

The Iraqi government has hired a law firm to target any buyer of what it considers illegally exported Kurdish crude oil, a Baghdad official said, toughening its tactics in a struggle to halt the northern region's drive for economic independence.

For the past year, the Kurdish Regional Government (KRG) has trucked about 60,000 barrels per day (bpd) of crude to Turkish ports, avoiding the Baghdad-run Iraqi pipeline system as it tries to gain more control over oil revenues. The central government threatened to sue over the shipments in a long-running dispute that talks between Baghdad and Arbil have so far failed to settle, but it took no legal action.

However, Baghdad is now preparing to act because it says the Kurds have raised the stakes by building a new pipeline linking their semi-autonomous landlocked region to Turkey. Iraq's oil ministry instructed legal firm Vinson and Elkins about two months ago to pursue anyone who buys oil pumped down the pipeline to the Turkish city of Ceyhan, near the Mediterranean, a senior Iraqi oil official said. “This is not a game. Anyone who buys this oil is doing something illegal,” said the official, who asked not to be named. “We will target the companies because they are the ones who will monetize and pay for the Kurdish oil. How else can it get onto the market?” Vinson and Elkins, which has represented the Iraqi government in the past, declined to comment. Baghdad turned a blind eye to small trading companies that have bought barrels via regular tenders and trucked them across the border.

Those tenders are still taking place. But while the trucked amounts are relatively modest, Baghdad realized the Kurds were serious about independent exports when they sent test shipments down the pipeline in early December. “You can't compare general trucking of 60,000 barrels or less to significant exports through a pipeline system,” the senior Iraqi official said. “We have a bilateral, international agreement with Turkey - ratified by parliament - that does not allow the Iraq-Turkey pipeline to be used by a third party without the consent of the Iraqi government.” The central government insists it has the sole right to export Iraqi resources, including those from the northern Kurdish region which gained de facto autonomy after US-led forces defeated Saddam Hussein in 1991. The KRG says its right to exploit and export reserves under its soil is enshrined in Iraq's federal constitution.

OPEC says it can handle Iraqi oil

The Oil and Gas Week, *05.02.2014*

OPEC will be able to "accommodate" a potentially massive increase in members' production if Iraq and Iran overcome their current difficulties and bring their reserves to market, the organization's secretary general said last week.

Al Badri made the remark to reporters at a conference in London. "We've faced a lot of difficulties in the past, and we were able to overcome them, and this we will overcome." At the same conference, Iraqi Deputy Prime Minister for Energy Shahristani reaffirmed his nation's intention of tripling oil production to more than 9 million barrels per day by 2020.far more than OPEC's current quotas would allow.

The quota system has allowed OPEC to maintain an oil price of more than $100 per barrel for most of the decade. Last week the IMF calculated that Baghdad needed an oil price of at least $106.10 per barrel to balance its budget in 2013, amid increased spending. Baghdad's ambitious production target faces multiple difficulties including ageing and insufficient infrastructure as well as political instability caused by ethnic tensions.

Iran will need 3,000 km of pipeline for South Pars gas field

Natural Gas Asia, *01.02.2014*

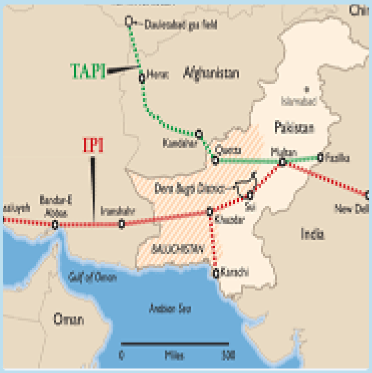
Iran will need to build 3,000 kilometers of gas pipeline for South Pars gas field, deputy of National Iranian Gas Company said earlier this week. Samari said the pipeline is required once five new phases of South Pars gas field become operational with a capacity of 204 mcm, reports Agency.

Moreover, 15 to 20 new gas pressure booster stations will be established, Samari added. According to Samari, pipeline and gas pressure stations will require an investment of six billion dollars. Samari said the country will see a massive flow of gas in the future once phases 12, 15, 16, 17 and 18 come on-stream.

Iran is working at a great speed to develop its giant South Pars natural gas field, amid hopes of relief from sanctions. The gas field, located in the Persian Gulf is shared by Iran and Qatar.

Selling Israeli gas: “it’s complicated”

Trend.Az, *02.02.2014*



The parties interested in the construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline came close to creating a consortium, Turkmen Dovlet Khabarlary (TDH) state news agency said in an analytical material. “Currently the sides have come close to creating TAPI Ltd. consortium, which will deal with the practical implementation of the project,” the information said.

Presently legal and technical issues on its creation are being studied, as well as engaging leading foreign companies that have necessary technical capabilities, advanced technology and practical experience in the construction of pipelines.

As TDH stressed, all the necessary legal and commercial documents on TAPI project are ready. The contracts on purchase and sale of natural gas were signed between entities of participating countries. “The Asian Development Bank (ADB) serves as a transactional advisor on TAPI gas pipeline project. Its main task is to develop the project company TAPI Ltd., as well as to search for the leader of the consortium to implement one of the largest energy projects in the vast Asian space,” TDH said. The basic document is an Ashgabat interstate agreement of the member states signed in 2010 in Ashgabat on starting the practical implementation of the TAPI project.

The instability for transit through Afghanistan remains a serious obstacle. However, Kabul says it will be able to ensure the route’s safety. TAPI is at an important stage of its development. In May 2012, the Turkmen government signed an agreement for the sale and purchase of natural gas with India’s GAIL Ltd. and State Gas Systems of Pakistan. A corresponding agreement was signed with Afghanistan in July, 2013. A Service Agreement was signed with the transactional adviser - the Asian Development Bank (ADB) - in Ashgabat in November 2013.Earlier, Turkmen press said that the heads of the companies such as Chevron, Exxon Mobil, BP, BG Group, RWE, Petronas read the project’s terms and “expressed their intention to participate in it.”

According to Indian sources, Shell Company also showed interest. South Korean Korea Gas Corporation (Kogas) has declared its proposals for TAPI. The TAPI pipe length can reach 1735 kilometres. It is expected that the main line must stretch from the largest gas field in Turkmenistan, Galkynysh, through the Afghan cities of Herat and Kandahar and reach its final destination at the settlement of Fazilka, located on the border between India and Pakistan.

Noble Energy sells Israel gas project stake to Australia's Woodside

Trend.Az, *02.02.2014*

Noble Energy Corp said on Thursday it has finalized an agreement to sell part of its interest in a massive Israeli natural gas project to Australia's Woodside Petroleum Ltd for $1.03 billion in cash and future revenues.

Noble Energy is developing the field, which is estimated to hold about 19 trillion cubic feet of natural gas, with Delek Group, Avner Oil Exploration and Ratio Oil Exploration. Each of the partners are selling 25 percent of their respective stakes to Woodside. The group wanted Woodside's expertise in developing liquefied natural gas (LNG) projects as well an additional investor.

Noble Energy will receive $390 million when the deal closes later this year and an additional $135 million when a decision is made on an LNG facility or export contracts exceed a predetermined limit. The company, which will retain the largest stake in the Leviathan project at 30 percent once the deal closes, will also receive $502 million in shared future revenues from Woodside. The deal was first announced in late 2012, though negotiations dragged on for more than a year while Israel's supreme court debated whether to allow natural gas exports and while other studies on the field's total potential were completed. The Israeli high court ultimately allowed natural gas exports of up to 40 percent of produced natural gas.

Gas exports to endanger Iran's energy security

Today.Az, *05.02.2014*

Iran sits on the world's largest natural gas reserves. The country's estimated reserves are around 33.6 trillion cubic meters or 18 per cent of the world's total proven gas reserves. However, the development rate of the country's gas projects is slow, and gas accounts for a major share of Iran's energy conumption.

During the past month, several reports suggested that Tehran and other cities across the country were facing gas shortage. Also it was reported that LNG distribution at the gas stations have been halted and the government was forced to feed liquied gas to power plants instead of natural gas.

In the latest case, Iranian media outlets reported that the oil ministry has ordered the petrochemical complexes to lower their production rate to the least possible, or even halt production until further notice. Ahmad Mahdavi, the Director General of Petrochemical Employers Association told Mehr News Agency on Feb.4 that the damage of decreasing or halting the petrochemical production during last 40 days is estimated at $1.5 billion. Iranian petrochemical complexes daily need some 30 to 35 million cubic meters of gas, but the gas supply to petrochemical complexes was reportedly decreased to 15 million cubic meters in the past week. Iran also decreased supplying gas to power plants to 50 million cubic meters per day. It is while the country's power plants daily need 135 million cubic meters of gas. Iran also cut gas supply to some cement producing factories.

Iran's domestic LNG consumption is around 17 to 20 million cubic meters. Based on the official reports of the oil ministry, the country's total gas consumption on Feb. 4 was around 570 million cubic meteres. Households' consumption accounted for over 518 million cubic meters of the mentioned figure. Iranian oil officials previously said that the country imported around 7 million cubic meters of gas from Turkmenistan during the warm months of the previous year. However, the Mehr News Agency reported last month that the figure has risen to 22 million cubic meters. Reza Araqi and Abdolhosein Samari, managing director and deputy director of National Iranian Gas Company, has repeatedly put Iran's total gas refining capacity, including imported gas from Turkmenitstan, at 600 million cubic meters per day.

The figure also includes 7 million cubic meters of gas pumped each day from Iran's only active gas storage facility, Sarajeh, to the country' national gas netwrok. Iran is obliged to export 30 million cubic meters of gas per day to Turkey. However, the country has managed to export only 25 million cubic meters of gas per day to its western neighbor in the past few years. So, not considering its gas swap with Azerbaijan and bartering Iranain gas with Armenian electricity, Tehran has only 575 million cubic meters of gas per day to meet its domestic demands. Industrial sector and the need to inject gas to oilfields. With a sharp rise in Iranian households' gas consumption, the country has only 57 million cubic meters of gas per day to feed to its industrial units.

Iranian petrochemical complexes and power plants need 175 million cubic meters of gas per day, while other industrial units need 65 million cubic meters. On the other hand, the oil ministry has planned to inject at least 200 million cubic meters of gas per day to the old oilfields, which account for 80 per cent of Iran’s total oil output. It is while, even in the warm months, Iran manages to inject less than 90 million cubic meters to the old oilfields and in the cold months there is practically no extra gas to be injected to the oilfields. According to the U.S. Energy Information Administration (EIA), Iran’s old oilfields annually lose around 8 to 13 percent of their production capacity. Iran eyes to increase its gas production at the giant South Pars gas field to 700 million cubic meters per day from the current figure of 285 million cubic meters, but even in the best scenatrio, the development project will take five years.

In addition to the gas shortage, Iran has two gas exports contracts with Iraq, one with Pakistan, and a gas exports memorandum of understanding with Oman. The country also has to annually export of 10 billion cubic meters of gas to Turkey based on the contract signed in 1996. So excluding the MoU with Oman, Iran is obliged to export at least 140 million cubic meters of gas per day to neighboring countries in the short term. Iran has to spend billions of dollars to construct necessary infrastructure for exporting gas to Iraq and Pakistan. The country also is in dire need of increasing the rate of gas injection to its oilfields. Tehran’s domestic gas consumption increases by 7 per cent each year as well. It seems that in warm months, Iran has more gas to export since the households’ consumption falls. However, last spring, the country was forced to feed 6 billion liters of liquid fuel to its power plants instead of gas.

Tehran fed 23.257 billion liters of liquid fuel in total to its power plants in the previous Iranian calendar year. The figure is expected to rise to 29 billion liters worth $22 billion in the current year. Iran’s attempt to fulfill its gas exports obligations will severely endanger the country’s energy security, especially in the cold months. Also it will limit the country’s ability to inject natural gas to its old oilfields, as well as its ability to provide enough gas to feed its industrial units. By comparing global prices of oil and gas, considering the nearly 80 percent share of oil in Iran’s total exports, and the annual natural reduction in the country’s oil output, the best choice for Iran in the medium term is to inject more natural gas to its old oilfields.

By increasing LNG output, Iran also can decrease its gasoline consumption and save billion of dollars annually. Based on the official reports released by Iran’s Department of Envionment, the country’s air pollution damage, mainly caused by consuming liquid fuel in power plants and automobiles, is estimated at around $8 billion per year. If Iran manages to implement its long-term programs and absorb enough capital, and if the sactions are lifted completely, the country may be able to become an important player in the world’s gas market by 2025. But before that, such an achievement is not likely.

Iran, Pakistan renew gas pipeline talks

Natural Gas Asia, *03.02.2014*

Iran and Pakistan are holding expert level talks this week about the change in the time frame of construction of Iran-Pakistan gas pipeline, reports Shana News Agency.

Ali Majedi, who is deputy minister for international affairs, said a delegation of Pakistani experts is in Tehran to hold talks on the pipeline. The Pakistani delegation would hold talks with Iranian authorities to set a new mutually agreed timeframe for the project. Under the Gas Sales Purchase Agreement (GSPA) signed earlier with Iran by the outgoing PPP government in 2009, the first flow of gas to Pakistan should have started by Dec 31, 2014, adds Shana.

Volume of Azerbaijan's underground gas storages increases by many times

Trend.Az, *06.02.2014*

The volume of Azerbaijan's underground gas storages has increased to five billion cubic meters, the head of the State Oil Company of Azerbaijan (SOCAR) Rovnag Abdullayev said at a conference held under the chairmanship of President Ilham Aliyev dedicated to the results of implementation of two state programs on the socio-economic development of the country's regions in 2004-2008 and 2009-2013.

"Earlier, the capacity of Azerbaijan's storages allowed us to store some 800 million cubic meters in them. As a result of the carried out works, this figure has increased by eight time and hit five billion cubic meters," Abdullayev said.

There are two underground gas storages in Azerbaijan - Kalmaz and Garadag.The volume of gas in the underground storages amounted to 3.5 billion cubic meters in 2013, according to the SOCAR head. The daily volume of the gas feed to the system from the underground storages on cold days amounted to 25-26 billion cubic meters which correspond to the daily volume of gas production at Shah Deniz gas condensate field in the Azerbaijani sector of the Caspian Sea. Shah Deniz reserves are estimated at 1.2 trillion cubic meters of gas.The partners for the development of Shah Deniz field are: SOCAR with the share of 16.7 percent, the British BP (28.8 percent), Norway's Statoil (15.5 percent), Iran's NICO (10 percent), the French Total (10 percent), Russia's Lukoil (10 percent), Turkish TPAO (nine percent).

Natural gas market developments and marketing in Europe: Ramifications for the Shah Deniz consortium

Natural Gas Europe, *05.02.2014*

The Shah Deniz consortium announced a final investment decision to sanction development of second phase of the Shah Deniz project, one of the world's largest gas-condensate fields. The FID was a significant breakthrough towards the materialization of the Caspian-gas-to-Europe project and the realization the "Southern Corridor."

The consortium had secured buyers for its gas in September of last year, with agreements to transport slightly more than 10 bcm of gas to Greek, Bulgarian, Albanian and Italian markets starting from 2019 via the dedicated TANAP and TAP, key components of the Southern Gas Corridor.

Transiting through seven countries, involving six regulatory systems, four separate commercial projects and involving 12 companies, the costs (an estimated $45 billion USD) and complexities (legal, political, regulatory, etc.) of opening the Southern Corridor have been considerable. Gas contracts signed with nine European parties, forsee first deliveries targeted for late 2018 with sales to Georgia and Turkey; and deliveries to Europe to follow approximately a year later. Shah Deniz field condensate production is expected to increase to 120,000 barrels per day, from current levels of about 55,000 barrels per day. When looking at overall EU consumption, the volumes of gas to be supplied by Shah Deniz are not particularly large.

However, this project reaches specific gas markets of southeastern Europe that previously relied primarily on a single source supplier, leading to supply vulnerability and high import prices. While Shah Deniz gas will flow into Italy, the Italian market should not be considered as a final destination. Italy is best positioned to transit Azerbaijani gas to neighboring countries via existing interconnectors such as to Austria via the TAG Pipeline, Switzerland via the Transit gas Pipeline or Germany and France via TENP interconnector into Belgium and the UK. For this, investment in reverse flow of these pipelines needs to be made in the short and medium term.

A final investment decision in development of bi-directoral flows is planned to be made this year in accordance with the Italy's National Investment Strategy for its role as a transit nation and Southern Europe's gas trading hub by 2020. This opportunity provides the Shah Deniz consortium room to maneuver by selling the gas into a wider regional market in the event if the Italian market is not be able to absorb some 8 bcm/yr. The Southern Corridor project acts as a catalyst for the establishment of interconnectors in Southern Europe. Despite the fact that for a number of years the European Union has spoken about the importance of interconnectors, availability of interconnectors is modest, particularly in south east Europe and in the Balkans.

The lingering impact of the world financial crisis and euro zone economy difficulties find that EU gas demand is at its best, currently stagnant and will continue to be so at least through this decade. However, the short-term requirements for pipeline imports will grow as a result of a projected rapid fall in domestic European gas production which will see the need for increased imports to fill the gap. The energy consumption stabilization is being expected from 2020 and beyond making the timing of the Azerbaijani gas delivery to Europe optimal. “Take or Pay” obligations in Long Terms Contracts (LTCs) will not be able to cover demand rise starting from 2020.

According to the consultancy IHS CERA, oil and coal will lose market share in the European energy mix, including in power generations in accordance with the EU strong commitment to continue the lower carbon emissions policy. Despite the EU diversifying its supply sources and that coal is strongly competing with gas in power generations because of cheaper price of the former, gas is projected to gain ground and to increase gas-fired generations after 2020. This will happen, according to the CERA projections, because of increase in the price of CO_2 emissions, reaching €13,00/t by 2020. Changing the CO_2 price moves coal-to-gas switching band further away as it is cost-efficient alternative to oil and coal.

However, traditional and potential suppliers of the EU market could face challenges in long term viability of their investments due to the transformative development and future export of shale oil and shale gas in the United States. Additional volumes of shale gas coming from the US can indeed reshape the dynamics of the gas world and gas supplier companies including the State Oil Company of Azerbaijan (SOCAR) and its partners must be well aware of changing dynamics of the market in order to be able to address those challenges. The challenges could occur not because of market oversupply with LNG or piped gas (the market currently is overcontracted, rather than oversupplied), but because the availability of even a small amount of US liquidity in the European hubs can affect the price formation, making the hub indexation prevailing in the LTCs.

The possible supply gap in Europe could be covered by flexible LNG coming from the US, Qatar and Australia in the future. However it is most likely that this LNG will be shipped to Asian markets because of the higher margin for supplier. US energy companies have already contracted LNG in the proportion of 20 bcm to Europe and about 80 bcm to Asian market. The gas price in Japan is $16-17 USD per Mmbtu whereas in Europe no more than $9-10 USD, making it less competitive. Such a price in Europe is most likely to remain as the price is lower than that would cause redirection of the gas supplies to other regional markets due to the commercial non-viability of the investments in the upstream and midstream projects by suppliers.

New and potential suppliers to Europe are entering unpredictable and uncertain markets in terms of demand, supply and pricing. Add to this political and geopolitical maneuverings of traditional suppliers (Russia, Norway, Qatar and others) and of consumers (using this rivalry as leverage to renegotiate the price and terms of LTCs), making this marketplace even more challenging.It is extremely important for the Shah Deniz consortium and SOCAR in particular to be aware of the changes in the market they are targeting and to market its gas in the most economically viable manner. Having said that, there are two possible scenarios how the SD consortium and Azerbaijan can arrange marketing of its gas:

First scenario is selling gas field by field. For instance, the first phase of the Shah Deniz project saw the establishment of a marketing company, Azerbaijan Gas Supply Company. Similarly, a separate company for Phase Two volumes, and in the future for other smaller fields in the country - Absheron, ACG Deep, Shafag-Asiman, Babek, Nakhchyvan, Zafar-Mashal, Karabakh etc., could be established. Marketing of gas from each of these fields would be realized with different terms and conditions, pricing models, volumes, etc. This model is less risky for SOCAR, as all the risks would be shared by the partners equally but not flexible in terms of efficient volume management from the perspective of the Azerbaijani government and would be overall of less benefit, particularly financially. IOCs would participate in the whole value chain and share risks.

The possible second scenario of marketing arrangement is creating an Azerbaijani gas portfolio, a kind of virtual pool, where all the country's gas would flow into and SOCAR itself would be dealing with the marketing of gas of Azerbaijani origin (and possibly other gas in the future) as a single entity. For example, if to take gas from all the fields (producing and potential) in Azerbaijan, then the Republic of Azerbaijan represented by SOCAR may buy all the volume of gas from the IOCs at a certain delivery point, and sell the gas as a single entity, to European (and any other) buyers, i.e. SOCAR would manage the portfolio. The advantages for SOCAR and Azerbaijan of such a marketing arrangement would be:

The company would be able to market gas in a more flexible way (including globally); it can mitigate seasonality, meaning that if the buyer cannot take all the contracted volume in low demand period, SOCAR would be flexible to sell it to other customers not only in the same market but in the other region markets via swap or future SOCAR Gas Trading Companies; Ensure Rate of Return around a year, maximize revenues, IOCs can significantly lessen their risks because they would not participate in value chain operations; and as only one company would be responsible for suppliers, the arrangement will ensure security of supply. However, it is crucial that in order to ensure the aforementioned advantages, the above mentioned entity is to be well aware of the market dynamics supply and pricing forecast and projections, and developments of the energy markets in general.

As global natural gas market and the European market in particular are in a dynamic change process, it is becoming highly uncertain, unpredictable and complicated. First of all it affects supply and demand balance and the price formation of the commodity itself. This dynamic is a challenge for suppliers both traditionally and in the future as consequences are not fully clear. In order to mitigate potential challenges, SOCAR should be able to arrange the marketing of Azerbaijani origin gas in a most economically viable way addressing those changes in the market. The bottom line is the energy market is changing and those countries or companies that understand it and act accordingly will position themselves the best.

South Stream: Is Gazprom willing to invest billions in a project that could serve its competitors?

Natural Gas Europe, *04.02.2014*

The South Stream gas pipeline project is in the limelight in Brussels. Gazprom's ability to supply the energy corridor exclusively with its own gas and not allowing its competitors to use it is being questioned. Based on the Third Energy Package, a legislation debate and dialogue between all interested parties has begun, including the national capitals directly involved in the project.

Bechev, head of the influential European Council of Foreign Relations office in Sofia, offers his insights and point of view on the subject, which will occupy the headlines for the forthcoming period.

Energy security and secure supply of natural gas has been on the minds of policy-makers in Brussels and in Southeast Europe for quite some time. In that respect, how do you view the present-day situation in the Balkans, taking into consideration the unfolding major infrastructure projects, such as South Stream and TAP?

All countries in the region are looking for ways to diversify supply of gas and drive down prices at times of economic slowdown or recession. TAP is an opportunity to create the badly needed gas-to-gas competition in the region but it is not a sufficient in and of itself. What's needed is better interconnectivity, especially along the north-south axis, and regulatory reform in line with the EU acquis. South Stream does not bring downstream new volumes, simply redirects already existing flow. Gazprom needs to comply with the Third Energy Package - and then decide for itself whether the project makes economic sense. I think the message from the Energy Minister Günther Oettinger is very clear. Ideally, one day South Stream can pipe gas from other suppliers, including LNG delivered through Greece and Turkey's terminals in the Aegean and Marmara Seas.

Do you assess that the pending Commission-led actions against Gazprom could affect the South Stream project, both in political and economic terms? In a practical sense, how can the EU motion be applied to member states that engage in bilateral terms with a company like Gazprom?

Commission has threatened member states like Bulgaria, Greece, Hungary and Austria with infringement cases, unless they bring IGAs into conformity with EU law. I think the threat is credible. What I find puzzling is that Russian diplomats are trying to play hard-ball with the Commission at a time when Gazprom is looking for ways avoid a full-blown anti-trust action by Commissioner Almunia.

In your opinion which is the main obstacles - if any- that prohibit a diversification policy in South East Europe regarding the natural gas sector?

The obstacles are multiple: the unclear prospects of fresh sources coming onstream (e.g. Eastern Med, northern Iraq, Iran etc), lack of interest by majors in a relatively small market in the Balkans (Nabucco shows it), limited resources to invest into upgrade of cross-border infrastructure (interconnectors), low price of coal slowing down demand for gas, and, not least, vested interests in most countries pushing for strengthening ties with Gazprom - witness the attitude to South Stream in Bulgaria and Serbia.

Do you assess that there is real capability for the establishment of a "regional natural gas hub" in South East Europe where different suppliers will compete for market segments, thus decreasing prices and boosting competitiveness in local markets?

There is lots of talk on this subject but I don't see it happening any time soon. Turkey might have better chances than others but establishing a regional gas hub and the kind of regulatory reform involved might clash with the government's effort to cultivate national champions and keep prices for businesses and households low. Not to mention the large investment needed in storage and distribution grids.

What are the most likely scenarios according to your estimation, for the South East European gas markets in mid-term (up to 2020) and long-term (up to 2035), based on indicators at hand and likely trends emerging?

It is difficult to tell. Much depends on the region's capacity to revert to growth as we are still picking up the pieces of the 2008 crisis - hence demand for energy. Gas is likely to remain a critical commodity and rise in importance in several of the countries in the Western Balkans, where it hadn't been as significant historically. I hope we will move away from long-term contracts into more flexibility and competition on the market resulting in lower prices. We are still being overcharged compared to other regions of Europe. It is all contingent on what happens at the EU level however and global trends such as the shale revolution in the US and growing demand in East Asia come to affect our part of the world.

Do you assess South Stream to be a project that will move along as envisaged by its shareholders or do you foresee changes and alterations either in its timetable, geographical route or capacity?

I don't see a change of route but the project might slow down if Commission continues to put pressure on Gazprom over the IGAs and the third-party access clause. As I said, Gazprom will have to decide whether it is willing to invest billions in a project that can conceivably serve its competitors.

Europe to America: we want your gas

National Journal, *01.02.2014*

Nations are forming a coalition with the U.S. energy industry to lobby for more natural-gas exports.Citing economic and national security woes, more than a dozen European nations are ramping up pressure on Washington to open wider its federally restricted spigot of natural-gas exports.

The countries, which primarily include Eastern European nations heavily dependent upon Russia for their energy supplies, are working with a Washington-based government-affairs firm to launch a lobbying coalition in the next month with American energy companies.

The coalition, whose name will be LNG Allies, will lobby Washington on allowing these countries easier access to natural gas from the United States, where supplies have ballooned in recent years and domestic prices have plummeted compared with the rest of the world. Right now, federal law significantly restricts U.S. companies from exporting natural gas to countries that are not free-trade partners with United States, which includes Europe. “These countries are all still very heavily dependent upon Russia, and they’re excited about getting into the LNG (liquefied natural gas) marketplace, and are looking for not only U.S. gas, but good, solid business relationships,” said the coalition’s organizer, who works for the firm launching the coalition.

This source, who would speak only on the condition of anonymity since the coalition has not yet launched, said countries that are likely to be members of the group include Austria, the Czech Republic, Estonia, Finland, Latvia, Lithuania, Poland, Romania, and the Slovak Republic. These nine countries sent representatives to a meeting last month at the Lithuanian Embassy in Washington. Other potential members include Croatia, Hungary, Slovenia, Sweden, and Greece. When reached for comment about its participation in the coalition, an official at the Czech Republic Embassy said no final decision has been made. “We want to learn more about what this will entail, what this will mean and how this will work,”said Martin Pizinger, political and economic officer at the embassy.

Simonas Šatūnas, deputy chief of mission and minister counsellor at the Lithuanian Embassy, said the country was likely to join. “We are very strongly considering and probably will join,” Šatūnas said. The government-affairs source said more logistics and details must still be worked out before some countries confirm their involvement. “We are fairly close to announcing something publicly about the coalition,” the source said. “It’s a little tricky diplomatically to put together an organization that can allow embassies and their gas companies to work with our industry together in a legal way that doesn’t generate immense headaches and paperwork.”

Two U.S. trade associations, America's Natural Gas Alliance and the American Petroleum Institute, have not yet committed to the effort but are currently discussing it. "We certainly are interested in Eastern European markets and we are considering the best way to work with those countries to bring them America's clean and abundant natural gas, but we have not yet reached a formal agreement to work with one group or another in that endeavor," according to ANGA spokesman Dan Whitten. The impetus behind this coalition has been growing over the last year as European countries have been meeting more and more with top officials in Congress and within the administration to explain why Europe wants American gas so badly.

"We've had so many country representatives come into the office, pleading with us to step up our efforts to export LNG," said Rep. Ed Whitfield, chairman of the House Energy and Commerce Energy and Power Subcommittee. "The reason why is because the Russians have them over the barrel and they're able to extract really high prices from them." In public events throughout Washington in recent months and in multiple interviews for this story, officials representing European countries stressed both the national security and economic reasons why they want to import U.S. natural gas. One Greek member of the European Union Parliament, Niki Tzavela, went so far as to say that cheap energy trumps financial aid through the International Monetary Fund.

"It's better if you give us cheap energy than sending money through the IMF," Tzavela said. Cheap natural gas would more quickly help the economy than financial aid, she said. Over the past four years, Greece has received more than $235 billion worth of international aid through the IMF, of which the U.S. is the biggest shareholder, according to the IMF. The current gas price in Greece, which is a little more than 50 percent dependent upon Russian gas, is $17 per million British thermal units. Tzavela says that if the United States made its gas available to Europe, Greece's gas price would be $7.50, even accounting for transportation and infrastructure costs.

"The endgame for us is to break free from the manipulation of gas prices according to the crude-oil index," said Tzavela, whose party (the Europe of Freedom and Democracy group) is conservative by American standards. "This is what Gazprom has put on Europe." A spokesperson Gazprom, Russia's state-owned oil and natural-gas company, did not address the coalition but instead issued a broader statement. "Gazprom is a reliable supplier of natural gas, making every effort to fulfill of its contractual obligations," Gazprom spokeswoman Olga Moreva said in an e-mail. "This provides clarity and predictability of relations with both European consumers and with our closest neighbors in the years ahead."

Moreva indicated that importing natural gas would not necessarily lower prices for European nations, and could even increase prices. "Investment decisions on constructing LNG terminals are taken on the basis of economic calculations and feasibility studies, but not on the belief that their presence will reduce gas prices for domestic consumers. In any case, construction of LNG terminals should be paid off and, therefore, someone has to pay for it. In this case it is the end consumer." Washington officials Tzavela has met with include House Energy and Commerce Committee Chairman Fred Upton, R-Mich., and Energy Department Deputy Secretary Daniel Poneman. In conversations with these Washington officials and others, Europe faces challenges rooted in both policy and politics.

The Energy Department has approved five applications to export natural gas to countries that are not free-trade partners with the U.S., but very little if any of the gas is going to European countries (most are going to Asia, where companies can fetch higher prices). More than 20 applications are pending before DOE. The law that restricts natural-gas exports to countries that are not free-trade partners with the U.S., which dates back to 1938, requires companies seeking to export to these countries to go through a lengthy—and increasingly political—regulatory review process that must determine whether such exports would be in the country's best interest. The Energy Department gives a more automatic approval to natural-gas exports going to countries that are free-trade partners with the U.S.

To that end, the LNG Allies coalition will pursue a two-pronged approach to change this current system. Countries and companies will lobby to ensure natural-gas exports are part of a large free-trade agreement, called the Transatlantic Trade and Investment Partnership, which the Obama administration and the European Union began negotiating last summer. The coalition will also lobby Congress to pass bipartisan legislation introduced in both chambers that would expedite natural-gas exports to countries that are members of the North Atlantic Treaty Organization, which includes many of the European countries most seeking America's gas. Achieving either or both of these policy objectives will require overcoming tricky political hurdles, including the concern that lawmakers should first and foremost ensure domestic energy prices remain cheap.

Some chemical companies, which use natural gas in their manufacturing processes and benefit from low prices, are concerned that if the country exports too much natural gas, the United States could lose its competitive advantage. "I hope no one would suggest that our overseas allies should be placed higher in the prioritization queue than the American consumer," said Kevin Kolevar, vice president of government affairs and public policy at Dow Chemical. Tzavela, the member of the E.U. Parliament, said she sympathized with this perspective. "But on the other hand, in the long run, if Europe doesn't have the consuming economy, American products will lose as well because we will keep reducing our consumption of those products," Tzavela said.

Rep. Tim Ryan, D-Ohio, who supports the NATO legislation and whose district includes new shale-gas drilling, said natural-gas exports shouldn't be an either-or proposition. "Can't we get to a point where it's going to benefit the United States and it can benefit our allies?" Ryan asked. "We trade a lot with these countries, we have strong political allies with these countries. We've got to move away from this: Oh, if it's good for someone outside the United States, it must be bad for us. " Rep. John Shimkus, R-Ill., who cochairs the House Baltic Caucus and whose family heritage is Lithuanian, echoed this sentiment. "These countries do everything we ask them on the war on terror, troops in Afghanistan, troops in Iraq. They're all for us," Shimkus said of European countries. "They would drop everything to help us."

Indeed, that's the message European officials are trying to send. "We stand for each other on military fronts. Lithuania was the smallest country to have its forces in Afghanistan. We have our special forces still fighting. They will continue fighting with you in south Afghanistan," said Zygimantas Pavilionis, Lithuania's ambassador to the U.S. and Mexico, at a forum last fall hosted by the House Energy and Commerce Committee. "But, we have to fight for each other in the area of new challenges. If we have cuts of supplies, if our security is under threat, we have to stand for each other. So, LNG is something that would really benefit the common security of the whole Trans-Atlantic family."

Europe & LNG: go with the flow

Natural Gas Europe, *06.02.2014*

Three different roundtables were assembled at the European Gas Conference 2014 to discuss aspects of how new LNG flows were affecting the geopolitics of European natural gas.

Tasked with moderating a "piped gas versus LNG for Europe" discussion, Andree Stracke, Head of Global Gas and LNG Origination, RWE, noted that despite all of the bigger natural gas companies in the EU having long-term contracts in place, oil-indexed contracts were disappearing. He said, "My opinion is that, those contracts, being oil-indexed, for Europe this story is dead." But would that situation be sustained? Might long-term contracts come back?

The latter question, said Mr. Stracke, was crucial for those looking to export gas to Europe who would be searching for a price benchmark. Also, there just wasn't high enough natural gas demand in Europe. This, the group concurred, had implications for LNG terminal construction, like in Italy, where plans for three facilities a decade ago were now uncertain. He offered, "If the pricing signals are not there and the LNG's not competitive at some point in time, it will be very difficult for someone to invest; it can't be justified in Italy at this point and time nor potentially for others. The question is, 'when do pricing signals come?' And 'when does LNG come again to Europe in order to invest again?' I think it's a matter of time before we'll see a new wave of investments into LNG terminals."

As natural gas demand had gone down, coal had taken over, noted Mr. Stracke, who asked how Europe might increase demand. One spark of hope, he said, could be seen in the development of small-scale LNG for use as a bunkering fuel, for one, although the pace of that had not been progressing as anticipated. Demand could also be driven by CCGTs. Regarding European supply availability in a tight LNG market, Guy Broggi, Senior Advisor LNG Division, Total Gas & Power, exclaimed that LNG was no different than pipeline gas, just in a different form. His discussion group, he explained, decided to consider a timeline up to 2020. "In 2020, will Europe import more LNG than today? The answer is, 'yes, and a lot.' "Will Europe need more gas? The answer is, 'no.' LNG will replace declining North Sea, Algeria or Libya production."

As for LNG terminals being built at that time, he opined that there were too many places that already had them. It would be useful to use LNG for transportation in the Baltic states, where we would likely see a flurry of terminals, according to Mr. Broggi, who added that the Mediterranean would see bunkering stations. "The battle," he explained, "is the battle between Russia, US, Qatar/Iran and Israel. There is plenty of gas in Russia in the waiting for markets and with the Yamal decision we will have proof that there will be some LNG coming in and it will not all go to Asia, but some for Europe." The Russians, he said, already had a market in piped gas – now they wanted it in LNG. What Russia's role would be in the European and the global LNG equation was the topic grappled with by a group led by Alexey Gromov, Director on Energy Studies, Head of Energy Department, Institute for Energy and Finance.

Regarding questions of whether Russian gas would be competitive, which direction it would go and under what contracts it would be sold, he said it all depended on the future situation of the European gas market as well as Russia's long-term gas pricing. Of his group's discussion, he commented: "We don't see a really big place for additional Russian energy supply to European markets, because in 5-7 years the level of competitiveness in the LNG industry will strongly increase." Moderator David Ledesma, Independent Consultant and Senior Fellow, Oxford Institute for Energy Studies, suggested that the future price of North American LNG would be USD 10/MM Btu, meaning that Gazprom would have to sell its gas at a lower margin or not sell any gas at all.

Andree Stracke agreed, while Mr. Gromov predicted a price of USD 11-12 was necessary for suppliers. Mr. Broggi said price was not an issue for taking decisions and it was possible to foresee what prices might be today. "That's why all of the big decisions are not made according to pure economics," he explained. "They make strategic decisions. If I want a market I take the risk to lower my price, take the market.

KNCP to complete fourth gas pipeline project

Natural Gas Asia, *02.02.2014*

Kuwait National Petroleum Company is set to complete the fourth gas pipeline project next March. Company's Deputy Chief Al-Mahrous in an interview to "Alam Al-Mu'asasah" magazine, published by the KNPC, said the project includes building a fourth unit to treat liquefied oil gas, with a storage capacity of 805 million cubic feet of gas and 106,000 barrel per day of condensates, reports Kuwait News Agency.

The project aims at treating gases and condensates, emanating from oil and gas fields, and turning them into liquefied gases for exporting, while separating ethane and methane gases, said Al-Mahrous.

KNPC had recently completed all engineering studies for its fifth line project to produce liquefied gas, noted Al-Mahous, adding that the company is also working on executing a project to build northern tanks for liquefied gas, which will enable the company to store and export gas-related products, KUNA reports quoting from the interview. The new tanks will allow the KNPC to load two liquefied gas tankers at once, increasing the storage and exporting capacity for extra gas products, expected to come out of building new gas liquefying units in Al-Ahmadi refinery, he explained.

Egypt gas supplies to lag demand next fiscal

Natural Gas Asia, *03.02.2014*

Egypt will continue to see energy shortage next fiscal as production is expected to remain below demand, reports news agency Reuters.

The petroleum ministry has forecast that gas production will be 5.4 billion cubic feet (bcf) per day and consumption 5.57 bcf/day in the fiscal year that begins July 1. In the current fiscal year, gas production is still estimated to exceed consumption at 5.31 bcf/day versus 4.95 bcf/day, a ministry source told. Low gas prices paid to exploration companies is adding to supply woes as they are not willing to develop Egypt's untapped as these prices barely cover the costs.

Officials said in November that the government was in talks to revise the prices it pays to buy gas from foreign companies, adds Reuters.

Total increases UK shale portfolio with option on license in Lincolnshire

Natural Gas Europe, *01.02.2014*

Total E&P UK signed an £1,530,025 agreement with Edgon, Blackland and Stelinmatvic for an option on a 64 square kilometers license in Lincolnshire. It will have the chance to increase its portfolio in the UK unconventional gas industry.

Total will have an option to farm-in to the license PEDL209, to exercise by 31 December 2015. Total could earn a 50% interest by paying 100% of an exploration program of up to £13.47 million. The agreement demonstrates further progress with our strategy of delivering value from our unconventional resources and a meaningful up-front cash payment and the expectation of funding of a substantial shale-gas exploration.

Earlier in January, Total acquired a 40% interest in two shale gas exploration licences in the East Midlands region.

BP earnings down 28%

Financial Times, *04.02.2014*

BP's fourth-quarter earnings fell 28 per cent to $2.8bn, hit by the impact of divestments, weakness in its refining division and exploration write-offs.

The energy group said on Tuesday that impact was partly offset by strong growth in production from key regions such as the North Sea, Angola and the Gulf of Mexico, and higher earnings from Rosneft, its Russian partner. BP's results continue a trend of weak earnings from the western oil majors, which have all been affected by a downturn in the refining industry as well as falling production and higher costs.

BP's rival Royal Dutch Shell last month issued its first profit warning in 10 years. Peter Hutton, of RBC Capital Markets, said BP's headline earnings were in line with consensus, "but to get there they had to dip into their non-core businesses". He noted that the results were flattered by a larger than expected contribution from Rosneft – of about $1bn – and a "very low tax rate". BP owns a 20 per cent stake in Rosneft, Russia's largest oil producer. Earnings in the downstream business – refining and marketing – fell 95 per cent from $1.4bn to $70m. The group said its fuels business was "severely impacted" by weaker refining margins, particularly in the US, the sale of two of its big US refineries, the start-up costs of a big refinery upgrade in the Midwest and a weak performance in its oil trading unit.

But there were some hopeful signs in the upstream – or exploration and production – division. BP said 2013 was its most successful year for exploration drilling for almost a decade. It participated in 17 exploration wells, which made seven discoveries. Meanwhile, three major projects started up in 2013 and a further six will have begun production by the end of this year. The company also reported a healthy reserves replacement ratio of 129 per cent for 2013, compared with 77 per cent in 2012 – meaning it found more oil than it produced. In a sign of how BP continues to be overshadowed by the 2010 Deepwater Horizon disaster, the company increased its pre-tax charge for the spill by $200m to $42.7bn. It said that reflected an increase in the provision for legal costs and the ongoing costs of the Gulf Coast clean-up.

Bob Dudley, chief executive, said the group had delivered "strong operating performance throughout 2013, with increased asset reliability and major project delivery in both our upstream and downstream businesses". "These achievements underpin our financial targets for 2014 and lay the foundation for continued growth in sustainable free cash flow," he said. BP last year announced it would divest a further $10bn of assets by the end of 2015, on top of the $38bn disposal program implemented in the wake of the Gulf spill. It has wooed investors by promising to spend most of the post-tax proceeds on shareholder distributions, largely share buybacks. It said it had already agreed around $1.7bn of new divestments. The company said it had spent around $6.8bn on share buybacks as part of an $8bn program announced last March.

BP said its reported production for the quarter, excluding Russia, was 2.25m barrels of oil a day – 1.9 per cent lower than a year ago – largely due to the effect of divestments. But it said underlying production, adjusted for the impact of divestments and entitlement effects in production-sharing agreements – and excluding Russia – was 3.7 per cent higher than a year ago and up 3.2 per cent for the full year compared with 2012. It expects underlying production in 2014 to be higher than in 2013. Organic capital expenditure in 2013 was $24.6bn, in line with guidance, and would remain in the $24-$27bn range to the end of the decade, the group said. Operating cash flow was $5.4bn in the fourth quarter and $21.1bn over the whole year. It announced a dividend for the fourth quarter of 9.5 cents a share – 5.6 per cent higher than a year ago – to be paid in March.

Japan's Tohoku Electric signs 15-year LNG supply deal with Qatargas 3

Platts, *04.02.2014*

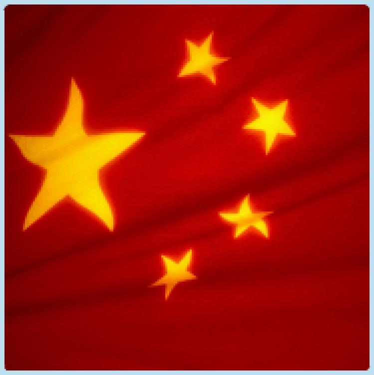
Japanese utility Tohoku Electric said Tuesday that it signed a sales and purchase agreement to buy LNG from the Qatargas 3 project for 15 years starting in 2016.

Under the two-phase contract, Tohoku Electric plans to buy 60,000-90,000 mt/year over 180,000 mt over 2019-30. The LNG will be delivered ex-ship. Tohoku Electric already has a long-term contract to import about 520,000 mt/year of LNG from another Qatargas project for 22 years from 1999. Meanwhile, Kansai Electric has been importing 500,000 mt/year of lean LNG to Japan since last year from the Qatargas 3 project on Q-Flex vessels under its own 15-year purchase deal.

The 7.8 million mt/year Qatargas 3 project started production in 2010. Qatar was Japan's second-largest LNG supplier in 2013, when its LNG imports from Qatar rose 2.57% from 2012 to 16 million mt, according to a Platts analysis based on the government data.

China imported more gas in 2013

Natural Gas Asia, *03.02.2014*



China's natural gas imports saw a 25 percent yer on year jump in 2013, Xinhua reported citing a report by an economic and technological academy under China National Petroleum Corporation.

The country imported 53 billion cubic meters of natural gas last year, 31.6 percent of its domestic gas output plus imported volume, according to the report. As per the report, promotion of natural gas as replacement for coal contributed to the country's surging imports of natural gas.China's natural gas consumption increased 13.9 percent year on year in 2013.

The total consumption accounted for 5.9 percent of consumed primary energy resources, up from 5.4 percent in 2012, making China the world's third-largest gas user, Xinhua quoted from the report.

Announcements & Reports

► *Angola Country Analysis Brief*

Source : IEA
Weblink : http://www.eia.gov/countries/analysisbriefs/Angola/angola.pdf

► *China Country Analysis Brief*

Source : IEA
Weblink : http://www.eia.gov/countries/analysisbriefs/China/china.pdf

► *Petroleum Marketing Monthly*

Source : IEA
Weblink : http://www.eia.gov/countries/analysisbriefs/China/china.pdfhttp://www.eia.gov/petroleum/marketing/monthly/pdf/pmmall.pdf

► *Natural Gas Monthly*

Source : IEA
Weblink : http://www.eia.gov/naturalgas/monthly/pdf/ngm_all.pdf

► *Domestic Uranium Production Report 4th Quarter 2013*

Source : IEA
Weblink : http://www.eia.gov/uranium/production/quarterly/pdf/qupd.pdf

Upcoming Events

► CIPPE 2014

Date : 19 – 21 March 2014
Place : Beijing – China
Website : http://www.cippe.com.cn/2014/en/

► Unconventional Gas Aberdeen 2014

Date : 25 – 26 March 2014
Place : Aberdeen – UK
Website : http://www.unconventionalgasaberdeen.com/

► 4th Annual Energy Trading Regulations & Compliance 2014 Summit

Date : 11 – 12 March 2014
Place : London – UK
Website : http://www.etrcsummit.com/#!home/c1trp

► 8th Atyrau Regional Petroleum Technology Conference

Date : 1 – 2 April 2014
Place : Atyrau – Kazakhstan
Website : http://www.oiltech-atyrau.com/

► TUROGE 2014

Date : 9 – 10 April 2014
Place : Ankara – Turkey
Website : http://www.turoge.com/

► 13th Uzbekistan International Oil & Gas Exhibition

Date : 13 – 15 May 2014
Place : Tashkent – Uzbekistan
Website : http://www.oguzbekistan.com/

► 5th Turkmenistan Gas Conference

Date : 21 – 22 May 2014
Place : Ashgabat – Turkmenistan
Website : http://www.turkmenistangascongress.com/

► 21st Caspian International Oil & Gas Exhibition

Date : 3 – 6 June 2014
Place : Baku – Azerbaijan
Website : http://www.caspianoil-gas.com/

► 4th Erbil Oil & Gas International Exhibition

Date : 1 – 4 September 2014
Place : Erbil – Iraq
Website : http://www.erbiloilgas.com/

► South Russia Oil & Gas Exhibition

Date : 2 – 4 September 2014
Place : Krasnodar – Russia
Website : http://oilgas-expo.su/

► 2nd East Mediterranean Oil & Gas Conference

Date : 9 – 10 September 2014
Place : Paphos – Greek Cyprus
Website : http://www.eastmed-og.com/Home.aspx